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Factors Affecting the Performance of Micro Finance Institutions in the Eradication of Poverty in Migwani Sub-county of Kitui, Kenya

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Abstract:
The general objective of this study was to identify and understand factors that affect the performance of micro finance institutions in eradication of poverty in Migwani Sub-county of Kitui County. The objectives of the study wereto identify development projects among the women in Migwani Sub County which have been funded by Loans procured from microfinance institutions, to establish the level of management knowledge and training among the women who utilize loans from microfinance institutions in Migwani sub-county, to establish the role played by Microfinance institutions in the eradication of poverty among the women in Migwani Sub County and to examine factors related to the performance of MFI funded projects among women in Migwani Sub-County.
Lottery method was used to determine the groups that were to be involved in the study where three groups were selected through that. Then systematic sampling was used to select the appropriate individuals to include in the study, Data was collected through the questionnaire administered to 95 women who were selected from these three groups and interview guide administered to the Loan officers and the Managers of Micro finance institutions within Migwani Sub County. Data collected was analysed using the SPSS and excel programs and the use of thematic or content analysis. Themes that relate to the factors that affect the performance of microfinance institutions were analysed. The analysed data was presented using both descriptive and inferential statistics namely tables, pie charts, frequencies, percentages, cross tabulations.
The important factors that affect the performance of Microfinance institutions were identified from the microfinance beneficiaries and also the loan officers and managers of the microfinance institutions within Migwani Sub-County. Lack of knowledge and training among the loan beneficiaries, little involvement of the MFIs to the loan beneficiaries, improper steps taken to the loan defaulters by the Microfinance institutions are the major factors that were found to immensely affect the performance of MFIs in poverty eradication.
The study proposed that the microfinance institutions should train the beneficiaries before entrusting them with loans, Microfinance institutions to venture in the field of research in order to carry out the study on the challenges that face the MFI borrowers.

Keywords: *Microfinance, collateral, beneficiaries, women groups, povertyeradication,un-bankable*

1. Introduction

Microfinance can be viewed as the credit that is given to the poorest people. The credit is usually given to the poor people who are seen to lack guarantee. Microfinance majorly involves financial service that are given to low-income people. The low-income people in this case involves worker who get low income and the people who depend on small scale businesses to earn their income. People with small enterprises in most cases are seen as people who cannot bank their money and assets and therefore, they are believed to lack any collateral to make a pledge. People with small scale enterprises are also seen as people with high risk by the traditional banking sector (Daley Harris, 2002). Provision of microfinance to the poor is very helpful. Micro financing the poor is helpful since it provides the poor with capital needed to start their own business. The micro financing institutions also help the poor by providing them with financial assistance. Microfinance organization have helped the poor who were ignored by the traditional banking sector and the cooperative societies (Otero 1999). The low-income earners have for a long time been ignored by the banking sector because of the high risk. The economic sector also has ignored the poor for a long time but the microfinance institutions came to their rescue to finance them. Therefore, it can be seen that the microfinance institutions tried to bridge the gap in the economy by ensuring that the poor are also considered in the market. Addressing the problem of ignoring the poor in the financial system helps in improving the financial sector. Through microfinance, the poverty levels in the country have reduced and the economic growth has been positive (Otero 1990). There are a lot of positive to the economy brought about by the microfinance organizations.

Various strategies have been put in place to help reduce poverty levels in the world. World organizations such as the United Nations sat down and came up with certain objectives to reduce poverty. The target of meeting the goals of reducing poverty was set to be 2015. In the year 2005, various countries came together and established the millennium goals (MDGs). The focus of the MDGs was to help the poor in countries all over the world with the major focus being the countries in the sub-Saharan Africa. There was extreme poverty in the most regions in Africa. It was estimated that that about half of the people in Africa were living in poverty. Around 300 million people in Africa live in poverty and therefore a way should be sort to help the people. A lot of people termed as poor cannot afford 1$ per day which is used as the poverty line. In the early and late 1990s, the number of people living in absolute poverty in Africa was estimated to increase by one quarter. With high rate of poverty in the region of Sahara Africa, it was estimated that the number of people living in poverty would increase from 318 million in the year 1999 to about 404 million in the year 2015. The poverty trends were alarming and therefore the main aim was to try and reduce the level of poverty in Africa. Sachs et al. (2004) in their study concluded that there is extreme poverty in the sub-Saharan Africa and most people are still stuck in poverty. With a lot of people in the region being stack in poverty, the sub-Saharan Africa region had people with low savings. The level of investments in the region was also low leading to reduced productivity. Other factors that have been as a result of extreme poverty in the sub-Saharan Africa include poor infrastructure and persisted diseases (World Bank, 2005). Poverty is one of the major factors that affects people In Migwani Sub County. Despite the existence of microfinance institution in Migwani Sub County, people are still living in poverty. Therefore, there is need to investigate why people are still living in poverty in the subcounty yet there is microfinance institution.

2. Methodology

The researcher conducted the study in Migwani Sub-County of Kitui county Kenya. The sub-county had approximately seventy-three thousand people in2009.The major occupation of the most of population is mixed farming where they grow crops for subsistence and keep livestock. It is divided into three divisions namely Migwani,Nzeluni and Nguutani.

The researcher sought data from the women who were registered in the various groups within the three divisions. The study was guided by descriptive research design. In this, the researcher could describe the various factors that affect the microfinance institutions in poverty eradication in the sub-County. Six groups were registered in migwani sub-county they had a total of 913 members. A sample of 95 respondents were picked from these members. Simple random sampling specifically Lottery method where three groups were selected to participate in the study. Groups selected through this lottery method where God is able self-help group which had 200 members, Katethya self-help group had 175 members and KwaKanyaa self-help group had 160 members all totalling to 535 members. The researcher equated 535 to 100%. Then He calculated the percentage of each group from that i.e.,535 is equal to 100 % then what is the percentage of 200 members (200*100)/535=37.4%, (175*100)/535=32.7, (160*100)/535=29.9.

Then he calculated the total number of members to participate in the study. This was also done by equating 100% to 95 respondents which is the sample size the researcher chose. It was done as follows; (95*37.4)/100 =36, (95*32.7)/100 =31 and (95*29.9)/100 =28. Therefore, the members who participated in the study were 36 members from God is able, 31 members from Katethya self-help group and 28 members from KwaKanyaa self-help group.

The researcher therefore employed systematic sampling to select the exact respondents who were to participate in the study. In each of the three groups he end eavoured to find the nth person who was to participate in the study. This was done by dividing the total number of members in each group by the sample size selected from each group as follows;200/36=5.5, 175/31=5.6 and 160/28=5.7.

From all the groups then the sampling interval was 5. The researcher then assigned each member from each group a number starting from number one. Therefore, the researcher selected a starting point at random and then every 5th person in each group was selected to be a respondent in the study. The researcher used questionnaires and interview guide to collect data from the respondents.

Data collection tools used were questionnaire, Interview guide, and observation. The questionnaire was used to seek the following; Social and demographic characteristics of the beneficiaries; Age, gender, Marital Status, Level of Education, the type of job done by the beneficiaries, Number of children, Development projects funded by microfinance institutions which include; whether beneficiaries have borrowed, Purpose of the loan, expenditure of the loan, Whether the loan improved the social economic status or not. Management training which focused on Level of education, Training on spending of funds, and the role of microfinance institutions in poverty eradication which focused on community involvement by microfinance institutions on poverty eradication. Data for quantitative analysis was derived from the questionnaires and were presented as tables and graphs. Data for qualitative analysis was mainly derived from interview guide administered to the loan officers and managers of the respective microfinance institutions. It was also derived from the observation done during the administration of questionnaires as well as during the interviews.

3. Results and Discussion

3.1. Development Projects Funded by Microfinance Institutions

It was established that 95.6 of the respondents at one time borrowed from the microfinance institutions and 4.4 % of the respondents did not give their response to this question. This therefore suggested that a large number of the population were aware of the microfinance institutions and its capability in poverty eradication in the communities.

Further, those who borrowed from the microfinance institutions were found to have borrowed small amount of money which was thought to have very insignificant impact in poverty eradication to the borrowers if any.

Further the study inquired to know the purpose with which the borrowers used the loans. Out of the total number of respondents, 65.5% of them said that they wanted either to boost their business or to start a new business,24.9% of them said they wanted to pay school fees while the rest which was 9.6 % of the respondents wanted to procure family assets. With this, a greater number of borrowers were seen to have an intention of investing in the money borrowed. To add on, the research undertook to understand whether the borrowers had a feasibility study to headlight on the potentiality of the business they wanted to invest in which most of them responded that they never undertook the feasibility study and all ended up making losses as a result.

Purpose of the Loan	**Frequency (m)**	**Percentage (%)**
To start/boost a business	58	65.5
To pay school fees	23	24.9
To buy family assets	8	9.6
Total	89	100.0

Table 1: The Purpose of Loans Took by the Beneficiaries

The respondents were asked whether the money they borrowed was spent for the purpose they intended. 30.1 % percent of the respondents said that they spent their funds in the way it was designated for while 69.9 % percent of the respondents said that they used part of the funds for the purpose they said when they were borrowing the money. Others said that whole of the monies were not used for the purpose it was designated. This shows that many of the microfinance borrowers do not use the funds the way it was designated. During the interview with the microfinance staff the researcher inquired whether the microfinance officers ensure that the funds given to the microfinance borrowers is used for the designated purpose. Most of the staff said that it is not easy to control the funds you have given to people because they borrow in large numbers. They also said that they leave individuals to use their funds independently as long as in the end they will pay as they had agreed. This means that there is no control in the expenditure of funds got through the microfinance loans and hence most of the borrowers end up spending the funds in unwise manner. Other microfinance institutions said that the groups they use help in restricting individuals in the expenditure of the funds got through microfinance by ensuring that if individuals are not able to pay the funds in the agreed period of time, they help identify their homes and auction their properties. Therefore, for the fear of their things being auctioned they have a discipline in their expenditure of the funds got through the microfinance loans.

3.1.1. Levelof Satisfaction on the Expenditure of the Funds Got from Microfinance Loans

Researcher inquired from the loan beneficiaries on whether they were satisfied with the loan expenditure. Responses ranged from very satisfied 36.9 % percent of the respondents the responded positively in regard to the satisfaction with the expenditure of the funds got from the microfinance institutions 15.9% percent being very satisfied and 21.0% percent being satisfied. When you observe the businesses or wherever they invested the monies got from microfinance loans they were thriving so well. Therefore, they had to actually be satisfied with the expenditure. A greater percentage of the respondents their response was negative in regard to the satisfaction with the expenditure of the microfinance loans. This is reflected by 42.1% percent saying they were dissatisfied and 21.0 % saying they were very dissatisfied. The total number of individuals who responded negatively in regard to satisfaction with the expenditure of the loan was 63.1% percent. When asked why they were dissatisfied they responded that they incurred a loss from the businesses they invested the funds got from microfinance institutions. In fact, most of these microfinance beneficiaries said that they were sourcing funds from other avenues in order to pay the loans they had borrowed from the Microfinance institution.

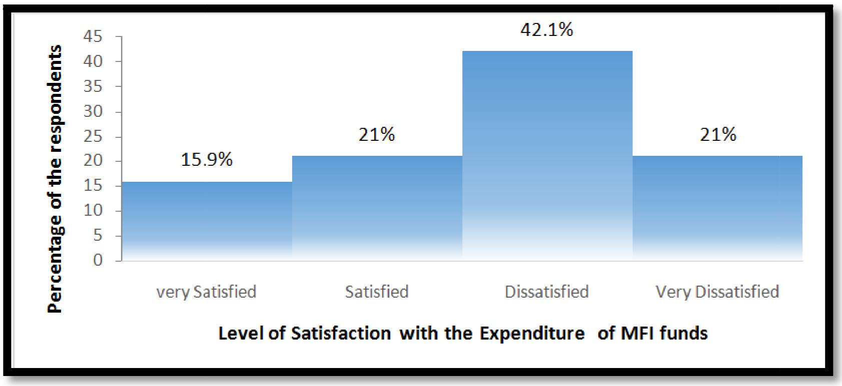

Figure 1: Level of Satisfaction of Beneficiaries with Expenditure of Their Funds (N=95)

3.2. Management Knowledge and Training among the Microfinance Users

3.2.1. Training before Awarding Loans

In the regard to whether the microfinance institutions conduct training before awarding the loans, the respondents gave the following responses. Those who said No were 77.3 % percent of the respondents and yes were 22.7% percent of the respondents. This therefore tells that a small number of microfinance institutions train their members before awarding loans to them. The same question was asked to the microfinance institution Managers and most of them responded negatively saying that they assume that before one comes to get a loan, they have a particular item they would want to buy or purpose for the loan so they see no need to train them. Other such microfinance institutions said that training would be so expensive to the institutions since different people go to borrow money at their own time so if they were to train people it could be an endless affair. For those who trained their beneficiaries, the researcher went further to inquire the period of time they spent in training and most of the respondents said that they trained for 2 weeks and below. According to the researcher, the longer the period of training translates to the amount of the skills acquired during the training period. Therefore, those who trained for two weeks have more knowledge than those who trained for one week or less.

The researcher also inquired from the microfinance institutions how they ensure the users of their services had the right skills in order to be able to manage the funds they get from the microfinance institutions and there was no clear way in which the microfinance institutions do in order to ascertain the knowledge possessed by the loan beneficiaries.

3.2.2. The Level of Skills Possessed by the Microfinance Beneficiaries to Manage Funds

In figure below the researcher inquired from the respondents the level of skills they possessed as at the time of the survey, a greater percentage of the respondents said that they possess Medium skills, Followed by Low skills and finally the third category said that they had low level of skills in managing the funds. This therefore showed that most of the loan beneficiaries were not sure whether they were capable of managing the funds got from the microfinance or from any other source. This therefore indicates a clear breakdown in the knowledge acquisition in the management of funds for a greater percentage of the respondents. The researcher went further to inquire from those who said that they had high knowledge of management of funds why they thought that their skills were not being reflected in the management of funds and most of them said that they thought the same was being reflected. The Microfinance beneficiaries proposed that empowerment is necessary to enable individuals to manage their funds in order to help them break the yoke of poverty.

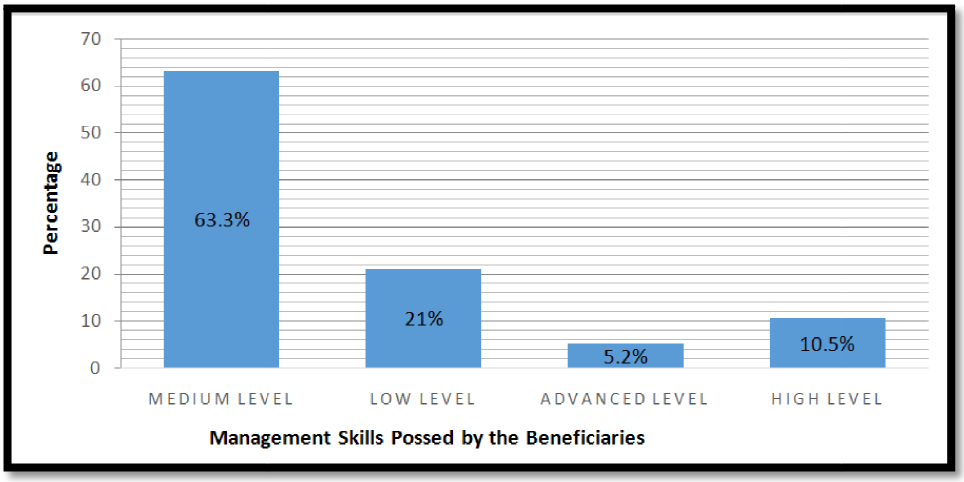

Figure 2: Skills Possessed by the Beneficiaries of Microfinance on Fund Management

3.3. The Role of Microfinance Institutions in Poverty Eradication

This part sought to examine the roles played by the microfinance institutions in poverty eradication in Migwani Sub-county and elsewhere in the country. To start with in this part the researcher inquired from the microfinance Managers and loan officers in the various microfinance institutions the major objectives of starting their organizations.

Most of these organizations had a role in poverty eradication in their list. The Microfinance beneficiaries were asked whether they knew of anyone who was working in one of the microfinance institutions from their sub county 72.7% of the respondents could not trace anyone employed in those institutions while 27.3 % of respondents said that they knew individuals working with MFIs. Those who could recall they said those employed were working as subordinate staffs in those institutions. For Microfinance to be accepted and so that it may be seen to be helping the local people it should be able to employ the locals as part of its corporate social responsibility. The MFI institutions were asked whether the employ their beneficiaries as a way of knowing their role in poverty eradication they said that they were in the process of employing the beneficiaries though they said that there were very few people among their beneficiaries who had qualifications to work in their institutions.

3.3.1. Whether the Microfinance Institutions Involve the Beneficiaries

From the table below a question was asked whether the microfinance institutions involve the locals to study whether they involve the locale in identifying their challenges.89.5% percent of the respondents they gave a negative response in regard to their involvement in the study of the factors that affect their performance. 10.5% of the respondents their response was negative in regard to their involvement in the factors that affect their performance. This shows if any there is very little study conducted by the microfinance institutions to identify the challenges that face their beneficiaries and hence, they end up not performing up to the expected standards. For those who responded positively they said that their involvement is done once in a while. This means there is no appropriate time when the microfinance institutions put aside to address the challenges of their customers. The researcher was also interested in studying some of the challenges raised by the microfinance beneficiaries who are involved in the study and they said issues like their ways of recovering loans to those who are unable to pay are usually raised.

3.3.2. Microfinance Institutions and Poverty Reduction

Respondents were asked to say according to them whether microfinance institutions help in reducing poverty. Different respondents give different views as follows; 47.5 of the respondents said that the microfinance institutions do not reduce poverty while 52.5 of the respondents said that MFIS are capable of reducing poverty. Those who said that the microfinance institutions are not capable of reducing poverty gave disadvantages as the way microfinance institutions auction property of defaulters as one of the reasons as to why microfinance institutions do not reduce poverty. They said that when they auction one'sproperty, they are more likely to leave individuals poorer than they were before they borrowed. In addition, the respondents said that the MFIs do not involve the beneficiaries in establishing their challenges and hence it is not easy for them to identify the challenges those MFI beneficiaries face.

3.4. Factors Related to the Performance of Microfinance Institutions

3.4.1. Challenges Faced by the Microfinance Beneficiaries When Paying Loans

From the figure below the respondents were asked whether they face challenges during the time of paying their loans,78.3% percent of the respondents said that they face challenges in paying the loan.21.7 % percent of the respondents said they don't face challenges in paying the loans. The same question was asked to the Microfinance officers whether they experience any challenge with the microfinance beneficiaries failing to pay their loans. They said that some of them are even forced to pay through auctioning their items after they have failed to pay. Some microfinance institutions attribute the cause of the failures of the microfinance beneficiaries is the kind of investments those individuals make using the funds acquired from the Microfinance institutions. The Microfinance beneficiaries said that some of the challenges they face is the high amount of interest charged by the microfinance institutions and time given to pay the loan among many other challenges. An interview with the microfinance staff reviled that the microfinance institutions interest is to maximize the profit rather than helping the poor come out of poverty. The microfinance institutions managers interviewed stated that the borrowers ought to have proper plans on the expenditure of fund accrued from the microfinance institution before they go to borrow from these institutions

3.4.2. The Accessibility of the Microfinance Services by All in the Society

From the table below, the researcher wanted to know the opinion of respondents about the accessibility of the microfinance institutions by all the categories of people in the society. A question was asked on whether they felt that the microfinance institutions were accessible by all in the society 37.9 of the respondents said that the microfinance institutions were accessible to all members of the society. They said that what is needed is to approach them and you are able to enjoy their services46.3 of the respondents said that the microfinance institutions were not accessible to all the members and they attributed this to the structural functions put in place by these microfinance institutions. Those who said that that the microfinance institutions are not accessible mentioned issues like the shares that individuals pay. They said that the poor are not able to get the shares so that they may belong to one of the microfinance institutions in order to be able to enjoy the services of these microfinance institutions.

4. Conclusion

It was concluded that most Microfinance institutions give a priority to women more than men. The Microfinance institutions forget the fact that all people have a role to play in developing the society especially economically. It was also noted that most people who venture into Microfinance to get loans are the elderly people who have more responsibilities within the society. It is important for people to venture into microfinance during their early ages in adulthood to benefit more from the microfinance institutions. If the elderly people could venture into Microfinance institutions much earlier there could be a possibility that the funds could help them move out of the poverty. It was also found out that most of the microfinance institutions are set out to increase their profits and minimize their losses. Thus, the microfinance institutions do very little in the reduction of poverty. It was established that people who engage the microfinance institutions for funds have little or no knowledge on management of fund and hence end up misusing the funds.

5. Recommendations

First of all, there is need for the Microfinance sector to come up with better strategies of training the Microfinance beneficiaries. The training should be on the management of funds in order to have a prudent expenditure of funds accrued from the loans and even other sources. Through the training of the beneficiaries, the microfinance institutions will be able to eradicate poverty. The other recommendation is that there is need for research institutions to venture into the communities and talk to the poor. This will help in finding the existing gaps in the community on the challenges faced by people who are given loans. The research institutions will be thus able to incorporate their ideas in decision making process to ensure that microfinance institutions help people in the community. Microfinance also needs to come up with products that fit all the categories of the people in order to avoid leaving out some categories of the individuals who really need to benefit from the microfinance loans. Microfinance should come up with proper ways of recovering their money and restructure their objectives to alleviating poverty and not making profit. Finally, the government needs to educate the community members on birth control methods and its importance for its economic development. Future research is recommended on finding better ways of ensuring the poor in the community benefit from microfinance instead of microfinance institutions benefiting from the poor.

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