THE IMPACT OF MICROFINANCE ON POVERTY AND DEVELOPMENT

A CASE STUDY OF ZIWANI

BY

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DECLARATION

I, the undersigned, declare that this thesis is my own original work and that it has not been submitted to any other college, institution or university other than the United States International University – Africa for academic credit.

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DEDICATION

I dedicate this work to my parents, Mr. Stephen Gitau & Mrs. Jane Gitau, my brothers, Christopher Wangai, Charles Kingatua, John Njuguna and my sister, Angela Nyambura for their endless source of inspiration and motivation. Throughout the entire process of writing my thesis, they stood by me day and night ensuring that I had all that I needed. They also provided me with material and financial assistance as well as their prayers and words of encouragement. May God bless you All.
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I would never have realized the dream of successfully completing my thesis without God’s strength and guidance. I also appreciate the moral support and encouragement I received from my family members; particularly my parents and siblings.

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ABSTRACT

Microfinance is not a new development. Its origin can be traced as far back as 1976, when Muhammad Yunus set up the Grameen bank. From then on several Microfinance Institutions have come up and have succeeded in reaching the poorest of the poor. The principal objective of microfinance programs is to raise incomes and broaden the financial markets by providing financial services (principally credit) to small scale entrepreneurs who otherwise lack access to capital markets.

During the 1990’s, the provision of financial services dealing with very small deposits and loans – microfinance- and particularly the provision of microcredit, have been increasingly acclaimed as effective means of poverty reduction. The private sectors together with the government have aimed to bring about reduction in poverty through the provision of financial services. Microfinance has been strongly recommended as an intervention that could assist the poor people to improve their quality of life by providing small amounts of money to initiate development enterprises.

The International Year of Micro-Crédit in 2005 was aimed at improving knowledge, access and utilization of microcredit by poor people in the developing world. Microfinance Institutions have played a role in services like training and skills development, savings mobilization and banking facilities. The objective of this study is to show how microfinance works, by using group lending methodology for reducing poverty and how it affects the living standards (income, saving, etc.) of the economically poor people in Kenya.
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<thead>
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<tr>
<td>ACCS</td>
<td>Agricultural Credit Cooperative Societies</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>DTM</td>
<td>Deposit Taking Microfinance</td>
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<td>FBA</td>
<td>Federal Banking Agencies</td>
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<td>FDIC</td>
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<td>GNP</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>Individual Development Accounts</td>
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<td>International Monetary Fund</td>
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<td>KIE</td>
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<td>Kenya Local Government Reform Programmes</td>
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<td>LDC</td>
<td>Less Developed Countries</td>
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<td>LATF</td>
<td>Local Authority Transfer Fund</td>
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<td>MSE</td>
<td>Micro and Small Enterprises</td>
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<td>MFI</td>
<td>Microfinance Institutions</td>
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<td>NGO</td>
<td>Non Governmental Organizations</td>
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<td>Abbreviation</td>
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<tr>
<td>NYS</td>
<td>National Youth Service</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OI</td>
<td>Opportunity International</td>
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<td>OKL</td>
<td>Opportunity Kenya Ltd</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>SACCO</td>
<td>Savings and Credit Cooperatives</td>
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<td>SAP's</td>
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CHAPTER ONE

1.0 Background of the study

"The fundamental challenge facing our world is the eradication of the large-scale poverty still besetting too many parts of the globe and plaguing too large a percentage of human kind". (Nelson Mandela, October 25, 1999).

Global poverty is an urgent issue that must be addressed in the 21st century. Poverty impacts directly on the global stability with billions of people approaching the new millennium in dire poverty. According to the 1999 Human Development Report, it is estimated that almost half of the world’s people- 3 billion - live on less than a dollar a day. In addition, 1.2 billion people are said to live in extreme poverty on less than one dollar a day. Poverty trends are worsening in many of the poorer regions of the world. In the sub-Saharan Africa, an estimated 70% to 80% live on less than a dollar per day. The World Bank reports that in sub-Saharan Africa, the number of people living below the one dollar a day level grew during the 1987-1998 period from under 220 million to over 290 million – more than 70 million additional individuals. The increase was 48 million in south Asia, 23 million in the transition economies of Eastern Europe and central Asia, and 14 million in Latin America and the Caribbean. East Asia and the Pacific had positive progress in reducing poverty levels but suffered setbacks in the late 1990’s economic crisis. (World Bank: 1999).

Towards the late 1997 under the umbrella of the Asian financial crisis, the Aspen Institute International Peace Security and Prosperity Program, convened an International poverty conference in Broadway, England on ‘Persistent Poverty in Developing countries: Determining the causes and closing gaps’; to address issues concerning global poverty.

Jimmy Carter, former United States president and former Prime Minister of Pakistan
Moeen Qureshi addressed the conference. The conference participants addressed the issue of globalization and its integration in developing countries, and concluded that it had failed to address the poverty gap. The meeting came up with various action oriented recommendations such as developing a new internet based Microcredit network in addition to placing emphasis on education and technology in development strategies.

The Aspen Institute International Peace, Security and Prosperity Program, convened its second conference on global poverty in the late fall of 1999 and highlighted three (3) main agendas that should be implemented in order to boost individuals and countries out of poverty. The agendas were technology, Higher Education and Microfinance.

Over the past decade, microfinance has developed into one of the most effective tools of poverty alleviation. Based on its small network of microfinance Institutions (MFI's) and its characteristic modest funding, it has been able to reach 16 million people in the developing world. Its main target is to promote entrepreneurship and empower people to uplift themselves out of poverty.

Small Business enterprises have become a popular trend in the recent past with many unemployed people engaging in this business. It is important to note that, such entrepreneurial activities have mushroomed in slum areas where the circulation of money is noted to be high. Many of those living in the slums are mainly casual laborers who live from hand to mouth and who rely on daily wages for their survival and upkeep. The growth of small businesses has been necessitated by the support they receive from microcredit from both NGO's and private firms. Fast foods and household items characterize the type of businesses that you would find in the slums. The pricing of these items is as low as Kes.5/= so as to be able to meet the demand based on the income levels. Services have also become a part of the category of small businesses where even
water and sanitation facilities in slums are charged at a minimum fee of Kes 20/= and 10/= respectively. The slum dwellers have to buy water for domestic use and additionally pay to use the latrine facilities. It is common to find that the youth are the majority running these types of businesses and have also been able to acquire small loans to either purchase water tanks or build permanent latrines.

Small and medium sized enterprises (also known as Jua Kali), have existed since the 1990's and are still popular to date. Kenya unlike most developing countries has in official development policies been able to recognize informal enterprises. In its Sessional Paper Number 2 of 1992 – Small Enterprise and Jua Kali Development in Kenya, notes that: the government identifies the small – scale and Jua Kali enterprise sector for support to assist it to “graduate into the formal sector” and to become a major player in the creation of new jobs and economic growth.

1.1 Statement of Research Problem

Financial services for the low income people, often referred to as microfinance, cannot necessarily solve all the problems caused by poverty. But the industry can help put resources and power into the hands of low income people and thus empowering them to be able to make everyday decisions and also work their way out of poverty. The potential is enormous and so is the challenge.

Microfinance is an integral part of a competitive and diverse financial system that fosters innovation and growth in all segments of society. This industry has achieved astonishing accomplishments in the last 30 years, with evidence that poor people in the urban settlements have indeed been able to become empowered people. Despite its achievement, this industry still has a long way to go in order to extend its outreach and access to all who need financial services.
Despite the fact that microfinance has been looked at as a contributor to poverty reduction, increased welfare, and in some cases empowerment, there still remains some situations where the expected benefits have not materialized and some people have actually become poorer. The design of microfinance programs has resulted in poor people not completely benefiting, and ultimately microfinance may not actually be a particularly appropriate means of addressing their problems. The history of anti-poverty reduction has been felt by both the developed and the developing nations where poverty has been so conspicuous. The 1980’s saw the developing world placed under Structural Adjustment Programs (SAP’s) which sought to bring national expenditure in line with national income and additionally increase national income through policy reforms that promote a more rapid accumulation of capital and more efficient use of resources. This paper intends to show how the microfinance has developed programs that work with groups to not only to eradicate poverty but also undertaking collective action on issues of importance to them.

This research hopes to identify how the private sector has contributed in assisting the microfinance industry through provision of loans to empower the urban poor especially in the informal sector. Some of the financial service providers in the microfinance industry have heavily relied on the nongovernmental organizations to be able to extend financial services to large numbers of poor people, but the challenge of a lack of strong, competent retail-level institutions has remained as one of the major setback. There has been large amounts of money being thrown around by International Financial Institutions and non-governmental organizations at credit based solutions to rural poverty (more evidently in the wake of world bank’s 1990 plan to put poverty reduction at the head of its development priorities), but unfortunately those responsible do not have the slightest idea of whether the funds have actually met the set objectives.
1.2 Research Questions

1.2.1. Is Micro financing an effective means to improve community livelihoods?

1.2.2. Can Microfinance interventions reduce poverty?

1.2.3. What is the role played by the government in the regulation of the Microfinance Industry?

1.3 Objectives of the study

1.3.1 To identify the relevance of microfinance as a tool for social and economic development.

1.3.2 To identify the effectiveness of microfinance in comparison to other approaches to poverty eradication and social development.

1.3.3 To identify the impact of commercial banks and the government towards the microfinance industry.

1.4 Hypothesis of the study

1.4.1 Microfinance is a key tool for Social and Economic empowerment.

1.4.2 Microfinance has an impact on the development of Small Scale Enterprises.

1.4.3 Government Regulation on the Microfinance Industries is yet to create an impact in the Financial Industries.

1.5 Methodology

The study will base its findings using both primary and secondary sources of data. The study will base its focus on Motor Vehicle repairers in Ziwani area of Nairobi as our case study.
1.5.1 Primary Data

The study will use questionnaires (See Appendix I). The questionnaires will be administered to the motor vehicle repairers in Ziwani. Various groups within this area will be selected based on the number of years in the industry, age and also those who are members of microfinance organizations. The study will also use interviews so as to capture information in its natural context.

1.5.2 Secondary Data

This study will use secondary data which will include scholarly books, journal articles, newspapers, magazines, policy reports and research reports and government publications.

1.6 Significance of the Study

This study hopes to demonstrate that microfinance is an effective tool towards poverty alleviation and development. The microfinance industry has over the years not received much attention despite the impact it has on the low income people. Poverty eradication and development can only be addressed by reaching out to the grassroots levels where a majority of those living on less than one dollar are found. Over the years there has been an increasing inequality in wealth between different parts of the world, with the less developed countries burdened by international debt. This has led to many governments directing their energies to fulfilling the Structural Programs agendas and leaving the developmental strategies to the International communities.

The extension of small loans to the very poor people for self employment projects does not only limit itself to the Third World countries (developing states), it additionally also extends to some European countries. It is common phenomenon for conventional creditors to lend to the very
poor because such borrowers lack collateral. It is from this premise therefore that this research will try to show how microfinance has been able to identify this need in addition to meeting it. Furthermore, the untapped demand for micro lending is growing. There are roughly 2.8 billion people with less than US$2 per day at their disposal; 500 million of them can be considered micro entrepreneurs and would consequently benefit from a microcredit. Assuming an average loan size of $500, this would represent a demand for $2 billion. (Microfinance for Poverty Reduction)

The vast majority of slum dwellers in the developing countries still remain unbanked. In Africa, estimates from the Finscop Surveys suggest that the proportion of the population without access to formal financial services ranges from 44% (forty four percent) in South Africa to 92% (Ninety two percent) in Mozambique, with Nigeria, the most populous country in Africa, lying at the higher end of this scale with 79% (Seventy nine percent), approximately four fifths of the adult population, estimated to be “unbanked” (Honohan and King 2012). It is therefore evident that there still remains a gap between need and the access of microfinance services available to the world’s poorest families.

1.7 Literature review, theoretical and conceptual framework

1.7.1 Introduction

This chapter is based on the history of development and the various theoretical contributions towards development and underdevelopment and how the two issues have contributed to poverty. In addition, we shall look at the role the state plays in trying to reduce poverty.
1.7.2 The history of development and underdevelopment

Development as a concept to any scholar is not a new phenomena. To the contrary, development was ‘invented’ as a means to control the social effects of the great transformation to capitalism in Europe and, in some parts of the world, was used pre-emptively to engineer ‘progress’ in then colonized countries (Cowen & Shenton:1996).

Strategies that were implemented by many developing countries were meant to steer their infrastructure and economies back to normalcy. Unfortunately, the darkness of colonialism is still being felt in most developing countries. Despite this, there are notable deliberate efforts by governments of developing countries to improve some of their agencies such as Non-Governmental Organizations (NGO’s), social movements and governments so as to make steps towards development. NGO’s have an opportunity to play ‘intermediary roles between state and non-state institutions in respect of participation, accountability and development’. (Dias: 1993). Many projects by NGO’s have enabled governments to be in touch with its people in addition to creating an environment where the poor become aware of local government responsibilities and capacities.

The 1980’s was the decade of neo-liberalism. Observers also talk about it as the ‘lost decade’ for developing countries. Many believed that up to the 1970’ there was a measure of human progress in all parts of the world – however slow – which gave indications that it would continue. (Hewitt: 2000). Some of the major setbacks experienced by many developing countries were: debt management due to high interest rates and a slump in commercial bank lending; protectionism by the OECD countries thus affecting exports from the developing countries and gradual decrease in aid.

The post war years up to the 1990’s saw a lot of alignment of global powers such as the United States of America (USA) and the Soviet Union. By the end of 1960’s most colonized countries
became politically independent from colonial rule. During this same period of the post war era, there was a lot of economic booms and slumps, wars and alliances, political struggles in addition to economic development and recession.

The developed countries in this era on the other hand experienced a boom, where employment was on its highs and inflation was low. This lasted for nearly 20 years and it came to be known as the ‘Golden Years’ especially for the USA, Western Europe and increasingly for Japan. According to Toye “the process of development consisted of moving from traditional society which was taken as the polar opposite of the modern type, through a series of stages of development derived essentially from the history of Europe, North America and Japan – to modernity, that is, approximately the United States of the 1950’s” (Toye: 1987).

The means by which ‘modernity’ was to be reached was economic ‘growth’. If an economy could achieve a certain critical rate of growth, the rest would all follow. The means to achieving growth varied. Some of the more influential theories included: savings and investment as the source of growth; developments with surplus labor or rural labor as ‘canon’ fodder for industrialization; stages of growth towards economic ‘take off’ and the ‘trickle down’ effect where the spoils of growth would gradually filter through to the population at large. Much of the emphasis therefore was on capital accumulation, investment and GNP growth rate as the key indicators of development.

Savings and investment was and is still is, one of the main initiatives that governments in developing countries introduced as a means to promoting development. These initiatives are done through the Microfinance Institutions, Agricultural Credit Cooperative Societies (ACCS) and Rotating Savings and Credit Associations (ROSCA’s). Conditions which favor the promotion of savings include an enabling macro environment with low and stable levels of inflation, an appropriate legal and regulatory environment, political stability, and suitable
demographic conditions. (Robinson: 1994). However, not all governments promote this initiative. With all attention placed on providing access to credit, many promoters of finance to low income populations (governments, banks, and NGO’s alike) have neglected to address the arguably more important half of microfinance: savings (Marcus: 1999).

The term poverty will more often arise in many discussions touching on development. This is because, for any country to be considered as developed, then poverty levels are minimal. Poverty can be defined as a state where one lacks a certain amount of material possessions or money. On the other hand, Absolute poverty is a situation where one is deprived of basic human needs. Poverty alleviation is one of the central aims of economic and social policy; unfortunately there is no consensus about what poverty really means and the best way to measure poverty.

Economic growth has been viewed as one of the standard ways in which poverty can be reduced. The “Washington Consensus” that emerged in the late 1980’s brought forth a number of prescriptions for economic progress. These included sound fiscal and monetary policies, greater openness, security of property rights and privatization (Williamson: 2000).

The historical view of poverty was such that it was considered unavoidable as traditional models of production were insufficient to be able to provide for an entire population a comfortable living standard. With the era of industrial revolution and mass production in the factories, wealth was easily accessible. This unfortunately was not enjoyed by some colonized countries or countries that had been affected by war. The Danish International Development Agency notes that:

\[ \text{One of the important dimensions along which to study and assess the impact of Development interventions' is the extent to which they contribute to poverty reduction, or in other words how they enhance the well-being of the poor.} \]
This is what most poor people strive after, it is central to the development concerns of many developing countries, and it has increasingly become the overarching objective of many development agencies. (Danish: 1996).

1.7.3 Theoretical and conceptual framework

This section will look at the various theories that dominate the development of institutions and their impact. Neo-liberalism and globalization will be the main theories under discussion. This chapter will also look at how the structural Adjustment programs in developing countries have played a role both in development and poverty alleviation. Finally, this chapter will analyze the role of the state in poverty alleviation.

The end of the Second World War led many countries in need of restructuring their economies and focus on developmental activities. Governments and intergovernmental organizations embarked on various developmental strategies such as the United Nations World Summit on Social Development in Copenhagen in 1995, which had a main objective of reducing poverty by half by 2015. These initiatives were among the first steps taken to address the problem of poverty.

The era of globalization has also triggered many governments to discuss the various strategies that they need to put in place to reduce the number of people living in extreme poverty. Both the less developed countries (LDC’s) and the industrialized countries have been involved in various programs and conferences such like the Organization for Economic Cooperation and Development (OECD), United Nations and World Bank conferences. Neoliberalism (market liberalism) is one of the dominating theories concerned with development. The theory did not
only dominate the industrialized north and the international agencies such as the World Bank, but also with the Southern governments.

Neoliberalism was a reaction against the structuralists views which were concerned with underlying social and economic structures and saw development as involving changes in these structures. The neoliberals viewed three (3) main obstacles to modernization which were able to explain different cases of lack of development. These were: Tradition, where a lack of markets prevented production; monopoly of markets mainly practiced by capitalists; and state regulation which was seen as interfering with the proper working of the market. Despite the opposed views by neoliberals against the structuralists, there are two areas of commonality between the two. First, both viewed development mainly in terms of broad historical social change. Secondly, they both looked at industrialization as the only real way to economic growth. Microfinance industry has been able to embrace industrialization by supporting the Small Micro Entrepreneurs’ (SME’s). This is the main channel used by microfinance institutions to try and alleviate poverty. The growth of industrial capitalism as a global system from the first half of the nineteenth century provides a real example of a process of social change which has built in itself and which went alongside the creation of new kinds of human being – or at least new forms of livelihood and motivation. (Cowen and Shenton: 1996)

The twenty first century development has become less about the transformation of the economic and social basis of societies than in previous periods. What are visible as ‘development agencies’ are mostly engaged either in attempts to reduce poverty and improve health, education, gender equality and environmental protection. (Allen & Thomas: 1992).
1.7.4 The Structural Adjustment Programs

After the World War II, governments of the industrialized countries turned their attention to aiding the third world nations in their development efforts. Economic growth then became the centerpiece of economists' development plans. To that end the United Nations declared the 1960's the 'development decade' and set a goal of 6% annual growth as necessary to raise the poverty-stricken to a decent standard of living. (Dube: 1988).

Various policies to attain development accepted the assumption that the policies of the industrialized countries were mainly to blame for poverty of the developing countries. The Great Depression memories where terms of trade for developing countries had deteriorated leading to a sharp reduction in per capita income, haunted many policy makers.

The winning powers after the World War, created the IMF to enhance a stable International Monetary system and the World Bank to channel investment into development and reconstruction projects. The policies set by the two institutions did not improve the financial and infrastructure of the countries affected by the war. Instead the policies were only seen to benefit the powerful shareholders nations, such as the United States, interests. Some IMF policies use a system of incentives and penalties in their loan agreements to coerce African countries into adopting trade liberalization while leaving the subsidies embedded in Western economies untouched. (Abbas: 2009)

In much of the Sub-Saharan Africa, the economy has long been in shambles, unable to keep pace with the growing population and little help by neo-patrimonial regimes where the elite treat all government authority and its economic benefits as their private domain. (Hyden: 1996).

In addition, the neo-liberal structural Adjustment Programs have also been blamed for increasing the plight of the poor by reducing the little public welfare expenditure available.
The Structural Adjustment Program’s reversed previous philosophical trend towards equity and solicitude for the poor by putting at the centre of its programs not people but ‘market forces’ (Mafeje: 1995).

The Structural Adjustment Programs initiated by the World Bank (WB) and the International Monetary Fund (IMF), have been linked to inflation, unemployment, retrenchment, high rate of income inequality and other welfare problems; as noted by Adams:

> Despite the best intentions, the World Bank was set up to exercise financial power without liability and political power without responsibilities. Its loans – free from public sector scrutiny and private sector discipline - and its triple – A credit rating – the result of political commitments rather than prudent investments – have allowed the bank to finance money- losing enterprises that can only be defended by invoking exaggerated macroeconomic claims. The banks unaccountability to the citizens of its member states, a consequence of its legal and financial structure, has undermined the development of democratic institutions, healthy economies and well managed environment throughout sub Saharan Africa (Adams, 1992:98).

By betting on the economically strong and by arguing against any affirmative action by African Governments, the World Bank was indeed forsaking the small producers and the poor and reverting to the old orthodoxy of ‘trickle down’ theories or use of macro-economic indices for measuring development. All this proved extremely controversial and overwhelming in its impact. (Mafeje: 1995).

Despite the numerous complaints from the African government against the SAP’s, most countries went ahead and accepted the loans offered by the World Bank. Many countries have relied on IMF loans for more than 20 years leaving most of them with massive debts that they cannot afford to pay and consequently leading to poverty and instability.
As Zambian Economist Dambisa Moyo states, “foreign aid has been the biggest single inhibitor of Africa’s growth”, she further states, “a constant stream of ‘free’ money is a perfect way to keep an inefficient or simply bad government in power. (Moyo: 2009).

The government of Kenya was of the view that the policies implemented by the World Bank and the IMF only addressed the long term implications of the economy while causing hardship in the short run especially among the vulnerable people in the society. The government accused the World Bank of changing goal posts in the middle of the process of the SAPs noting that the programs began with economic reforms and ended with the aim of addressing political problems, using Western political models that ignored the nation’s stability and progress.

Findings such as those from the Central Bureau of Statistics indicate that the SAPs have increased the gap between the rich and the poor as well as the income gap between the rural and the urban population in Kenya thus leading to increasing poverty. For instance, data on income expenditure distribution for 1994 (Central Bureau of Statistics: 1999), shows that the bottom 20% of the rural population received only 3.5% of the income whereas the top 20% captured more than 60% of the income.

The UN and the Bretton Woods system needs to become better equipped to take the lead in poverty – eradication efforts. The IMF has acquired excessive influence over the development agenda in poor countries, while remaining unaccountable, undemocratic, and lacking in the necessary skills to tackle poverty effectively. (Watt: 2000)
1.7.5 The Role of the State in poverty Alleviation

The government plays an important role in any given country. Governments give the structure of the economy, policies and institutional framework. Governments must work alongside parliaments to elevate people out of poverty. The parliament is therefore involved in poverty reduction process by ensuring that the country’s poverty strategy is generated, implemented in addition to evaluating it through national institutions.

Africa has been a continent of unbalanced political regimes – distinguishing it from most Asian countries. In 1993, with forty two countries in war Africa had 12 while the rest were in the third. This is an indication of poor governance and lack of adequate policies that guide the country. As far as other sub Saharan states are concerned, there is no evidence that any of them has initiated National ‘poverty alleviation programmes’ since their inception twenty years ago (Mafeje: 1995). Few of the governments that responded, adopted an egalitarian policy which combined growth and equity. Some of the countries that adopted this policy were Uganda, Tanzania among others.

It is widely believed that many of the economic problems in the developing world can be attributed to excessive or inappropriate government interventions. Yet most of the social progress observed during the past two decades is clearly as a direct result of government action (World Bank: 1996). Though there is a notion that democracy is good for poverty reduction-since a democratic state is more accountable and responsive- this may not always be true. Looking at countries such as Chile and Indonesia that did very well in poverty reduction, neither of them were democratic states.

According to the Poverty reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihoods from the Micro and Small Enterprise. However, despite this need,
provision and delivery of credit and other financial services to the sector by formal financial institutions such as the Commercial Banks has been below expectations. Commercial banks are concerned about the cost effectiveness of microfinance programs. This is because microfinance is characterized with small loans which many banks find a challenge to operate with given the banks traditional measures and overhead structures. This challenge thus hinders the poor to climb out of poverty. The Kenyan government recognizes that access to and sustainable flow of financial services is an important aspect in the goal of reducing poverty. (ibid: 1996)

Therefore, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of microfinance in the country has been developed through the Proposed Deposit Taking Micro Finance Bill (Omino: 2005). The proposed bill aims at ensuring that licensed MFI’s contribute to poverty alleviation and at the same time comply with the requirements of financial sector safety and soundness (ibid: 2005).

Governments play an active role in microfinance: setting policy for the microfinance industry (most frequently vis-à-vis interest rates), providing lump sum grants to NGO’s or other microfinance Institutions or lending directly to the poor.(Hubka &Zaidi:2005).
1.8 Organizational and structure of the thesis

Chapter One will look at the history of development and poverty with the various initiatives that have been put in place. This chapter also discusses about the role the state plays in poverty eradication.

Chapter Two will be an analysis on microfinance in addition to its role in poverty eradication.

Chapter Three is a case study of the Ziwani Jua Kali Association in Nairobi Kenya and how the entrepreneurs have benefited from the microfinance institutions.

Chapter Four will be engaged in making critical analysis and findings from the data collected. In addition, the chapter will also make some recommendations that can be useful to the policy makers engaged in this industry.

Chapter Five this will be a conclusion of the earlier chapters. It will provide a simple and concise summary of the topic of research and shall embark on highlighting the gap in knowledge that shall emerge after the study. The chapter will also suggest suitable areas of future research.
CHAPTER TWO

2.0 Introduction

This chapter is based on the analysis of micro and small enterprises and how they have been able to benefit from the microfinance Industry. The literature also looks at the means at which microfinance is delivered to the economically poor through the informal sector.

2.1 The Informal Sector ("Jua Kali")

The informal sector which is commonly referred to as the "Jua Kali" sector (a Swahili term which means ‘hot-sun) has been in existence from as far back as the 1960’s. over the past twenty years or so, there has been a debate that basically asks…”whether the informal sector should really be seen as a marginalized, survival sector, which mops up excess or entrenched workers, or as a vibrant, entrepreneurial part of the economy which can stimulate economic growth and job creation. (African Union: 2008).

The informal sector is now no longer viewed as a journey but as a destination to creating employment and reducing poverty. The informal sector represents a large share of other formal sectors especially in manufacturing, commerce, and finance. The kind of employment created in the informal sector is varied with intensive labor. In this sector work is usually seasonal or part time. This sector is viewed as a business managed by one man’s show with less than 10 employees. The informal sector has increasingly become one of the major employers for the majority of the youths in Kenya. The sector is characterized by small businesses ranging from hawking household items, food and non – food stuff, retailing second hand clothes, newspapers, in addition to services such as barber shops, hair salons and motor vehicle repairers. This sector has been viewed by many as a sector for the poor who only work to cater for their needs such as food, clothes and rent. (Kiuru: 2007)
The informal sector also referred to as "Jua Kali" sector, is also characterized by sheds built either on the road sides or within estates with most of them considered to be illegal structures by the city council authorities as they operate on temporary basis. They face challenges of being unregistered, unlicensed thus giving them no legal status. This therefore leaves them exposed to the lack of land ownership patent, copyright and property laws. Even those considered to be registered only have temporary licenses or licenses which do not give specific area of operation. In addition, informal businesses usually operate from city, municipal or government land and also on private land which is considered as trespass. (ibid: 2007)

This sector is also faced with various challenges such as the lack of advertising of their businesses, no secure property rights, and no access to credit, inability to create good will and also inability to pool resources due to the lack of secure contracts.

With the growth of the informal sector, the African Governments have reacted differently towards the development of the informal sector. In East Africa, the Kenyan Government embraced the development of small-enterprises positively. The well known International Labour Organization (ILO) of 1972 mission to Kenya, which during the 1970’s supported the use of informal sector backup as an imperative tool in social and employment policies, gave a way to a sequence of sessional papers, which outlined policies for promoting the development of small enterprises under the name of Jua Kali (Open – Air Hot – Sun enterprises). (Sessional Paper No. of 2004)
In addition to this policy enacted by the ILO, the Kenyan Government went ahead to establish organizations that could support the development of small enterprises, such as Kenya Industrial Estates (KIE). This initiative was to enable the government to be able to reduce poverty by half by the year 2015. On the other hand, the Tanzanian Government support for the informal sector was evident during the first years of independence. Unfortunately, the support dwindled as the support was not in line with the new socialist policies.

With the urgency by the Kenyan Government to empower Kenyans participation in economic development, the Government endeavored to “Africanize” the Kenyan economy by encouraging participation of Africans in the Labor market. Through the sessional Paper No. 10 of 1965 on *African Socialism and its Application to Planning in Kenya* (Kenya 1965), Kenyan Africans were to be encouraged to undertake general education and technical training to enable them participate actively in National Building (Akoten: 2007).

Through this sessional paper, the Government realized that the education system had created imbalances to the supply and demand for skills in the labour market. The *Sessional Paper No. 1 of 1994 on Recovery and Sustainable Development to the Year 2010*, the Kenyan Government states its intention remove all unwarranted controls. It further states: on the one hand, the general environment must be made positive to encourage Kenyans to continue start up informal scale enterprises to provide low cost employment opportunities. On the other hand, more attention must be given to facilitating these Kenyan owned enterprises to transform into efficient modern sector businesses that are competitive and able to lead the country’s economic development in the twenty first century (Sessional Paper No. 2, 1992).
One major characteristic with the poor is the lack of collateral which can enable them access conventional credit and insurance. Thus, poverty alleviation policies have devoted considerable attention to ways of channeling funds to the poor. In the 1960’s and 1970’s the “Development Banking model” of subsidized credit to priority borrowers was used widely with generally high disappointing results. Loans often leaked to the non-poor, repayment rates were sufficiently low to undermine the financial solvency of the lending institutions, and the use to which the credit was put was often not successful in reaching the very poor. (Weiss: 1995).

The last fifteen (15) years has seen the spread of micro-finance institutions geared to meeting the needs of the poor. The Grameen Bank in Bangladesh is the best known example of this initiative, but similar institutions now exist in a range of countries and it is estimated that currently roughly ten (10) million households are served by such Institutions (Kanbur & Squire: 1999). It has been stated in The World Bank Economic Review that microfinance has not only helped people to develop in their material capital but also in the human capital, by better access to health care and education system, and general awareness among the people about their rights and duties toward society.

The International attention on microfinance in the 1980’s and 1990’s mainly focused on one category of micro financial service: credit for self employment – also known as microenterprise credit, or microcredit. The International interest in microcredit has arisen, in part, because micro-credit for self employment is in tune with the Neo-liberal economic ideology of providing opportunities for individuals to help themselves through engaging in market activities (Johnson: 1998).
Countries such as Bangladesh and Indonesia have seen millions of people access formal financial services through micro financial services. Various studies on the impacts of micro credit projects on poor borrowers in Bangladesh rural areas were mainly sponsored by the World Bank during 1991 – 1992. This study was done on Eighty seven (87) villages and covered one thousand eight hundred (1,800) households. This study is considered to be the most rigorous to date on the impact of microcredit on the poor (Hotze & Hospes: 2004)

2.2 Micro and Small Enterprises (MSE’s)

Micro enterprise makes an important contribution to economic output and employment in developing countries. The World Bank suggests that almost thirty percent of employment in low income countries is generated by the informal economy, while an addition eighteen percent is provided by (formal) small and medium enterprises (Sapovadia: 2005).

The micro and small enterprises have dominated various economies especially in the developed countries. The majority of these enterprises have less than ten (10) employees while about 70% of them are managed by one person. This means therefore that the majority of MSE entrepreneurs are operating at the bottom of the economy, with a large percentage falling under the category of 53% living below the poverty line of one dollar per day.

The 1999 Baseline Survey has indicated that there were 1.3 million MSE’s contributing about 18% of Kenya’s Gross Domestic Product (GDP). The micro trade activities in majority of developing nations are usually referred to as “survivalists” enterprises – in this case entrepreneurs practice trade for survival with very little or no savings. The MSE’s operate in the informal economy mainly referred to in Kenya as ‘Jua Kali.’ They are characterized by open markets, in market stalls, in both developed and undeveloped premises, in residential houses or on street
pavements. (ROK, Labour Force Survey, 2003b). In Kenya, the sector is a major source of employment and income and about 48% of MSE’s operators are women. By the end of the year 2001, informal employment was estimated at 4.6 million, accounting for 72% of total wage employment and 81% of private sector employment. The contribution of MSE’s is more than double that of the medium and large manufacturing sector that stands at 7% of the GDP (ROK, 2003a). Overall, the MSE’s employ 2.4 million people and creates 75% of all new jobs. Estimates based on the 1999 Baseline Survey of MSE’s show that in the year 2002 alone, the MSE sector employed about 5,086,400 people up from 4,624,400 in 2001. This was an increase of 462,000 persons and consisted of 74.2% of total national employment (CBS, ALEG, K-REP, 1999).

Despite the fact that the MSE’s are a major source of livelihood for a majority of those living below the poverty line, it is unfortunate that the government has not managed to implement major policy provisions geared for the development of this sector. The Government needs to set an institutional framework which sets the rules of the game, ensures enterprises receive appropriate incentives to facilitate efficient performance. The Kenya Local Government Reform programmes (KLGDP) has been of relevance to the SME’s especially the street vendors. This program which began in 1999 aimed at focusing on reduction of poverty and unemployment in addition to spurring the economy into higher rates of growth. Its immediate focus has been the removal of unnecessary regulatory barriers and the reduction of costs of doing business. This particularly addresses the government introduction of two nationwide reform efforts, namely: the Single Business Permit (SBP) and the Local Authority Transfer Fund (LATF). Business licensing was aimed to protect the consumers from exploitation, health and safety hazards, and control of business activities. Business licensing imposes costs on businesses that are often out of proportion to the benefits delivered. Further, in practice, the regulatory provisions are abused
and have become merely income-earning opportunities for those charged with enforcing the regulations (Devas: 2002).

2.3 The Microfinance concept

Microfinance also referred to as banking to the poor, is one of the global phenomenon which was introduced by Nobel Prize winner Dr. Mohammed Yunus of Bangladesh in the 1970’s. Dr. Yunu’s project, Grameen Bank, became a solution for the thousands of poor basket weavers in Bangladeshi to access loans. The Grameen module has seen well over 3.7 million borrowers benefiting in the last thirty (30) years with a 98% repayment, a phenomenon that most banks can ever achieve.

The development of microfinance came about as a reaction to the failure of policies of this kind to reach significant numbers of poor people, and more critically the exclusion of women from access to financial services. Microfinance interventions can and should empower women by increasing their incomes and their control over that income. In addition, the intervention should enhance their knowledge and skills in production and trade, and also increase their participation in household decision making. This will eventually result to a change of social attitudes and perceptions, and women’s status in the household and community may be enhanced. However, it cannot be assumed that disbursing loans to women automatically means that they will use it or that they will become empowered. It is important for the scheme implementers to understand and come up with strategies that address the gender-related objectives of their intervention in addition to understanding the implications that delivering financial services have for relations between men and women.
The Grameen idea has now spread to over 60 countries. Not all microcredit banks operate in the same way, but all are designed to lend to poor people denied access to credit because they have no collateral. (Thirlwall: 2006).

The first commercial micro-credit bank in Latin America was Banco Sol in Bolivia established in 1992 and has an enviable record of lending. Kenya’s Rural Enterprise Programme (K-Rep) was established in 1999 intending to replicate the success of Banco Sol, lending to groups of 20-40 people, with loans taken out on a stagger basis. Accion Internacional based in the United States has affiliates in 13 Latin American countries including Mibanco in Peru, the first wholly funded micro-enterprise bank in that country. (ibid) KREP bank also a microfinance Institution serving the poor was established in as an intermediary NGO with the mandate to provide financial and technical assistance to some of the NGO’s based in Kenya which were involved in developing or involved in the promotion of development of micro and small enterprises. In 1993, KREP legal status changed to comply with new legislation that require private development organizations to register under the new Co-ordination Act; thus leading to KREP’s licensing in 1999 and opening of its doors to the public in the same year.

The rapid growth of microfinance in Kenya, like most developing countries, has prioritized the regulation and supervision of the microfinance industry as a key policy objective and reform agenda for enhancing financial inclusion and economic development. The central bank is mandated to promote the orderly growth and development of a safe and stable financial system based on three (3) pillars: Access, Efficiency and Stability {Section 4(2) of CBK Act}. Thus, the Central Bank has been licensing, regulating and supervising banks, financial institutions among others. The enactment and operationalisation of the Microfinance Act 2006, and Attendant
Regulations 2008, saw the CBK further tasked with the responsibility of licensing, regulating and supervising deposit taking Microfinance Institutions (DTM’s) as well.

2.3.1 Lending Through Self Selected Groups

Most microfinance schemes work through groups. Such schemes are often referred to as ‘group based finance’ or ‘solidarity group’. Because group members are jointly liable for each individual’s loan, this represents form social collateral (Johnson & Rogaly: 1997). This contrasts to the physical collateral of land or assets which formal – sector services usually require and which poor people are unable to offer. (ibid: 1997)

The basic rationale of group lending is that if one member from the group fails to pay, pressure is mounted by other members within the group on the member to pay. If this does not work, then the group will have to repay the loan on behalf of the member. Group based lending design is popular with many informal financial institutions despite complaints from members that it wastes a lot of time. However, it has the advantage of encouraging cohesiveness and socialization.

2.4 The progress of Microfinance and how it targets the poor.

It is estimated that 300 million low-income Africans are in need of microfinance services but only about 20 million currently have access to these services. Provision of microfinance is not only confined to any specialized or specific type of institution. There exists tens of thousands of varied MFI’s globally offering an array of financial services and products to poor and low income households. Such Institutions range from formal Institutions under banking laws including commercial banks and non bank financial institutions; semi-formal institutions such as NGO’s, member based savings and credit associations(SACCO’s) and development programs;
and informal institutions such as rotating savings and credit associations (ROSCA’s), accumulating savings and credit associations (ASCA’s) and self help groups. However there remains an eminent constraint due to the high cost of environment which hinders the provision of financial services in Africa. Infrastructure and communication technology remain largely underdeveloped in Africa.

Several initiatives implemented directly to assist the poor with financial services usually fall under the category of unsuccessful interventions. This can be attributed to factors indicating that more than 80% of the world’s population does not have access to financial services from formal institutions, either for credit or for savings (Christen, Rhyne & Vogel, 1995; and Rosenberg, 1994).

Among them of course, are nearly all the poor of the developing world. Although there is massive demands for microfinance worldwide, banks typically believe that providing small loans and deposit services would be an unprofitable activity for them. The problem is exacerbated by the low level influence of the poor who require microfinance. Accordingly, institutional commercial microfinance has remained at a low level (ibid: 1994).

2.5 Microfinance: An effective approach to poverty alleviation.

Microfinance programs have been found to increase and diversify household income, promote household savings and permit “consumption smoothing” in the face of volatility of income. (Barr: 2005). Microfinance programs have enabled the economically poor to realize the benefits of savings through savings programs initiated by the microfinance industry. From this research, it is evident that many small scale entrepreneurs would never have seen the growth of their business into thousands of profits were it not for the microfinance believing in them.
One aspect of the microfinance that distinguishes it from the traditional financial system is the "joint liability concept" where groups of individuals, usually women, group together to apply for loans and hold joint accountability for repayment of the loan. The premise is that providing low income individuals access to financial services will better enable poor households to move away from subsistence living, to a future oriented outlook on life and an increased investment in nutrition, education, and living expenses. Furthermore, microfinance is unique as a development tool because of its potential to be self-sustaining (both reducing poverty and maintaining a profitable business) (Business Weekly, 2005).

Additionally, many studies (primary microfinance institution impact studies and academic researcher qualitative or case studies) have shown that microfinance programs were able to reduce poverty through increasing individual and household income levels, as well as improving healthcare, nutrition, education, and helping to empower women. For example, standard of living increases, which help to eradicate extreme poverty and hunger, have occurred at both the individual and household levels as a result of microfinance programs (Khandker, 2005). Furthermore, it has been demonstrated by some research that microfinance programs increase access to health care, making preventative healthcare measures more affordable to the poor. In addition, more children are being sent to school and staying enrolled longer (Morduch, 1998).

Finally it has been shown that such programs can help borrowers to develop dignity and self confidence in conjunction with loan repayment, and self sufficiency as a means for sustainable income. Since microfinance services are primarily focused on women, it is argued that this leads to the empowerment of women and the breaking down of gender inequalities, through providing opportunities for women to take on leadership roles and responsibilities (Goetz and Gupta, 1995).
This notwithstanding, there is a wide impact of the need for a variety of financial services for the poor. In today’s market, microenterprise credit (i.e. credit to meet the running costs of small businesses), has become the principle product offered by most specialized MFI’s. Unfortunately, this has been a challenge to both the poor, very poor and economically poor to the extent that for them to be able to meet their various needs; they find themselves adapting microcredit to many uses.

Poor people need a range of options, from credit (beyond Enterprise finance), to savings, to money transfers facilities, and insurance in many forms. Equity bank in Kenya is an example of a bank that has enjoyed success among poor and low income clients by offering diverse services. It has grown exponentially since introducing computerized systems in 2000 and offering a range of financial services, including agricultural loans, emergency loans, salary advance, business development loans, ordinary and contractual savings accounts (in which clients can save for a specific purpose), and money transfers. In just four (4) years Equity’s client base swelled from 75,000 to nearly 450,000; this growth trend has continued into 2005, with around 50,000 new clients opening accounts in the first quarter alone.(Wright: 1995).

For several decades, countries in Asia, which peopled approximately a third of the world’s poor, were witness to targeted and subsidy-linked credit schemes as part of anti-poverty interventions. Such interventions have had a mixed impact on poverty. While some analysts argue that the government’s anti-poverty schemes projects have created conditions for poor people to participate in the local economy, others argue that these have adversely affected the credit discipline and created a dependency culture.
On the other hand Bangladesh has one of the most MFI's that are under NGO's, thus they are exempt from oversight by the Central Bank. Currently the only MFI that is known to be regulated by the central bank is the Grameen Bank, one of the largest micro lenders in the country. The Bangladesh Bank (the Central Bank) has traditionally viewed NGO's as distinct from other financial institution because of their social and development missions (Craig: 1997).

2.6 The banking Sector Intervention in Microfinance

A number of commercial banks in developing countries have begun to take interest in the microfinance market. The last five years has seen commercial banks explore this market with the facilitation of donor – funder loan guarantees, central bank rediscounct lines, and specialized technical assistance. Financial services are mainly provided by both the informal and formal institutions. The common provider under the microfinance industry is mainly catered by the informal sector. This seems to be changing, with the formal sectors which are the banks, taking a leading role in community banking. Over the past 25 years, microfinance has involved a movement from informal towards formal providers. The advanced MFI's have proven that the there are lessons to be learnt about how to do small transaction banking.

Micro finance is differentiated from commercial lending by concepts of joint liability or group lending, dynamic incentives that allow for an increase in size of loans overtime, regular repayment schedules and alternative collateral through forced savings. (Gine: 2003).

For example joint liability helps to overcome adverse selection (borrowers know in their community is a credit risk) and moral hazard (borrowers can monitor each other), and to enforce auditing (by ensuring borrowers are honest in the case of default) and repayment (borrowers can impose social sanctions on defaulters). (Ghatak & Guinnane: 1999).
Until the 1980’s, the regulatory repression of formal financial markets in most developing countries – interest rate ceilings, high reserve requirements, and directed credit lines - largely precluded established banks from servicing a higher cost and riskier microenterprise clientele. (Graham: 1997). With the advent of structural adjustment and financial liberalism in the 1980’s private commercial banking expanded rapidly. (Wright: 1997).

Although the new regulatory environment was more favorable, these new commercial bankers were unlikely providers of loans to small businesses, small farmers and micro entrepreneurs. Commitment to microfinance among commercial banks appears to be more likely in small, specialized institutions with few shareholders, or in large institutions that have created an independent unit or subsidiary dedicated exclusively to microfinance. Despite the interest by commercial banks in micro lending, they have still not met the needs of the very poor or the economically active poor. Most banks are still exercising stringent measures when giving loans such that the very poor are left out. Banks have taken into micro lending with a lot of caution as they still view the exercise as very risky. This is noted in a comment by Robinson that:

*Few banks are unwilling to allocate resources for microfinance or to make exceptions to bank rules, such as agreeing to the relatively high operating costs required for profitable microfinance, wavering collateral requirements for small loans or accepting nontraditional forms of collateral requirements for small loans.* (Robinson: 2001).

However, there is a large number of microfinance institutions’ advancing to become regulated formal financial institutions. On the other hand, some banks are headed into the microfinance market due to the fact that they feel hampered by regulations that prevent commercial microfinance, and thus seeking regulatory changes. Commercial banks have a great advantage of
access to large amounts of funds which gives them potentially greater competition in the microfinance market. Some of the current commercial banks have proved to be profitable in the microfinance market due to branch networks, available capital, broad financial products, and competent human resources all which provide banks with the essentials to launch and grow thriving microfinance business. Effective regulation of banks, with measures to deter risky lending and encourage efficient investment, needs to be combined with a more gradualist and cautious approach to financial market liberalization than that currently promoted by the International Monetary Fund. (Watt: 2000).

Advocates of commercial microfinance strongly support the need for microfinance institutions to become commercial banks. This is because banks can offer a variety of financial services to the poor. Commercial banks have a wide network for getting funds and can consequently increase the loan numbers offered or the size. Furthermore, through their branches, they can facilitate the access to their services through more efficient transactions and thus allow a better supervision of loans and projects (Ugur: 2006).

2.7 Chapter Conclusion

This chapter has tried to identify the various contributions towards the effectiveness of microfinance in poverty alleviation. It has brought out various situations where microfinance is seen as a contributor and at the same time a challenge to the effectiveness of eradication of poverty in developing countries.

The next chapter intends to provide details of a case study in Ziwani Motor Vehicles Mechanics and how they have benefited from Opportunity Kenya Limited.
CHAPTER THREE

3.0 Introduction

This chapter will be divided in two parts. The first part will explore the ‘Jua Kali’ sector while the second part will explore the effect of microfinance by studying a microfinance called Opportunity Kenya Limited. The motor vehicle repair and servicing in this area has been in existence from as far back as 1936. This study will try to identify how one microfinance institution that goes by the name Opportunity Kenya has played a role in empowering the lives of the motor vehicle repairers in addition to addressing the issue of poverty eradication.

3.1 ZIWANI – The Informal Motor Vehicle Industry

The African auto motive market grew in the 21st Century from used cars that were mainly repaired and resold. This market has in the recent past grown and is currently in the areas of Kariobangi Light Industry, Kirinyaga road, and Ziwani all situated in the urban setting. This study will base its focus on the Ziwani area of Nairobi located in former African Quarters off Quarry Road in Nairobi. The area is characterized by several semi permanent structures consisting of small enterprises engaging in vehicle repair, production of vehicle spare parts, spray painting and panel beating. Additional businesses which have emerged recently and are seen to be expanding are businesses in retailing motor vehicle spare parts.

Another main service notable in Ziwani is the general mechanic. It is from this level that all other services can be rendered based on the general mechanic diagnosis. With the help of financial services by OKL, most of the registered members in Ziwani, have now graduated to another level that is from general mechanics to owners of machineries for welding, painting and body building. The same machines used by the owners are also lent to those without at a fee.

Another service also notable in this area is the manufacturing firms. This service involves the
finishing works where a variety of activities such as dashboard mats, car silencers and exhaust pipes are fixed. It is important to note that all these materials used in the manufacturing department are made by the entrepreneurs themselves. (Tables 1 and 2 give a summary of the activities in this area.

The growth of the automotive industry has notably been seen to be on the rise. This is coupled with large car dealers and manufacturers such as the Car and General Motors, Toyota Kenya to medium level car dealers like the Kenya car bazaar and indeed to the very local ones who are commonly found in Kariobangi Light Industry, Kirinyaga road (commonly referred to as Grogon area) and also the Ziwani area.

Table 1: Motor Vehicle Repairs Services in Ziwani

<table>
<thead>
<tr>
<th>Motor Vehicle Repair Services</th>
<th>No.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Body Building</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>General Mechanics</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Spray Painting</td>
<td>15</td>
<td>15%</td>
</tr>
<tr>
<td>Electrical Wiring</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Panel Beating</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Gas Welding</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Spring and Radiator repairs</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Auto rewinding</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>Greasing</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 2: Manufacturing Services in Ziwani

<table>
<thead>
<tr>
<th>Activity Type</th>
<th>No</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhaust Pipes</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Floor Mats</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Chassis</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Dash Board Mats</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Roof Mats</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Car Grills</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Roof Mats</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>General Upholstery</td>
<td>5</td>
<td>5%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

3.1.1 The level of Education for Entrepreneurs in Ziwani

Due to the demand for motor vehicle servicing in the urban area, many unemployed youths migrated to the urban areas in search of jobs, of which some found themselves within the motor vehicle industry. In the 1980’s the GOK supported technical training as a means of producing skilled labor for both employment and self employment. With the establishment of the National Youth Service (NYS) in 1973, the GOK’s mission was to address concerns of high level youth unemployment and the lack of training opportunities. The NYS was therefore established to equip the youth with necessary life coping skills to enable them contribute to the community and towards National Development. Though many former trained youths benefited from this establishment, a few were not advantaged to start up meaningful businesses due to lack of capital and thus some ended in the informal sector with no adequate capital to start up with.

Majority of mechanics in Ziwani area have gone beyond primary education. An average of 30% has either undergone tertiary and/or technical training in the field of mechanical engineering.
Through the various observations undertaken, it was noted that the vehicle repairers learnt through observation, informal talks from experienced motor vehicle repairers and on job training. The informal talk and coaching by the old vehicle repairers, has evidently built an indirect technical training institution. This kind of training is then passed to other new entrants in the industry.

This kind of training is non-formal and can however lead to passing on bad practices of doing things. Most of the vehicle repairers learn in groups and questions are raised in a non-formal way where all learn from the situation. It is also important to note that many of the entrepreneurs are from the rural areas where after being unable to get a proper education decided to migrate to the urban area in search of jobs. On the other hand, relatives invite each other into this business in order to uplift each other from the poor conditions they have been living in.
Graph 1: Level of education of entrepreneurs in Ziwani area
3.1.2 Capital Accessibility by the Informal Business Entrepreneurs’

Another major challenge faced by the informal sector is the lack of capital and/or inadequate source of capital. This constraint in addition to inappropriate environment, technology and limited market and credit accessibility has crippled the growth of small businesses. This lack of capital mainly affects those businesses that have grown to the level of manufacturing and advanced vehicle repair services that require a large source of financing. Starting up a small business requires small capital which is then topped up by the meager savings that the potential entrepreneur has managed to collect. The challenge here is that, since most entrepreneurs come from low income households, the savings available is usually very small and ends up being up to buy tools. Very little finance comes from friends and relatives.

It was also noted that some of the entrepreneurs have access to various sources of financing. Some of the main sources of capital mentioned were: financing from banks, microfinance institutions, shy locks and cooperative societies. Other sources mentioned were from relatives and friends. (Graph 2 indicates the percentages of trends of borrowing from various financial sources). Banks were feared due to their high rates and fees. Shylocks were used by some entrepreneurs for emergency financial need since there is no security required. Finance source from the microfinance was preferred as it was seen as a cheap source of finance. In addition, the process for getting a loan from microfinance institutions was not tedious with a smooth processing.

Due to the inadequate financing or the lack of it, majority of the entrepreneurs in the garage service sector use relatively cheap tools and equipments. They usually purchase second hand or locally made tools. Despite the inability to use new advanced technology, motor vehicle repairers are able to compete with medium and large size enterprises. From the information
gathered from the research, most of the motor vehicle repairers complained of experiencing difficulties during repairs as some of these repairs required machines and tools such as compressors, axles, etc. one of the interviewed member said: 'I have various products designs that I envision in the business of making car grills. But due to the lack of certain machines this becomes a challenge as I am forced to borrow tools from my business partners who are at times reluctant to assist.

Graph 2: Sources of finance
3.2 Opportunity Kenya Micro Loans

An International Organization with a worldwide network in United States, Australia, Canada, Germany, United Kingdom and Africa. Opportunity International (OI) is a Christian based organization motivated by Jesus Christ call to love and serve the poor irrespective of their race, religion, ethnicity or gender. This Organization was formed in 1971 by A Whitaker who was the former President of Bristol Myers International Corporation in America and an Australian entrepreneur called David Bussau. Their mission into forming the Organization was guided by the need to seek solutions to end poverty and transform people’s lives while also empowering them to financial Independence and sustainability. Opportunity Kenya was one of the first Non Profit Organization to identify the benefits gained when small businesses are given loans as capital through the Trust Group Model.

With the success of the Trust Group Model in the Phillipines Opportunity Kenya expanded its mission to other developing countries in Asia and Africa. The Opportunity International Network now numbers forty two (42) Organizations in more than twenty (20) developing countries with twenty seven (27) in Africa; all these with the support from the partners based in five countries: Australia, Canada, Germany, United States and United Kingdom.

Opportunity Kenya is a local limited microfinance with current figures of active borrowers standing at four thousand two hundred (4,200) and a loan portfolio of four hundred million (400 million). The organization grew from as low as one thousand five hundred (1,500) active borrowers and a portfolio of two hundred million (200m). Opportunity Kenya takes a bottom-up approach to meet the needs of the family living at the bottom of the economic pyramid.
Previous research has shown us that the lack of collateral and other reliable forms of security hinders the economically active, poor entrepreneurs’ access to capital. Opportunity Kenya with the support of Opportunity International shareholders to provide financial services relatively needed by the local entrepreneurs’. Opportunity Kenya provides the majority of the manufacturing and service sectors of the informal sector with direct entry group loans, solidarity groups and individual loans. Products ranging from Asset loans, Individual loans, Msingi loans (Business loans) and Somesha (Education loans), are some of the various products in addition to training that Opportunity Kenya provides in order to meet the growing demand of the economically active micro-entrepreneurs’ who are underserved by the formal financial systems. (Table 3 gives a summary of the products available at Opportunity Kenya).

With its main target being the economically poor entrepreneur, Opportunity Kenya has branches situated in areas where majority of the informal sector is found. These areas are: Githurai, Eastland area, Kawangware, Kitengela, and Gikomba. Gikomba market is one of the largest open air markets that have thousands of second hand clothes business people. The area has also grown to include other types of businesses including, retailing food and non food stuff, retailing metals and manufacturing of the same in addition to mechanical engineering and the sales of spare parts.
<table>
<thead>
<tr>
<th>Product and Services</th>
<th>Quantity</th>
<th>Qualification</th>
<th>Payment term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Msingi Loan</td>
<td>Minimum first loan 5,000/= to a maximum of 500,000/=</td>
<td>Product available to business entrepreneurs</td>
<td>Can be paid up to 3 years</td>
</tr>
<tr>
<td>Somesha Loan (education loan)</td>
<td>Minimum 5,000/= to a maximum of 100,000/=</td>
<td>Product available to registered members</td>
<td>Paid within one year.</td>
</tr>
<tr>
<td>Asset Finance Loan</td>
<td>Minimum and Maximum depends on item to be purchased</td>
<td>Product available to registered members</td>
<td>Paid up to three years.</td>
</tr>
<tr>
<td>Individual Loan</td>
<td>Minimum of 300,000/= Maximum based on securities offered and capability of customer to pay</td>
<td>Product available to customers who have successfully progressed to high loan levels and are able to</td>
<td>Paid within three years</td>
</tr>
<tr>
<td>Water tank Product</td>
<td>Based on the current Msingi loan level that the client is servicing</td>
<td>Available to customers servicing the Msingi product</td>
<td>Payable in three years.</td>
</tr>
<tr>
<td>-------------------</td>
<td>------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Savings</td>
<td>Minimum 100/=</td>
<td>All registered customer are expected to make mandatory savings</td>
<td>Savings paid on a weekly basis</td>
</tr>
<tr>
<td>Training Programmes</td>
<td>Available to all potential and existing customers</td>
<td>Introductory training is done in six weeks. Any other training is based on the training module</td>
<td>Weekly for both potential customers and registered members</td>
</tr>
</tbody>
</table>
3.2.1 Opportunity Kenya as the financial pillar

This chapter will look into a case study of motor vehicle repairers situated in the urban part of Nairobi known as Ziwani area.

Through its various programmes of empowering the economically poor, OKL has been one of the main financer to most entrepreneurs’ in Ziwani. Its mode of operation is through the Trust groups where interested entrepreneurs’ self select a minimum of ten (10) to fifteen (15) members of whom they are comfortable to guarantee. At this point, the loans officer designated to this area assists the potential clients in the group on the basic requirements of group formation. Once registered the members are taken through a six week training session on basic business and finance training. This training also ensures that the registered members are comfortable with the group they registered into as this will form part of their guarantorship.

Loans are usually disbursed within the self selected groups in a stagger system, where at the end of every two weeks at least three members are disbursed loans. These loans are given to those with existing businesses in order to uplift them. Monitoring of the same loan is done by a trained officer to ensure that the funds disbursed to the clients are invested wisely. The formation of such small groups is easy to manage and the members within these groups learn a lot from one another. Their experiences are shared during weekly meetings which are mandatory. The meetings are usually held within Ziwani area in either hotels or in an open space. The logic behind this is so that minimal time is spent transacting with the clients thus giving them time to get back to their businesses.

With the various products available at OKL, already registered members and potential clients stand to benefit from them. For example the asset financing enables the clients to purchase machinery and tools that they require in their daily work. In addition OKL is able to ensure that
registered members and their dependants are able to acquire education through the Education loan. Many businesses people have so far benefited from these products and are currently operating registered businesses within permanent structures.

One of the groups interviewed during the research called Uwezo Group 14 of Ziwaani area, narrated as to how they have benefited from the time of the formation of the group to the current level at which they stand at. One of the group members called Daniel Chumba narrated that when he was introduced to the area by one of his relatives; he had been a primary school dropout and never imagined that he would manage his own business. Through observing how other mechanics performed their duties, he gained interest in spray painting which he specializes in. Daniel joined Opportunity Kenya through his friends who introduced it to him. The microfinance has provided him with loans to restock, purchase the spray painting machine and educate his children and siblings. David felt that, were it not for Opportunity Kenya, he would still be languishing in poverty back in his rural home. The story of David is relived by other members of his groups who have also benefited from the products and services offered by the microfinance.

OKL is also aware that dealing in the informal sector is a risky business. These businesses are prone to frequent destruction by fire or theft. It is from this premise that for every business person who gets a loan, their finances businesses are automatically insured. Therefore, in the event of loss of business property, the entrepreneur will not suffer any loss or psychological torture and is able to recover quickly. The Insurance facility is done in partnership with the Micro Insure service providers who mainly offer their services to microfinance organizations.
OKL has empowered the once considered economically poor entrepreneur to becoming an economic champion. Through its financial scheme, it has enabled the entrepreneurs to realize their dreams in addition to meeting the demands of their businesses. With such positive trends, OKL has in one way been able to create empowerment and reduce the number of those living on less than one dollar per day.

3.2.2 The Uwezo Group 14 (UG14)

This is one of the beneficiary groups that have received loans from OKL. The group was started off by five members who came together as friends who contribute for each other in times of difficulties. These members discovered that through coming together they are able to pool resources which enable them invest in their businesses. The group of five then approached other business entrepreneurs in the area of ziwani and together they formed a group of fifteen members. Form here they approached OKL and were able to register as members with a minimum savings of Kes.100/= only.

It is from here that the group started making savings of Kes.1, 000/= in order to qualify for the first loan level which ranges from Kes.5, 000/=-- 25,000/= . After six weeks training the group received loans first with two members beginning while the rest receive after every two weeks. This is so as to spread the risk of the loans. The Uwezo Group uniquely consists of men who are all in the same Motor Vehicle Industry. Even after acquiring the loans the members are expected to make savings of a minimum of Kes.100/= in addition to repaying their loans. As the group progressed the members through their group chairman and treasurer decided that it was important to increase the savings to 500 per member per week. The Uwezo Group then formed another group which they called Uwezo Welfare where the members make a separate additional savings of Kes.200/= which they use in the event of emergencies such as members sickness,
death, wedding funeral, and also to boost a member who is unable to meet the weekly loan repayment. This welfare has so far grown to collect Kes.50,000/=. From the information gathered using primary data collection (See Appendix I), which involved interviews and observations, it was noted that the livelihoods of members of the UGI4 have improved both economically and socially.

Some of the interviewed members from the group had this to say:

Dominic Nganga was one of the pioneers of the UGI4. When he started his business in Ziwani area, he only used to repair tires for small motor vehicles. The income from this venture was never enough to feed and educate his family of six children being the sole bread winner for the family. But after saving for six weeks and acquiring a loan of Kes.10,000/=, Dominic says everything in his life changed for the better. He immediately invested the loan into his business and the returns increased from profit of Kes.1,000/= daily to 6,000/= daily. The growth of his business even made him employ one assistant. Dominic concludes by saying: ‘since I took this loan, I have now been able to buy enough food for my family, I have also bought the tools required for my business and also I have taken the Somesha loan product and been able to educate my children.’

Another member of this group who is also a beneficiary of UGI4, Zebadiah Okumu also gave his story during the interview. He came from the rural areas in search of manual jobs but was not successful. He was then introduced to the motor vehicle industry by his cousin. He said that ‘on realizing that savings could be the way out of financial problems, he decided to join the UGI4 group after seeing how their lives have changed. From the training he received from OKL he was able to understand the concept of investing in his business through loans. From his first loan of Kes.25,000/=, Zebadiah was able to renovate his dilapidated semi permanent business
structure. His business involves selling old and new bolts and nuts for all types of cars. He additionally, introduced two of his siblings from the rural home to join him in the business so that they too can be beneficiaries and also be able to save and start up their own businesses.

The members of this group have been able to graduate to the next loan levels after successfully investing the first loan and reaping profits. The *Uwezo Group* has become a pillar and a transformer to other motor vehicle repairers in Ziwani. Other business people who were not members of OKL discovered the initiative through *UG14*. This prompted them to inquire from the successful *UG14* business entrepreneurs on the procedures required and immediately joined. From this OKL was then able to register ten other groups consisting of fifteen members each. The registration of small groups is usually encouraged as the members are able to guarantee each other in addition to getting to knowing one another well. There is always strength in numbers and people who pool their resources together are able to change their lives, those of their families and the community at large.

In addition to benefiting from the Msingi loan, another product which the registered groups praised was the Asset Finance Loan. With this product many of the members have been able to purchase tools, machinery and land. The story of John Kiranga whose specialization is body building for trucks said that, ‘I was happy about the asset loan product which has now enabled me to buy grilling and compressing machines which I require for the kind of business I do. Due to the acquisition of these two machines through the asset loan, I was also able to employ four other people and in this way I have created jobs and a livelihood for them. I also train other interested business people who once they acquire the skill and are able to start up businesses, I encourage them to form groups from which they can access loans like we did’.
Indeed, ‘development is discovering new knowledge about products, processes and services and then applying this knowledge to create new needs which advances society toward change in one way or another. (Mareng: 2010). Through empowerment of one member of the society, others are able to learn from their experience and the cycle continues. A sure way of eradicating poverty.
CHAPTER FOUR

FINDINGS, ANALYSIS AND RECOMMENDATIONS

4.0 Introduction

This chapter presents the findings of the study. Three findings were identified which directly relate to the study. Recommendations relating to the study will also be made towards the end of this chapter.

4.1 Findings and Analysis

Microfinance programs have been found to increase and diversify household income, promote household savings and permit “consumption smoothing” in the face of volatility of income. (Barr: 2005). Microfinance programs have enabled the economically poor to realize the benefits of savings through savings programs initiated by the microfinance industry. From this research, it is evident that many small scale entrepreneurs would never have seen the growth of their business into thousands of profits were it not for the microfinance believing in them.

The study arrived at a number of findings. The first finding relates to the social and economic empowerment contributed by the microfinance industry. Through the economic empowerment many beneficiaries of the microfinance services have been able to improve their standard of living and that of their family. In the second finding, it was noted that microfinance has played a major role in contributing to economic empowerment by enabling the economically poor to earn a living. Our last finding discusses on how the government regulations have impacted on both the microfinance industry and the small scale entrepreneurs.
4.1.1 Microfinance as a tool for social and Economic empowerment

Microfinance creates access to productive capital for the poor. Unfortunately, there are those who view it as an act of faith. But contrary to this claim, microfinance has shown through this research that it provides access to capital and various financial services. It additionally smoothens the financial impacts of crises, such as illness, and also stabilizes borrowers' income. This study has provided a good forum for understanding how microfinance influences the social and economic standards of the small scale entrepreneurs. From the study it was established that the economically active poor people in the society have now a chance to be a part of the growth of the nation’s economy. This has been made possible through the various initiatives undertaken by Opportunity Kenya micro loans in empowering them. The study also noted that the beneficiaries of the loans from OKL are now able to contribute to the tax revenue and thus becoming a part of the nations building.

One of the interviewed members of OKL said that he is proud to be a part of building the nation as he can now remit taxes just like any other working citizen. This has been made possible from the benefits he has earned from profits gained when he boosted his business from loans he has taken through OKL.

It was also identified from the study that ‘Jua Kali’ operators go through the process of social learning. It was noted that those in small registered groups have formed clusters where they learn from each other. Theses clusters or groups under OKL have also enabled the ‘Jua Kali’ artisans to be become creative. It was noted that learning takes place between entrepreneurs with specialized skills and those without skills. For example; one vehicle repairer learnt the skill of mixing paints so as to come up with different kinds of mixtures for polishing cars. In addition, other skills such as molding aluminum metals to make car spacers have been acquired through the social interaction among the entrepreneurs.
The research also noted that entrepreneurs with large family members previously found it difficult to feed and educate their children. But with the uptake of loans for their small businesses the growth in sales figures has now enabled them to educate and provide a decent meal for their families. An interviewed entrepreneur, Jack Njoroge had this to say:

"Unlike before, I was only able to educate two of my five children because my business was small and any profit I got was used to buy food for the family for that particular day. But after investing the funds I received from OKL, I was able to expand my business and the profits grew from one thousand to six thousand per day. Now my children are all in school and I also plan to increase my Industrial skills."

The culture of savings has also notably been seen to improve among the entrepreneurs’ with the increase in sales and consequently profits, the entrepreneurs’ were now able to save either through fixed assets or liquid cash.

Communication and self esteem through socialization has also been another positive impact for the entrepreneurs. It was noted that those who benefited from services offered by OKL, were able to interact with other successful business people in addition to interacting with their fellow entrepreneurs’. Being a part of the Motor Vehicle Industry requires one to be financially capable of transacting with others. The high self esteem based on the fact that one is independent and can be able to make his own business decisions is indeed empowering. The small firms through their growth and demand for their products have also had a chance to interact with large Motor Vehicle industries and companies. The first hypothesis is therefore considered as true since through the research we are able to note the impact microfinance has on development. Jobs are created which leads to an active society that is able to contribute to a meaningful development. Families have now been able to live healthy lives and children are now part of the education system.
4.1.2 Microfinance Impact on Development of Small Scale Enterprise

The second finding takes us through the change experienced by the small scale business entrepreneurs.

From the survey undertaken, those interviewed agreed that small businesses were a safe landing from a frustrating economy. One of the greatest constraints to Kenyan entrepreneurs was the unavailability of credit. Fortunately for those already accessing credit through the various financial and credit institutions, the story is no longer the same. Most of those servicing loans have noted a growth of their businesses in terms of sales and profits. Small scale enterprises are now graduating from the semi permanent structures to permanent structures, which are more recognized and licensed by the City authorities.

The microfinance sector has been able to fill the gap of financing the small scale entrepreneurs an area which the banks are reluctant to embrace. This has opened avenues for the informal sector to create job opportunities and also encourage innovation and creativity. Creativity in making machines and various equipments revealed that there is a lot of inventiveness in the ‘Jua Kali’ sector. From the demonstrations by the entrepreneurs’ to the researcher coupled with illustrations of production procedures revealed the understanding of scientific procedures in power mechanics and also chemical reactions. Despite their lack of manuals or pattern designs, one can tell that these entrepreneurs’ know the melting and cooling points of aluminum and plastics. They can tell at what point to start hammering red hot metals into various shapes among other skills. Such knowledge has encouraged growth of their business.

The researcher was able to identify that 62% of the Group 14 members put large amounts of loan money into their business in order to buy more stock and assets. In addition, a small percent of 28% spent the loan money for personal needs, while 3% used to pay creditors and the 7% put
the money to other uses such as purchasing lands/plots and acquiring household items. The impact of loans on the business entrepreneurs has indicated a positive trend as seen from the increased assets purchased, high sales and profit. (See Table 4)

**Table 4: Impact of Credit on Small Scale Entrepreneurs**

<table>
<thead>
<tr>
<th>Areas of Impact</th>
<th>Effects on Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increased</td>
</tr>
<tr>
<td>Assets</td>
<td>78%</td>
</tr>
<tr>
<td>Profits</td>
<td>88%</td>
</tr>
<tr>
<td>Sales</td>
<td>87%</td>
</tr>
<tr>
<td>Employment</td>
<td>86%</td>
</tr>
</tbody>
</table>

Credit has empowered the informal sector to become small industries with a potential to growth. The study showed that 76% out of the 70 enterprises surveyed increased in their current and fixed assets. Such assets acquired using loan money included tools and equipments for production purposes, commercial plots (for construction of houses for rent) and land. This has therefore provided the entrepreneur with some form of security for future use. Such assets can be used as security for larger loans in the future. On the other hand with increased sales and profits by 86% and 88% respectively, it was clear that the entrepreneurs were now able to save for future needs.
The entrepreneurs were also asked to give their overall comments on the impact of loans to their businesses and whether the money helped their businesses. Out of the 70 entrepreneurs who participated in the study, 58 (80%) stated that the loans did indeed improve their businesses. According to 85% participants, the weekly repayments meetings they attend have made them more disciplined in using their finances. That is they have become more carefully the planning and use of enterprise resources. We can therefore conclude that the second hypothesis is true as there is a notable change in the development of businesses that are financed through the microfinance. The small scale industry has now become a sector to reckon with as there are evidential gains in this sector.

4.1.3 Government Regulation on the Microfinance Industry.

The third finding further discusses the impact the government regulations have both on the financial service providers and the “Jua Kali’ sector. The regulatory framework in most developing economies affects dynamics of enterprise growth. The effects of compliance, cost and the tax framework on the dynamics of entrepreneurship makes MSEs not to last long enough and the attrition rate is sustained (Eakin: 2000). Taxes and licenses also hinder many business start-ups. It takes about two months for a business to obtain licenses and meet all obligations required for them to be compliant.

The business entrepreneurs also contributed their opinions towards the role that the government plays in the informal sector. 75% percent of the respondents were of the opinion that the government should intervene in the microfinance sector so as to control unscrupulous operators. The entrepreneurs felt that the government came in to control the interest charged and also the legal aspects of the finances, while the remaining 15% of those who participated felt that the government regulations mainly had a direct effect on the financial institutions rather than on
their businesses. The Sessional Paper No. 3 of 2004 cites the major short comings to the small enterprises sector development as inappropriate policy design and weak implementation systems that do not support effective monitoring, leading to failure in addressing the specific needs of micro and small entrepreneurs (GOK: 2004).

The research also identified that the ‘Jua Kali’ artisans felt that a regulated microfinance is more stringent on its lending policies such that the procedures they previously used were much better. The artisans also felt that the government should encourage NGO’s in the microfinance industry. A supportive regulatory environment is important for the Micro enterprises to be able to flourish. Unfortunately, few of the respondents interviewed felt that the government would only make their businesses difficult to operate as they would come up with policies that would hinder their growth in business.

On the other hand, participants from OKL felt that the lack of conducive policies would force small enterprises to exit from the market prematurely. To them regulation has enabled various MFI’s that are regulated by the CBK to expand their network to reach out to a wide area of potential customers. It is worth noting that the government uses a lot of force in order to enforce the legal regulatory framework on MSE’s. The role of the government in micro and small enterprises development is not balanced and there is need for policies to be put in place to support and encourage innovativeness, achievement and pursue for new markets and opportunities. Such policies should enable the small businesses to apply new technologies to improve productivity, use internet facilities to capture and make use of E-commerce. It is therefore important that policies on financing and access to credit be a part of government annual estimates.
4.3 Challenges facing the ‘jua Kali’ sector

Despite the fact that the informal sector has contributed to the creation of jobs for the majority of the youth, this sector is faced with unique challenges which affect its future growth and profitability. Some of the key challenges that will be addressed in this paper are as follows:

Lack of adequate credit

This is one of the universal challenges for most start up and continuing businesses. The informal sector as earlier indicated, is a risk sector which commercial financial institutions fear to penetrate. High cost of credit and bank charges/fees also hinders small enterprises from acquiring credit.

Business Registration and certificates

The process of acquiring a certificate for business from the respective Ministries such as the Ministry of Social Works is a tedious process for most entrepreneurs. Some of the small scale businesses in the informal sector are currently lacking the relevant certificates. The only option left for the entrepreneur is to evade the process of registering their business. This unfortunately becomes expensive in the long run due to penalties charged by the city council.

Lack of Business Skills

This research has also identified that most of the entrepreneurs in the informal sector lack relevant skills to manage their businesses. Skills such as book keeping, selling and advertising skills are vital for a successful business. Unfortunately, some entrepreneurs either due to the lack of zeal for knowledge or the lack of finances are unable to take advantage of the relevance of such simple skills.
Other challenges that affect the informal sector are such as poor working environment as most of the structures are made of corrugated sheets, lack of adequate policies that can encourage and promote the sector, lack of affordable insurance that could cater for their emergencies due to the risky nature of their businesses and finally lack of means for advertising their businesses.

4.4 Recommendations

This section discusses the recommendations based on the study research. The recommendations are the author’s own ideas and suggestions based on the understanding of the microfinance industry in the area of study. The recommendations can be useful in expanding the microfinance industry.

The field of microfinance which is less than forty years old is seen to be an effective strategy in helping the poor work their way out of poverty. It provides loans to both individuals and groups who in turn use it for working capital and other personal uses. MFI’s and other organizations offering financial services can be able to contribute to more than they are currently doing. This can only be made possible if the Governments and other stake holders work hand in hand.

Creativity in the “Jua Kali’ sector is one of the challenges that they experience. There is need to strengthen Institutional linkages between the Government, the private sector and the Institutions of higher learning. This will give a chance to those who never went through formal education to be able to acquire the necessary skills. The notion that the “Jua Kali’ people are just mere recipients of skills and technology should be reversed. The Government should therefore play its role by providing training courses on industrial technology. In addition, the polytechnics, technical Institutes and universities should be encouraged to work together with “Jua Kali’ entrepreneurs so as to empower them on scientific and engineering knowledge.
MFI's have played a major role in building growth of the SME sector. This unfortunately is not adequate to meet the growing demand for credit by the ever expanding "Jua Kali" sector. The Government should therefore encourage the commercial banks to lead on easier terms.

Registration for small businesses is an area that limits growth of the informal sector. The licensing authorities need to come up with lenient and achievable registration and certification process so as to be able to encourage the growth of the informal sector and thus create jobs. The business entrepreneurs interviewed in this research complained that registration processes was not standardized such that there was no difference when it comes to registering small or big businesses. It was also observed that bigger businesses were provided for services more than the small businesses.

The microfinance Industry has the future promise to contribute to poverty alleviation globally. It would be important for the Microfinance Industry to target increase access to public goods. For example, the industry could offer low interest rates to groups in the rural setup to purchase water tanks and farm equipments. In this way, they will have improved the living standard of those in the rural areas and thus avoid the influx of the rural-urban migration.

Though microfinance has been identified as one of the contributors for jobs, it does not adequately meet this demand. However, for a successful impact by microfinance, it should be in a position to provide sustainable financial services that will keep the jobless youth out of the poverty line. Microfinance should go ahead and make contracts with large institutions such as the Car & General and the General Motors, where products and services from the informal sector are also used in these institutions.
The informal sector requires support from the concerned authorities when it comes to cost of material. Material inputs used locally for value addition should be zero rated. The local industries especially those run by the small scale entrepreneurs become competitive, and enhance sales. Once this is achieved, the demand for metal materials from Asia, which come with high prices, will be reduced. This will not only encourage reduction of taxes on material exports but also discourage export of materials which leads to shortages in the local market.

It would also be recommended that MFI’s purpose their services to encourage more people to save and to take up health insurance covers. Most of the jobs within the informal sector are risky as they involved a lot of manual work in a harsh environment. When such entrepreneurs are involved in accidents, they end up using the loan or the little savings that they had kept aside for other emergencies.

Women empowerment is at the fore front of every financial scheme. It is therefore for microfinance institutions that have not adequately funded women to embrace this idea. Women were notably few in the case study area. It is important to note that by empowering a woman you empower the society in general. Women are considered better borrowers than men and have a history of high savings and repayment rates than men. Empowerment of women into the industry through the MFI’s will enable women who are sole breadwinners in the society to be able to accumulate capital, feed their families and also encourage others to be part of the MFI’s.

Opportunity Kenya usually gives loans to those who have already started their businesses. It should in addition also cater for those who are in the process of starting new businesses. In addition, the module of weekly group meetings should be moved to quarterly meetings thus giving time for the small business entrepreneurs to plan themselves adequately. Though these recommendations may also be shared elsewhere, it is important to implement them in order to build the microfinance sector and in addition to the informal sector.
CHAPTER FIVE
CONCLUSION

5.0 Introduction

This chapter concludes the study undertaken on microfinance impact on poverty alleviation.

5.1 Conclusion

The introduction of the study began by tackling the issue of poverty and development and its history. The issue on Structural Adjustment programs was studied and how it played a role in either assisting developing countries or furthering them to more poverty.

Further, the study showed how development and underdevelopment began after the World War II and its impact on Africa. The theory of Neoliberalism also enabled us to understand how poverty came to become a reality and the various economic and commercial ways that were used in the past to eradicate poverty and improve on development. The study proceeded to explore how the state plays a role in poverty alleviation. The study tried to identify the impact of state policies and regulations especially on financial institutions.

The study further expounded on the concept of small scale entrepreneurship and the informal sector and how this sector through the microfinance has been able to alleviate poverty by encouraging small scale entrepreneurs to access credit to boost their businesses.

The study further set out to identify how relevant microfinance is as a tool for social and economic development. In addition, the study also identified the effectiveness of microfinance as compared to other approaches in poverty alleviation.
Commercial banks were also assessed in this research and their role in poverty alleviation. A case study of small scale entrepreneurs in Ziwani area was also undertaken. This study mainly involved the Motor Vehicle Industry. One financial industry named Opportunity Kenya Limited was also studied to identify how it assists the small scale entrepreneurs to uplift themselves from poor living conditions. Various products provided by this institution were also discussed in addition to how they have assisted in the Ziwani ‘Jua Kali’ sector.

Various findings and analysis were arrived at. The key findings from the study that were identified were that indeed the microfinance module has helped the informal sector develop itself. We also identified that Microfinance Institutions reach out to those people who are considered by the commercial banks as unbankable. The ‘Jua Kali’ sector has indeed benefited from the products and services provided by the MFI’s. These organizations not only benefit the entrepreneurs alone, but also benefit the families of the entrepreneurs in addition to improving their livelihoods. It was identified that MFI’s are able to contribute to the alleviation of poverty through economic and social empowerment. In addition, it was noted that the government has now taken keen interest in the MFI and the informal sector due to the contributions they make to the economy.

5.2 Chapter Conclusion

This chapter is concluded with some recommendations towards the MFI industry.

It would be important for the industry to further engage more women in the informal sector by encouraging them to join the Microfinance institutions. In addition, this study also recommends that further research be conducted in other towns such as Thika, Nakuru and Kisumu among other towns that are also engaged in the motor vehicle sector.
The Government still has a large gap to fill in supporting both the informal sector and the Microfinance sector. Concerned stakeholders need to address the various challenges experienced by the informal sector. Policies and regulations that are structured for the Microfinance sector should also be set to make them flexible enough for the poor people to benefit. The Government also needs to work together with educational institutions to empower the informal sector with technical skills and also other skills relevant in this sector.

The Government should also encourage interested NGO’s to provide credit facilities to the informal sector. They (NGO’s) should be encouraged to be a part of the growth of the informal sector by providing training services. Lastly, the ‘Jua Kali’ sector should also be encouraged to form associations that will assist them improve the informal sector. Such associations should then receive full support from the Government and other concerned stakeholders.
REFERENCES


APPENDIX I

QUESTIONNAIRE FOR FINANCE AND CREDIT BENEFICIARIES

General Information

1) Name (optional)..............................

   a) What is your age

      i) Below 25 [ ]  ii) 26-30 [ ]  iii) 31-35[ ]  iv) 36-40 [ ]  v) Over 40 [ ]

   b) Marital Status

      i) Married [ ]  (ii) Single [ ]

   c) Family Size

      i) 1-3 [ ]  ii) 4-6 [ ]  iii) 7-9 [ ]  iv) 10+ [ ]

2) What is your level of formal education?

   a) Primary [ ]

   b) Secondary [ ]

   c) Diploma/University [ ]

   d) Adult Literacy [ ]

   e) None [ ]

3) What type of business do you operate?

   i) General mechanic [ ]

   ii) Body building [ ]
iii) Spray painting [ ]
iv) Electrical wiring [ ]
v) Others..............................

4) What was your status before you joined this industry?
   i) Unemployed [ ]
   ii) Employed [ ]
   iii) Self Employed [ ]

5) Why did you select to start a small business?
   i) I prefer to work for myself [ ]
   ii) To supplement our household income [ ]
   iii) Lack of a white collar job [ ]
   iv) Other....................................

6) What kind of structure would you categorize your business?
   i) Permanents structure [ ]
   ii) Temporary [ ]
   iii) Vehicle [ ]
   iv) No structure [ ]
   v) Other [ ]

7) Do you consider the current interest rates to be high?
   a) Yes [ ]
   b) No [ ]

   If yes, what would you be comfortable to pay?
8) What are some of the policies and regulations in Opportunity Kenya Limited (OKL) that have hindered the growth of your business?

9) Are you satisfied with the services offered at OKL?
   a) Yes [ ]   b) No [ ]

10) Have you encountered any challenges while dealing with OKL?
    i) Problems with OKL staff [ ]
    ii) Challenges with the Institution [ ]
    iii) Transaction problems [ ]
    iv) Others (please specify) .....................................................

11) Have your sales improved?
   a) Before you took a loan (per month)
      i) 1,000-5,000 [ ]
      ii) 6,000-11,000 [ ]
      iii) 12,000-17,000 [ ]
      iv) 18,000-23,000 [ ]
      v) 24,000-29,000 [ ]

   b) After taking the loan (per month)
      i) 1,000-5,000 [ ]
      ii) 6,000-11,000 [ ]
      iii) 12,000-17,000 [ ]
      iv) 18,000-23,000 [ ]
      v) 24,000-29,000 [ ]
12) What are the Assets that you had

a) Before loan
   i) Land [ ]
   ii) House [ ]
   iii) Cattle [ ]
   iv) Refrigerator [ ]
   v) T.V [ ]

b) After loan
   i) Land [ ]
   ii) House [ ]
   iii) Cattle [ ]
   iv) Refrigerator [ ]
   v) T.V [ ]

13) What are the challenges that you experience as an entrepreneur?

14) Has your involvement within the community improved when you took a loan? (E.g. involved in church activities, community programs, etc.)

15) What would you suggest OKL should improve so as to uplift your living standards?
APPENDIX II

OKL QUESTIONNAIRE ON PERFORMANCE OF LOANS

(1) How many loans has your institution managed to disburse since it started?

(2) How many clients currently have loans in your institution?

(3) What percentage is in the Motor Vehicle Industry?
   (i) Less than 50% [ ]
   (ii) 50% [ ]
   (iii) Greater than 50% [ ]

(4) What is the average amount of loans disbursed to the industry?
   (i) Upper limit Ksh..........................
   (ii) Average Limit Ksh........................
   (iii) Lower limit Ksh........................

(5) What percentages of the Motor Vehicle Entrepreneurs access multiple loans?
   (i) 100% - 90% [ ]
   (ii) 89% - 79% [ ]
   (iii) 78% - 68% [ ]
   (iv) 67% - 57% [ ]
   (v) 56% - 46% [ ]
   (vi) 45% - 35% [ ]
   (vii) Below 35% [ ]
6) What are the benefits (for example improved the ability to educate, decision making, empowered the entrepreneur and self esteem) to the Motor Vehicle Entrepreneur have you observed?

7) Do you have any incentives to good repayment of loans?
APPENDIX III

QUESTIONNAIRE ON POLICY AND REGULATORY ENVIRONMENT

1) How would you categorize your organization registration?

i) Non Governmental [ ]

ii) Trust [ ]

iii) Company Limited by guarantee [ ]

iv) Cooperative [ ]

Other (please specify) ...........................................

2) How has the policy and regulation affected your operations?

3) How have some of the government policies and regulations hindered the effective operations of your organization?

4) What do you suggest should be done to develop a favorable regulatory environment for the effective operation of microcredit schemes?
Appendix IV: Transmittal Letter

Maryanne Gitau  
P.o box: 72425-00200  
Nairobi  
28th May 2013

Dear Respondent

RE: Graduate Research Project

As part of the fulfillment of my Masters in International Relations Degree at the United States International University, I am currently carrying out a research on the impact of microfinance in alleviating poverty in Ziwani area.

To complete the same, I therefore wish to humbly request your participation by completing the attached questionnaire. All information collected is strictly for academic purposes and will be treated with utmost confidentiality.

Your kind consideration for my request will highly be appreciated.

Yours Faithfully,

Maryanne Gitau