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The Role of Micro Finance Institutions in Poverty Reduction in Kenya: A Case of Equity Bank in North Eastern Kenya

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Abstract: **This study aimed at assessing the contribution of microfinance institutions to poverty reduction in North Eastern Region in Kenya where its people had for a long time lived amidst abject poverty where they earned their livelihood from pastoralism at the subsistence level. The study was carried out in three counties in the region that were Garissa, Wajir and Mandera. The study employed descriptive survey design. The target population was 300 local small business people who acquired loans and other financial services from Equity Bank. The researcher used questionnaires as research instruments to collect data to study the role of microfinance institutions in poverty reduction in North Eastern Region. Convenience sampling technique was employed to select respondents. The study established that loans and savings and business support services provided by Equity bank had significant and positive effect on poverty reduction. Findings also established that training services and networking opportunities provided by Equity Bank had no significant effect on poverty reduction among the small businesses in north eastern region. From the study findings, the following recommendations were made. First, Equity Bank should expand its microfinance services and graduate the small businesses to enable them access bigger loans than the KES 200,000 that was the most accessible loans for the small businesses surveyed. Secondly, Equity Bank should engage its microfinance clients more in regard to building their capacity through seminars, workshops and business forums.**

Keywords: **Microfinance, finance, microfinance institution and Poverty.**

1. INTRODUCTION

Poverty has been a problem for all of the developing countries. It can be observed in many forms since it has both income and non-income dimensions. In consideration of poverty line, people in each country can broadly be divided into two categories namely poor and rich or middle class. The rich or the middle class are living above and the poor are living below the poverty line. Microfinance schemes have been proliferating in all parts of the world. Although the impact of those schemes on the borrowers' businesses and household welfare is widely contested, the number of borrowers has been on sharp increase all over the world. Most African countries are faced with serious and abject poverty. Given the magnitude of the problem, it is unrealistic for most Governments in the region to be left alone to tackle poverty in light of the financial and institutional crises that is facing most of the African countries. Therefore, to achieve sustainable development there is need for a holistic approach to dealing with the concerns of the poor in the region. There is a range of MFIs whose participation is essential to address appropriately the challenge of poverty reduction (Yahie, 2000).For example; in Kenya we have several MFIs such Faulu Kenya, and Kenya Women Finance Trust (KWFT) among others.

Statement of the problem:

Poverty is not only a harsh phenomenon but also unwelcome situation in mankind. The World Bank has estimated that there were 896 million poor people in developing countries who live on $1.90 a day or less (World Bank, 2016).The need for reducing and if possible eradicating it is beyond doubt. Based on the evidence on the role of microfinance in socioeconomic development and poverty alleviation (Zeller & Meyer, 2002) microfinance programs have increasingly been considered as instruments in poverty reduction in recent social, economic and development agenda.

North Eastern province is one of the drought ravaged region in Kenya with majority of the inhabitants falling in the circles of abject poverty as a result of the civil strife, for example, clan wars and other economic factors. Since independence much of the economic activities had been at stand still, thus introducing the local community into adverse situation of abject poverty. In The percentage of people living in poverty in Mandera, Wajir and Garissa is 87.8, 84 and 83.2 per cent respectively (Elliott & Fowler, 2016). Despite the government and financial institutions efforts to formulate policies to cushion poverty alleviation programs, the symptoms and causes of poverty in North Eastern province has constantly ravaged the people as they try to live due to the effects of persistent drought in the arid and semi-arid land.

Precisely the intervention of microfinance institutions in this area (North Eastern province) could transform the lives of the community from symptoms of poverty into economically active citizens of Kenya. These institutions could be perceived as the way forward to the development of the communities in North Eastern province especially when they gain access to credit facilities. Durrani, Usman, Malik and Ahmad (2011) noted that access and efficient provision of micro credit can enable the poor to smooth their consumption, better manage their risks, gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. However, the roles of these institutions in northern eastern region regarding poverty reduction are not yet ascertained. Hence, the study seeks to assess the role of Equity Bank in poverty reduction within the counties of North Eastern region.

Objectives:

1. To examine the effects of micro loans and savings provided by Equity Bank on the reduction of poverty in north eastern region.
2. To assess the effect of training services provided by Equity Bank on the reduction of poverty in north eastern region
3. To determine the influence of networking provided by Equity Bank on the reduction of poverty in north eastern region.
4. To establish the effect of business support services provided by Equity bank on the reduction of poverty in north eastern region.

2. THEORETICAL REVIEW

Micro Credit Theory:

Theoretical idea of micro credit has been derived from economic theory that forms the foundation of the credit business in non-communist society. Adam Smith (1937) conceived this theory in the eighteenth century that self seeking individuals are always eager to employ their labour, capital and skills to their best interests, which eventually add up to the benefit of the entire society due to the work of the "invisible hand". Smith's idea, later popularized as the theory of capitalism by Karl Marx, describes the principles of material prosperity of the non-communist society. The psychological component of micro credit theory known as "social consciousness driven capitalism" has been advanced by the most ardent promoter of micro finance, Yunus (1994). This theory argues that a species of profit-making private venture can be conceived that cares about the welfare of its customers. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to welfare considerations of their customers. This theory is applied in this study to depict how micro credit facilities from Equity Bank can be applied to enhance development of small enterprises and hence reduce poverty in north eastern region. Further, the theory indicates that social ties built by these micro credit organizations can be used to build capacity of these businesses and enhance their growth prospects.

Network Theory:

Network theory was developed by Burt (1984) to explain how social networks create social capital for individuals. The theory is based on the premise that social networks that individuals have among themselves and among communities creates paths through which individuals can utilize to gain power, fame or business. This notion was supported by Lin and Dumin (1986) who observed that people can access business contracts and occupations through social ties. Flap (1991) further observed that networks are capable of embedding transactions in a social matrix, creating markets which individuals in the network can utilize.

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Cultural Theory of poverty:

This theory was developed by Lewis (1969). The cultural theory of poverty finds the explanation for poverty in the traits of the poor themselves. This theory asserts that it is the valuation, attitudinal, and behavioural patterns of the poor which prevent them from being socially mobile. The culture of poverty constitutes a design for living that is passed on from generation to the next. Individuals feel marginalized, helpless and inferior, and adopt an attitude of living for the present without working hard to alleviate their poor status.

Conceptual Framework:

A conceptual frame is a written or visual presentation that explains either graphically, or in narrative form the key factors, concepts or variables and the presumed relationship among them (Miles, Huberman, 1994). In this study the researcher was conceptualized within the dependent-independent variable components and their indicators. The figure below shows a diagrammatic representation of the relationship between the dependent and independent variables.

Independent Variables **Dependent Variable**

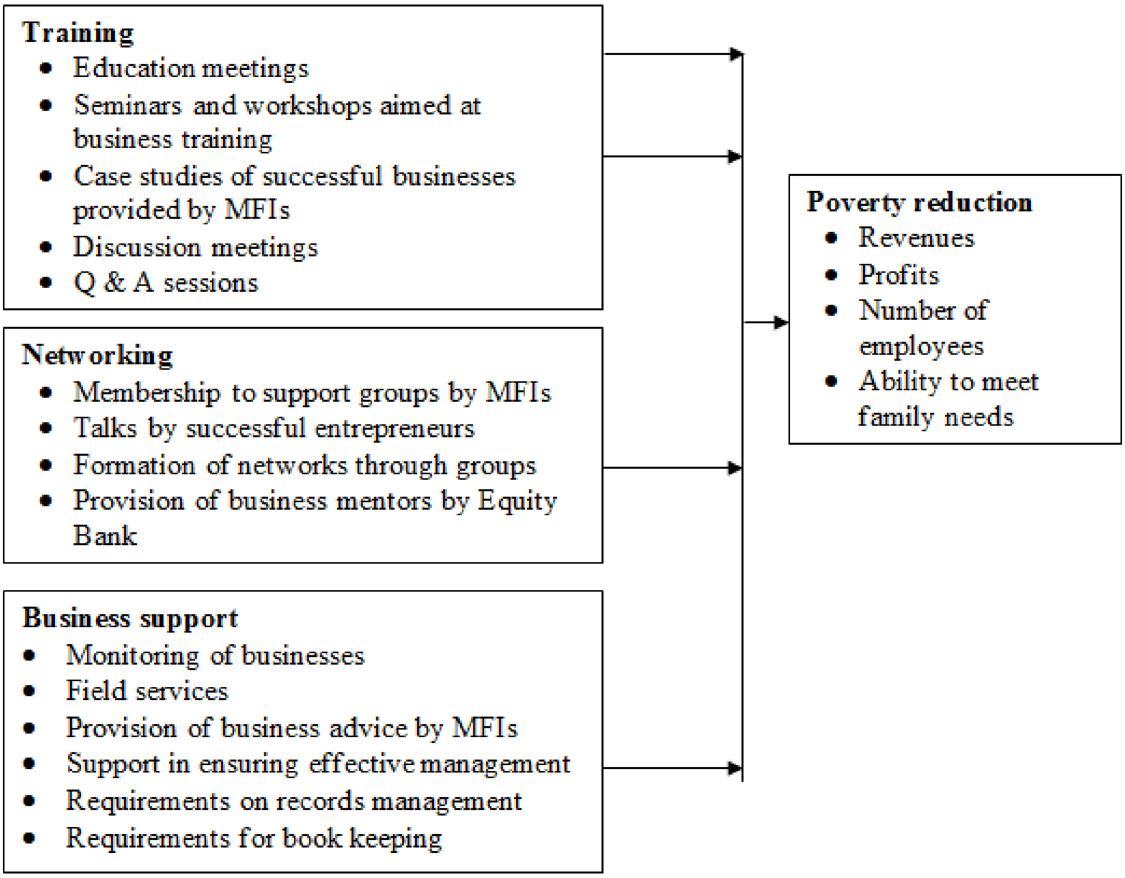

Figure 2.1: Conceptual Framework

Research gaps:

A lot of research on the contribution of micro financing institutions in poverty reduction has been carried out all over the world (Babajide, 2012; Gill & Biger, 2012; Abebe, 2014). Most studies have been done in relation to other countries like Bangladesh, India, Indonesia, Pakistan, and Nigeria amongst others (for example Nelson, 2010). It is necessary to carry out the research specifically because no other research has been carried out in poverty stricken region of Northern Kenya, that is, arid and semi-arid lands of the country. Therefore, the study aimed at highlighting the roles of micro financing institutions, especially, Equity North Eastern Branches as the leading microfinance institution in the region.

3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design. The target population was 300 local small business people who acquired loans and other financial services from Equity Bank. The researcher used questionnaires as research instruments to collect data to study the role of microfinance institutions in poverty reduction in North Eastern Region. Convenience sampling technique was employed to select respondents. The statistical Package for Social Sciences (SPSS) was used for data analysis purpose.

Model:

The study employed time series multiple regression method. In this study the following was the regression equations that were used to test the significance of the study hypotheses:

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Where, Y= Poverty Reduction

β_0 = Constant

βi= Regression coefficients relating to microfinance services provided by Equity bank

X_1 = Loans and savings

X_2 = Training

X_3 = Networking

X_4 = Business support

ε = Error term

4. RESULTS AND DISCUSSION

Regression Results:

Table 4.1: Significance of Independent Variables

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.210	.461		4.795	.000
Loans and Savings	.540	.114	.583	4.714	.000
Training	.264	.151	.356	1.748	.063
Networking	.124	.075	.211	1.651	.103
Business Support	.174	.083	.284	2.096	.040

The results in Table above indicate that loans and savings provided by Equity Bank to small businesses positively influenced poverty reduction ($\beta = 0.540$; $t = 4.714$; $p < 0.05$). This indicates that the micro loans and savings accounts provided by Equity bank led to the businesses improving on their revenues, profits, employee base and the ability of the business owners to cater for their families.

Further, training services provided by Equity bank to small businesses did not have a significant effect on poverty reduction ($\beta = 0.264$; $t = 1.748$; $p > 0.05$). This result indicates that Equity Bank's training services were not effective enough to enable the reduction in poverty levels among the small business owners in the north-eastern region.

Networking opportunities provided by Equity Bank had no significant effect on poverty reduction among the small businesses in north eastern region ($\beta = 0.124$; $t = 1.651$; $p > 0.05$). These results indicate that the networking opportunities provided by Equity bank were not effective in influencing poverty reduction. This can be due to the fact that Equity Bank did not enable membership to support groups to help the businesses in creating networks and also the bank did not effectively link the business to professional support networks that could assist the businesses to grow.

Business support services provided by Equity bank had a significant and positive effect on poverty reduction ($\beta = 0.174$; $t = 2.096$; $p < 0.05$). This indicates that the monitoring services, field services, business advice and support in ensuring effective management of the businesses provided by Equity Bank enabled the businesses to grow their profits, revenues and increase their employee numbers and thus contributing to poverty reduction

5. RECOMMENDATION

Equity bank should expand its microfinance services and graduate the small businesses to enable them access bigger loans than the KES 200,000 that was the most accessible loans for the small businesses surveyed.

Equity Bank should engage its microfinance clients more in regard to building their capacity through seminars, workshops and business forums. The goal of the business training intervention is twofold: to improve business outcomes and overall welfare for micro finance clients and to improve institutional outcomes for the microfinance institution.

Equity Bank provides little networking opportunities to small businesses. The bank should engage the small businesses more on mentorship programmes, sponsored talks, and provide links to professional support networks that could assist the businesses to grow.

Equity Bank should enhance its business support services to the small businesses A range of business support options have been developed and can be applied to develop small businesses. However, key benchmarks need to be applied in order for such support to be effective

Suggestions for Further Research:

The study focused on microfinance services offered by Equity Bank and their effect on poverty reduction in north eastern region. He study recommends that a similar study be conducted in other the same region to assess whether other traditional and Islamic banks providing microfinance services in the area have had an effect on economic development and poverty reduction. Further, a study could focus on entities that were not focused on this study including microfinance services to medium businesses.

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