EFFECTS OF MICROFINANCE ON SOCIO-ECONOMIC STATUS ON LOANEE HOUSEHOLDS IN LIMURU CONSTITUENCY, KIAMBU COUNTY, KENYA

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ABSTRACT

Globally, at least 80% of humanity lives on less than $1.0 per day accounting for 4.8 billion people. This is despite many studies carried out by various researchers on the effects of Microfinance on Socio-Economic Status on households. However despite this effort by Microfinance institutions on empowerment of women entrepreneurs in rural setting this study remains largely unexplored in Kenya. This study aimed to close the gap by establishing the effects of microfinance on social economic status of women loanees in Limuru Constituency of Kiambu County in Kenya. The study adopted a concept of equilibrium of poverty theory by Chambers (1983) Chambers assumed that, gains made from the efforts of the poor people to disentangle themselves from shackles of poverty are quickly lost as a result of their vulnerable conditions. For the methodology the Study adopted mixed method research methodology with the population consisting all women groups under an MFI's financial support in Limuru Constituency Kiambu Count of Kenya. The sample of the study consisted of 91 women who have accessed financial support from MFIs in Limuru Constituency. The primary data was gathered using structured questionnaires and interview guides. The collected data was analyzed through the help of Statistical Package for social Sciences (SPSS Version 22) which was of great importance in generating the descriptive statistics and also to generate trends results. The study provides recommendations that clear financial management strategies should be put in place to address key critical financial difficulties facing women. The Study also recommends that no interest should be charged on the loan and payment should commence after results have been realized since women groups who had participated in microfinance, the study found that 70% of the women who took the loan had not benefitted.

Key Words: *microfinance, socio-economic status, loanee, households, Limuru Constituency*

INTRODUCTION

The effects of MFI's as a tool for financials empowerment has created great interest to the researchers and policy makers in our society today. According to many researchers MFI‟s help women groups to increase their earnings and leading power within household. However more than 70% of these women are unable to service their loans and end up disposing what they placed as collateral in banking institutions and SACCOs, hence making increasing socioeconomic vulnerability within the household. According to World Bank report (2015) a person is in extremely poor condition if he/she consumes less than $2 a day (World Bank, 2015). World Bank current statistics place the poverty to nearly half of the world's population where more than 3 billion people are believed to live on less than a USD 2.50 a day. More than 1.3 billion live in extreme poverty, that is, on less than USD 1.25 a day, while 80% of the world population lives on less than USD 1 per day (World Bank, 2015).

However the percentage of poor Africans has been declining with the latest World Bank estimates reporting a drop from 56% in 1990 to 43% in 2012. Despite the progress that has been made in reducing poverty, the number of people living in extreme poverty in the region remains unacceptably high. In Kenya's population of about 40 million according to Population Reference Bureau estimates (Kenya population, 2016) 50 % of Kenyan population live below poverty line (CIA, 2005). This was supported by UNICEF (2014) which reported that forty two percent of Kenya's population lives below the poverty line. Despite the country having reported a steady growth of the economy, more than a half of the country's population still lives on less than one US dollar a day (UNICEF, 2013). Furthermore, Kenya is ranked 152 out of 177 countries on the 2006 Human Development Index in the world's 30 poorest countries (HRD, 2012). In a bid to alleviate poverty in the country, the Kenyan government has adopted the Sustainable Development Goals (SDGs) that were introduced by United Nations in September 2015. SDGs one and two are directly related to poverty as they seek to end poverty in all its forms in every place and to end hunger by achieving food security, improved nutrition and promote sustainable agriculture.

In Kenya microfinance can be traced back in mid 1990s and it spread out to other parts of the country around the same time. By 2006, 12000 households had obtained microcredit from five microfinance institution in Limuru namely Kenya women finance trust (KWFT), Pamoja women development Group (PAWDEP), Jamii Bora, Rafiki Microfinane and Faulu Kenya. In Kenya, the microfinance industry has experienced major transformations over the past twenty years, growing from a fledgling concern dominated by a few donor and church-based NGOs to a vibrant industry increasingly driven by commercial sustainability (Muganga, 2010). Microfinance is a general term used to describe financial services offered to those who are poor, unemployed and un-bankable or who would otherwise have no other means of gaining financial services (Mohan, 2011).

In Limuru there are few or no opportunities at all for illiterate and semiliterate since the biggest population is educated and jobs opportunities are few. This puts the lives of women in rural 9 household at stake. These women are left with no other option than to earn a living through informal sector. It is in this sector that women form groups and in their large numbers visit micro finance institutions for financial backup. These women are unable to access credit facilities according to Chant (2010) and it is a huge impediment towards improvement of their economic situations. This is where MFI's try to intervene through a variety of customized financial products. The main reason for microfinance is to intervene by providing resources both at the present time and in future to the women entrepreneur. This is geared at making women achieve their financial objectives.

PROBLEM STATEMENT

The concept of micro financing has been successful in a number of countries and has been propagated as one of the major ways of boosting the social and economic well-being of women as a means of raising their income, and subsequently their ability to support their households. However, the economic freedom expected to be attained is solely dependent on the investment of capital acquired from MFI's in entrepreneurial or income generating activities. The researcher being a resident of Limuru constituency; aware of the existence of MFIs and a concerned member of her community, having interacted closely with women who have been members of MFIs for many years observed that their social and economic status wasn't changing much and was worsening for others.

SPECIFIC OBJECTIVES

1. To identify the reasons individuals acquire credit from micro finance institutions in Limuru constituency, Kiambu County, Kenya
2. To establish the impact of micro finance institution loans on the socio-economic status of loanee households living in Limuru constituency, Kiambu County, Kenya.
3. To find out the factors affecting loan repayment capabilities of loanees in Limuru constituency, Kiambu County, Kenya.
4. To suggest potential solutions for the challenges faced by both the micro finance institutions and the loanees to ensure a mutually beneficial micro finance system in Limuru Constituency, Kiambu County

LITERATURE REVIEW

Theoretical Review

The study adopted a concept of equilibrium of poverty theory as cited by (Chambers, 1983) According to Chambers; the concept advances the assumption that gains made from the efforts of the poor people to disentangle themselves from shackles of poverty are quickly lost as a result of their vulnerable conditions. The concept of equilibrium of poverty advocates that the more the poor people try to create wealth for themselves, the more they lose as a result of social, economic structures of exploitation, and natural calamities characteristic of their vulnerable living conditions that often render them perpetually impoverished and powerless. For instance, a poor person intending to start a business may not operate beyond the break-even point owing to the usually enormous cost of servicing the business loan.

The second theory was by (Coleman, 1988) who refers social capital as resources that are inherent in social relations thereby facilitating collective action. They include norms, trust and networks of association that represent any group gathering consistently for a common purpose. One of the characteristics in a culture that advances social capital is reciprocity, which encourages compromise, bargaining and pluralistic politics. Another characteristic is the understanding that all citizens are equal hence promoting formation of cross-cutting groups. Poor people more often adhere to social capital theory by forming networks of association to perform a certain goal. The theory fits well in this study because women from poor households form groups through which they obtain credit from MFIs. They ought to have mutual trust for one another if the group is to achieve its goals.

Empirical Review

Researchers observed that most of developing countries have increasingly become poor, accumulated hefty debts, and weakened social structures despite MFIs intervention (Bateman, 2010). Many researchers hold that there is substantial evidence that MFIs have been quite destructive of sustainable development and poverty reduction for most of the poor women do not appear to have escaped from poverty but instead they have become trapped in a situation of wasteful microenterprise entry and exit; an overemphasis upon no-growth, petty trade-based activities; and eventually extremely high levels of personal indebtedness to boot (Bateman, 2011). This negative outcome increasingly seems to be the norm right across the most microfinance-saturated countries and regions.

In sub-Saharan Africa, Europe, country studies all point to quite a small percentage of the clients using microcredit for microenterprise establishment and expansion purposes. In Uganda (where microfinance is now ubiquitous) it was only 15 per cent, and in Tanzania virtually the same (Kaffu and Mutesasira, 2003). The overview study concludes that „The main reason for borrowing money is to buy food. Thereafter, funerals, school fees and medical expenses become the most pressing needs' (FinMark Trust, press release, December 2006). Robinson (1995) evaluates the impact of Microfinance institutions in United Kingdom, where he found that Thatcher UK government was forced to discontinue an Enterprise Allowance Scheme (EAS) a quasi-microfinance programme which was designed to address rapidly growing unemployment (Robinson, 1995).

In Andhra Pradesh (2006) district in India experienced a microfinance crisis which was characterized by poor individuals in possession of multiple loans, rising defaults, complaints of aggressive loan collection tactics and reports of suicides of those most indebted (Ghate, 2007). In October 2010, there rose a major crisis in the microfinance industry in the district following the suicides of a number of rural borrowers who faced insurmountable debts and suffered aggressive collection tactics from institutional lenders.

CONCEPTUAL FRAMEWORK

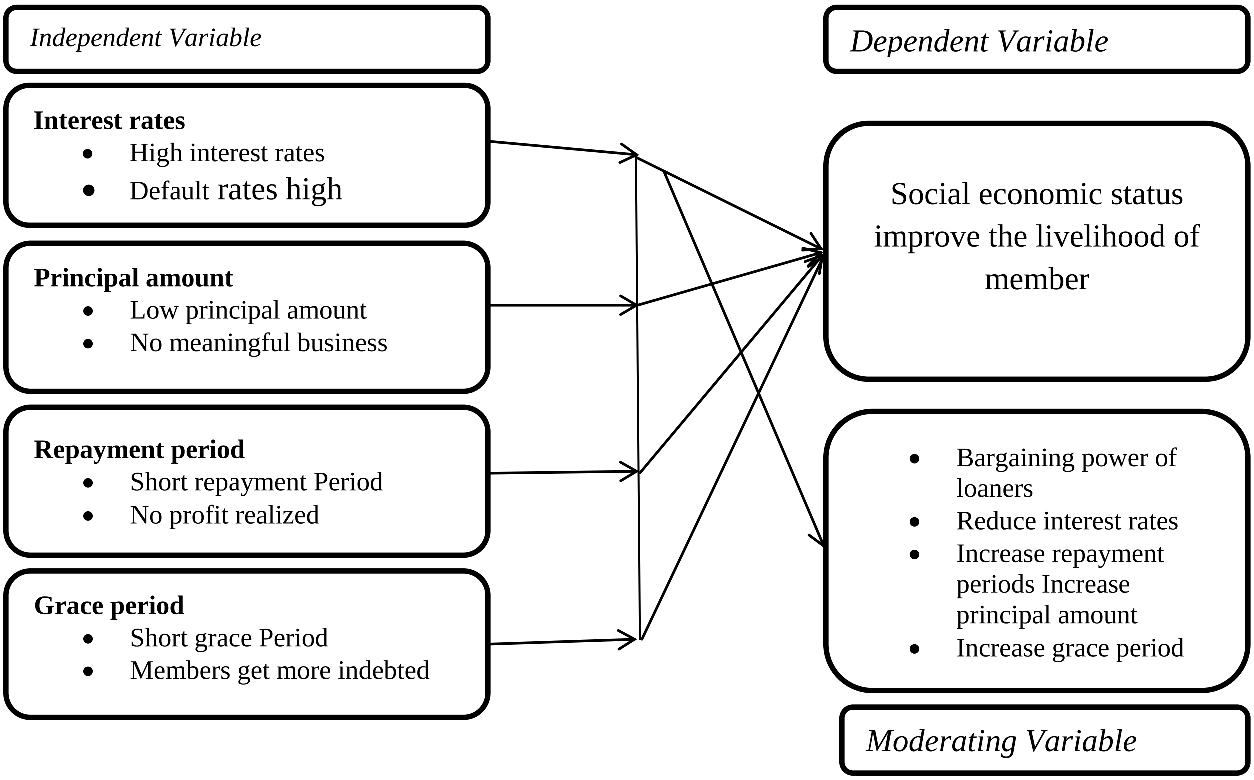

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The researcher adopted a Mixed Method Research Design which is a combination of both qualitative and quantitative approaches to adequately address the research problem. The study involved collecting data from a sample population of women loanees who are beneficiaries of loans from microfinance institutions (MFIs) with a view to determine how credit from MFIs had impacted their social and economic well-being. The study was carried out in Limuru constituency, Kiambu County, Kenya. Limuru is a town in central Kenya. It is also the name of a parliamentary constituency and an administrative division. The population of the constituency as of 2017 is 164,000 persons. The target population for this study consisted of all women who have received microcredit from MFIs. Simple random sampling was used. The formular below for calculating sample sizes for finite populations (Israel, 1992) was used for the research:

$$\mathbf{n = N/(1+N\{e^2\})}$$

Where: n is the sample size; N is the Population size and e is the desired confidence level

The population of women loanees under MFIs is two thousand (2,000). The researcher desired a 90±5% confidence level and thus: The sample size was 95. For purposes of ensuring that the researcher achieves the intended number of respondents, a margin of 10% of the total sample size (10) was added to the 95 to have a total of 105 to account for challenges in the field such as spoilt, incomplete and unreturned questionnaires. The main data collection methods used during the study were interviews with loanees at individual level through administering questionnaires;, key informant interviews with senior management of the target MFI's using KII guides and Focus group discussions with women loanees who are members of the target MFI's using Focus group discussion guides. Once the questionnaires were received, they were cross-checked for accuracy. This was done by checking whether the responses were legible, all important questions had been answered, the responses were complete and whether all contextual information was included, which is a critical step emphasized in research (Kombo and Tromp, 2006). The researcher used Statistical Package for Social Sciences (SPSS) version 22 to analyze the data obtained from questionnaires. Descriptive statistics such as percentages and means were used to convey the essential characteristics of the data so that it could be interpreted. Data was then presented using tables and charts. Once the findings were established, conclusions and recommendations were made.

DISCUSSION OF RESEARCH FINDINGS

Reasons individuals acquire Credit from Micro Finance Institutions

Amongst the objective of this study was to establish the reasons individuals acquire credit from MFIs. It was considered important to first identify whether the respondents had received credit from MFIs and it was found out that 100.0% of the respondents had taken MFIs loan. The study 42 further identified how much money they had obtained from MFIs.

The study identified how much money they had obtained from MFIs. The study found out that those who had obtained credit below Kshs 5,000 accounted for 9.9% of the respondents, those between Kshs 5001-10,000 were 2.2%; Between Kshs 10,001-15,000 accounted for 14.3%; while above Kshs 15,000 accounted for 73.6% of the respondents who were the majority

In order to identify the prompting factors, respondents were asked why they applied for the loan from MFIs. It was found out that they either obtained the loan for investment purposes or noninvestment purposes. From the findings, 80.3% of the respondents obtained the loan with intent for investment purposes while 19.7% for non-investment purposes. Although one of the qualification before obtaining MFI loan is that it has to be either to start or expand a business, 19.7% of the respondents did not fall in any. The researcher was interested in knowing the reasons behind the non-investment purposes. From table 4.8, the study found out that 13.2% of the respondents used it for school fees; 1.1% for meeting daily household needs; 1.1% debt repayment; 2.2% for medical reasons; and 2.2% for farming.

With regard to obtaining the loan, the respondents were asked who made the decision to apply for the loan. Majority of the respondents (85.7%) agreed that they are the ones who decided to obtain the loan. Spouse accounted for 9.9% while an agreement between both parties accounted for 3.3%. It can be seen that in most cases the decision was made by the respondents meaning that they are not forced or coerced by the spouses.

Impact of Micro Finance Institution Loans on the Socio-Economic Status of Loanee Households

The researcher also had the objective of determining the impact of MFI loans on the socioeconomic status of the loanee household. More than half (56.04%) of the respondents did not use the loan for its originally intended purpose; whereas the remaining 43.96% used the loan for what they intended to.

The researcher also sought to establish the reasons why the loan was not used for its intended purpose. This wasn't applicable to 44% of the respondents who had used the loan for the intended purpose. 6.6% of the respondents acquired the loan and used it for debt repayment; 5.5% gave to their spouses; 11.0% diverted the loan to getting medical assistance; 14.3% spent it on daily household needs; 17.6% spent it on school fees; and 1.1% diverted because of failed business.

The researcher also asked the respondents whether they feel they had benefitted from the loans obtained from the MFIs. 76.9% said they had not while the remaining 23.1% felt they had.

In the course of establishing whether respondents benefitted from the loans or not, the researcher also asked the respondents rate the extent to which they had benefitted from the loans acquired from MFIs. As can be seen from table 4.7 above, this matter wasn't applicable to 76.9% of the respondents who felt they hadn't benefitted from the MFI loans. 4.4% felt they had benefitted to a great extent; 7.7% to a moderate extent; and 11.0% to a little extent.

For those respondents who reported that they had not benefited, they were asked to note ways which characterized this state. Majority (76.9%) of the respondents reported that they had been negatively affected socioeconomically as a result of the credit they had obtained from MFIs. Some reported that before the credit, they would afford at least 2 meals a day but presently they were only affording one meal a day. Another thing that was cited by 16.5% of the respondents was that they had ended up incurring other debts to repay the loan. Other effects of credit from MFIs included auctioneering of properties if one defaulted as reported by 41.8% of the respondents, caused strife among group member against members who had defaulted or were not repaying on time (1.1%) and 3.3% had families breaking up.

Factors affecting Loan Repayment Capabilities of Loanees

To understand why most the loanees were facing challenges repaying the loans, the researcher looked into a number of factors that affected loan repayment capabilities. Majority of the respondents (64.8%) depend on business to repay the loan; followed by 22.0% who depend on farming; 7.7% depend on casual labor wages; 3.3% on monthly salaries; and 2.2% depend on other income sources (mostly housewives who depend on assistance from spouses).

The respondents were asked to state their monthly level of income. The results showed that about three-quarters of the respondents (75.8%) were receiving an income of less than Kshs 5,000. About 18.7% of the respondents had an income of between Kshs 5,000-10,000. Those who earned between Kshs 10,000-15,000 accounted for 2.2% while above Kshs 15,000 accounted for 3.3%. As can be seen from these results, majority of the respondent earn less than Kshs 5000 per month. This shows that they live on less than 1.25$ per day, an indication that majority of the respondents are low income earners and could be termed as poor.

Respondents were asked how they spend their income. From the findings, 20.9% of the respondents didn't spend any of their income on school fees; 12.1% spent 10%; 3.3% spent 20%; 23.1% spent 30%; 12.1% spent 40%; 6.6% spent 50%; 2.2% spent 60%; 12.1% spent 70%; and 7.7% spent 80%. The researcher also investigated the percentage of respondents‟ income spent on food. It was shown that 4.4% of the respondents spent 10% of their income on food; 13.2% spent 20%; 16.5% spent 30%; 7.7% spent 40%; 19.8% spent 50%; 11.0% spent 60%; 19.8% spent 70%; 4.4% spent 80%; and 3.3% spent 100%. The researcher also asked the respondents what percentage of their income they spent on investments that could generate some income. A very high percentage (63.7%) of respondents did not spend anything from their income for investing in income generating activities. 7.7% spent 10%; 6.6% spent 20%; 4.4% spent 30%; 8.8% spent 40%; 3.3% spent 50%; 4.4% spent 60%; and 1.1% spent 80%. The researcher also assessed the respondents‟ expenditure on other things not considered basic needs. More than three quarters of the respondents (78.0%) did not spend anything on other items with the remaining 7.7% allocating 10%; 7.7% allocating 20%; 2.2% allocating 30%; 2.2% allocating 80%; and 2.2% allocating 90% of their monthly income to things or activities that are not basic needs or obligatory requirements.

The respondents were asked whether they were saving so as to aid in smooth consumption and also act as a buffer against economic shocks. Only small fraction (23.1%) of the respondents was in a position to save. For those who had saved, the study identified how much they had saved. For those respondents who reported that they were not saving, the study sought to determine the reasons behind this practice. Most of the respondents (62.6%) were not saving because they did not have adequate income. They were not saving as they did not have enough money to pay their bills and still have some money remaining to save.

The researcher also asked the respondents whether they were given a grace period when they took loans from MFIs; the length of the grace period and if they felt that this grace period was enough. All the respondents were given a grace period on the loans acquired. The length of grace period was one month for 91.2% of the respondents and between 7 to 14 days for 8.8%. Majority of the respondents (98.9) felt that the grace period offered by the MFIs was not enough. Only 1.1% felt it was adequate.

The researcher also asked respondents the percentage of interest charged on loan and their opinion ratings of the interest. Majority of the respondents (91.2%) were charged an interest rate of between 10 – 15%; followed by 7.7% who were charged above 15% and 1.1% charged between 5-10%. However, all the respondents found these rates to be too high.

Potential Solutions for the challenges faced by both the Micro Finance Institutions and the Loanees to ensure a mutually beneficial Micro Finance System

The potential solutions were: increasing the grace period for the borrowers; the MFIs to train the borrowers on entrepreneurship, investment and savings; individualizing payments so that the guarantors who mostly are the group members of the borrowers do not suffer; and encouraging savings so that individuals can be given loans depending on their savings.

CONCLUSIONS

The purpose of this study was to determine the effects of micro financing on the socio-economic status of women loanee households living in Limuru constituency, Kiambu County, Kenya. To identify the reasons individuals acquire credit from micro finance institutions in Limuru constituency, Kiambu County, Kenya.

Majority of the respondents were mainly in the low-income stratum as they lacked properties such as vehicles, title deeds, few livestock and small farms. Many of the respondents had faced many problems arising from these loans including properties being auctioned; being in more debt especially those who obtained credit for debt repayment and non-investment purposes such as school fees, daily household use etc.; more financial stress as a result of increased debt; strife amongst group members and conflicts at family levels. Majority also reported not benefitting much from the MFI loans.

Most of the respondents depended on very unstable sources or avenues for acquiring money for loan repayment. Most of them were also very low income earners, with a bulk of their expenditure directed to meeting basic needs such as food and other obligatory expenses such as school fees with little or none of their income invested in income generating activities. A great percentage of the respondents also were not in a position to save, citing many dependents and inadequate income as the main deterrents of this behaviour. The interest rates were also perceived to be very high by respondents with the grace period offered till start of repayment being too short. Therefore the loanees are more likely to default payment as a result of these factors.

The fourth objective was to suggest potential solutions for the challenges faced by both the micro finance institutions and the loanees to ensure a mutually beneficial micro finance system in Limuru Constituency, Kiambu County. Amongst the proposed solutions included: increase of grace period from the current thirty (30) days to ninety (90) days to allow loanees ample time to make arrangement to repay the loans; doing away with the issue for group collateral so that each individual is responsible for the effects of defaulting loan payments; encourage individual systems and put in place a system for borrowing based on the savings an individual has

RECOMMENDATIONS

1. MFIs make arrangement for training their members on the abovementioned areas so as to increase their knowledge on financial and investment matters.
2. The government should bear the administrative costs that cause the interest charges to be high if the credit is to serve its intended purpose
3. There should be a grace period of about six months within which a loanee will have started a meaningful business while at the same time use the profit obtained to repay the loan
4. The government should put in sound policy and legal framework to safeguard poor people`s money, promote competition, develop technical expertise of their supervisors and regulatory authorities.

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