Profitable Altruism

The impact of microfinance in improving livelihoods in Kenya

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Summary

Microfinance has been recognized globally as a strategy in alleviating poverty and empowering women. However, developing countries government cannot solve these issues alone due to financial implications, and global development aid is decreasing. This has in turn necessitated the private sector and non-governmental organizations to intervene in the market, and find innovative ways in tackling poverty in Kenya. Microfinance programs have been introduced to provide financial services to the remote, low-income earners, focusing on women, which has been found to be effective in reducing poverty, creating employment and empowering women.

This dissertation will assess to what extent microfinance has an impact on women's livelihood in Kenya. In order to answer this, it employs human- and social capital theory to evaluate the Kenyan microfinance bank, Kenya Women Finance Trust Limited's (KWFT), impact on clients' livelihood. Further, the microfinance institution has for the past decade gone through a transformation from a non-profit to a full-fledged commercial microfinance bank. Primary data was collected from 49 informants in Kenya and Norway, and tabular and graphical methods have been supplemented to analyze data. The study, based on the results on livelihood, assess the theoretical critique on commercialization, and demonstrate how commercialization affects outreach in for-profit microfinance institutions. Further, it analyses the relationship between the Norwegian public/private initiative Nordic Microfinance Initiative (NMI) who invests in KWFT, and determine how the investment affect outreach in Kenya, and whether NMI follow their stated mission in prioritizing the social mission over financial profits.

Based on this result I conclude that the investments have a positive impact on poverty alleviation, employment and empowerment among poor women in Kenya, with certain limitations and opportunity for increased supervision.

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This dissertation would not have been realized without the help and motivation of several people. It has been an extraordinary learning curve, starting with marginal knowledge of the field, to an immense interest and experience.

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Finally, I would like to thank friends and family for constant support and motivation, and especially new friends made in Kenya, who through poignant and stimulating conversations have inspired me to widen my horizon.

”Poverty must be seen as the deprivation of basic capabilities rather than merely as low incomes” Amartya Sen

Abbreviations

MFI: Microfinance institution

KWFT: Kenya Women Finance Trust Limited

NMI: Nordic Microfinance Initiative

SHGs: Self-help groups

SLGs: Savings- and loan groups

ROSCA: Rotating savings and credit associations

ASCA: Accumulating savings and credit associations

NGO: Non-governmental organization

NBIF: Non-bank financial institution

IFI: International financial institution

WB: World Bank

UN: United Nations

GDP: Gross domestic product

OECD: Organization for Economic Co-operation and Development

DTM: Deposit taking microfinance

Content

Chapter 1
Introduction

Bangladesh faced a famine in 1974. Although precise figures are unknown, it is estimated that more than a million lives were lost (Alamgir 1980). During this period, Professor Muhammad Yunus taught economics at the University of Chittagong. Teaching economics felt hopeless when the country was unable to tackle the huge numbers of people dying from starvation. Therefore, Professor Yunus decided to move from his office out to a village close to the university campus. By talking and interacting with the poor in the village, he began to understand the economics of the poor in a clearer context than before, and he attempted several techniques to help, some of which succeeded, while others did not. One thing that did work was giving small loans to help the poor boost their social and economic status. The loans provided opportunities for income-generating activities using the skills already known by the borrowers (Yunus 1999: ix). The system of micro lending to the poor led to the establishment of the Grameen Bank, and created the basis of a worldwide interest in microfinance. At the end of 2013, microfinance institutions (hereafter MFIs) had reached 211 million clients, of which 114 million were living in extreme poverty (as based on the World Bank definition of living on less than 1.90 USD per day) (Microcredit Summit Campaign 2013).

As reported by the World Bank in 2016, 10.7 percent of the world's population lives on less than 1.90 USD per day – the international poverty line (World Bank 2016). Commercial banks have yet to fully address the financial need for poor families to have access to credit, as a majority of such clients are viewed as risky and not being "credit worthy." Microfinance programs have created new opportunities for low-income families to improve their social and economic status, and have become one effective method of alleviating poverty in the world. Indeed, MFIs often fill the gap by providing financial services to the poor, which are typically not met by the commercial banks. MFIs provide small loans to poor-income individuals and households, mainly women, to boost productivity and meet financial needs. As a low-income earner, receiving a small loan can help in accumulating one's own capital and improving one's own income. This gives small and medium entrepreneurs (SMEs) a pivotal role in the national economy, as job creators.

Microfinance in Kenya is a relatively new initiative, going back about 25 years. As microfinance flourished globally, strong institutions began to settle in Kenya in the mid-1990s (Hospes, Musinga and Ong'ayo 2002). By 2001, microcredit institutions in the country had already created about 1.3 million small and medium enterprises (SMEs) contributing to job opportunities to around 2.4 million people, as well as accounting for 70 percent of the overall economic activities in Kenya (ibid). This demonstrate the positive impacts of MFIs in increasing the workforce and boosting overall economic activity by creating jobs. By investing in social entrepreneurship, MFIs stimulate great spillover effects; large numbers of jobs are created, increasing living standards for many households.

Kenya Women Finance Trust Limited, hereafter KWFT, since its establishment in 1982, has grown to become one of the largest MFIs in Kenya, controlling more than 45 percent of the microfinance market in the country (Ouma and Rambo 2013: 58). In 2011, KWFT received several awards, such as "Excellence in Leadership Award 2011" from the Women's World Banking (WWB), "Outreach and Impact Award 2011" from Oiko credit, and "Africa Microfinance Award" from Hanson Wade (Wambugu and Ngugi 2012: 521). All the awards praised KWFT for demonstrating excellence in leadership, sustainability, financial and social performance, the focus on empowering women leadership, as well as financial transparency. KWFT has also received several corporate awards, such as "Best Company To Work For" in 2016 from Deloitte Kenya, "Leadership awards 2016" from Women's World Banking Excellence in Leadership Award, and "Catalyst Awards 2016" from the Kenya Bankers Association.

While some MFIs around the world are criticized for their practice, others are praised, in which KWFT has created a strong reputation for itself. The Nordic Microfinance Initiative (NMI) – a public-private entity – is investing directly in KWFT. Hence, Norwegian public funds go towards the practice of microfinance in Kenya. This thesis aims to examine the impact of the organization, and study the relationship between NMI and KWFT. NMI is a public-private initiative, funded publicly by Norfund, the Norwegian Investment Fund for Developing Countries, and other private companies. The public investment in NMI makes it an interesting case, and it is important to assess what impact the investment has had on reducing poverty in Kenya. Philanthropic investments, are increasingly common, which makes it important to assess how effective these investments are, and how they are affecting outreach of the companies invested in. With investments flowing from Norfund to KWFT the Norwegian state is accountable for the potential mission drift and bad practices of KWFT, and it is important to examine whether these investments should be encouraged or discouraged. Is commercialization of microfinance increasing outreach and impact, or does this lead to bad practice and governance, referred to as mission drift? KWFT was chosen due to its relationship to Norway with the public/private investment in the organization. This study can help uncover the impact of the investments in KWFT, and advise increased or decreased investment in this type of development project.

1.1 Research Question

The research question for this thesis is: How and to what extent does KWFT improve the livelihoods of poor households in Kenya?

As the financial growth in KWFT is evident, I wish to examine what impact the institution has had on their clients' livelihood, by applying human- and social capital theory on the case chosen. Additionally, I examine whether growth in financial self-sufficiency has an impact on outreach. The goal is to identify to what extent KWFT improves clients' livelihood and how commercialization affects this. I also examine how the relationship between NMI and KWFT works in practice, and what accountability, supervising, and role NMI takes on in the poverty alleviation work of KWFT to further suggest increased or decreased investments in KWFT. My research question is broad, and includes sub-questions which form the analysis:

How and to what extent does KWFT improve the livelihoods of poor households in Kenya?

- *How and to what extent does KWFT improve the financial income and livelihood of its clients?*
- *Challenging the welfarist critique on commercial MFIs, does commercialization lead to mission drift?*
- *How does the public-private initiative Nordic Microfinance Initiative (NMI) affect breadth and depth in outreach within KWFT?*
-

1.2 Choice of Study

The Business for Peace Summit is a meeting place for leaders who wish to develop business models in order to create social and economic value. In 2016, the Business for Peace award was given to Dr. Jennifer Ririra, the CEO of Kenya Women Holding, who has been on the board of KWFT for over two decades. The award was given to her for bringing economic empowerment to marginalized women in Kenya and for contributing to building peace and increasing financial inclusion in the country.

KWFT has received a great deal of attention, such as during the Business for Peace Summit in Oslo in 2016, and has received many awards locally and globally, as referred to previously. Due to this widespread recognition, the institution makes an interesting case when studying the welfarist critique of commercialization of MFIs, and when arguing that with a greater focus on profit, the social mission of MFIs drift away. The KWFT transformed from a non-commercialized MFI to a commercialized, full-fledged microfinance bank in 2010. By studying this institution, I will enlighten how commercialization affects efficiency as well as outreach in the case of KWFT, based on the previous theoretical assumptions about commercialization of MFIs and its effect on outreach. I will examine the financial sustainability of KWFT, and view its relation to efficiency and outreach. Here outreach is divided in two – breadth of outreach and depth of outreach.

Breadth of outreach refers to the quantitative; how many people does the organization reach? Here I will focus on whether commercialization has led to an increase in breadth of outreach, as increasing resources allow for branch expansion, or whether it has led to a mission drift in which profits overtake the social mission of the institution. By depth of outreach I refer to how much of an impact KWFT loans have on improving participants' livelihood. Human- and social capital theory emphasize several attributes which increase livelihood, including increased education, health, skills, empowerment, social capital, and networks. An increase in these will result in improved livelihood, hence depth of outreach.

Kenya Women Finance Trust was chosen due to its good reputation and relation to Norway and the Nordic Microfinance Initiative (NMI). NMI is a philanthropic public/private investment company, with clear social objectives of contributing to social development through their investments. They state that the main goal is social impact, while financial return comes as a bonus. The investment in KWFT is therefore interesting as a way to see whether NMI is following the stated mission of putting social good ahead of financial profits, or whether this falls within the category of mission drift. Furthermore, KWFT's size makes it a good case study for what I am interested in examining. This is one of Kenya's largest microfinance banks, and it has just gone through a significant transformation from a smaller scale, non-profit organization to a fully-fledged bank. Its size therefore represents a significant population of women microfinance clients, and the results may therefore generalize to this market. Spending one month in the field, I conducted interviews with the staff of KWFT, their clients, as well as other actors who are experts on the developmental landscape in Kenya. My research approach will affect the study's reliability and validity, as this is only a small-scale case study of this particular organization, and may be challenging to replicate. However, this study focuses on the impact of KWFT, and further Norway-based investment opportunities in microfinance in Kenya, and with such a specific case a smaller sample is needed as opposed to quantitative studies.

1.3 Methodology

Methodology refers to the set of tools and methods used in conducting the study. Silverman (2001: 4) states that methodology "indicates the choices we make about cases to study, methods of gathering, forms of data analysis etc. in planning a research study." There are several ways of conducting research, mainly differing between qualitative and quantitative research methods. The main objective of this study is to understand the impact of microfinance on female clients, and highlight the effect of commercialization of the institution in breadth and depth of outreach by using human- and social capital theory to test the critiques of microfinance put forward by the welfarist and institutionalist theoretical schools. The findings will then lead to further discussion about Norwegian investment opportunities in Kenyan microfinance.

1.3.1 Epistemology

At its core, epistemology is the "theory of knowledge" (Carey 2013: 57). It relates to the different types and forms of knowledge that exist, including assumptions of how to acquire that knowledge (Holloway 1997: 54). According to Corby (2006) we can divide epistemology into four schools which have influenced social work research: positivism, interpretive theory, critical theory, and postmodernism.

Positivism attempts to apply scientific methods taken from the natural sciences to study people and societies (Carey 2013: 57). Positivism is based on a belief in universal laws, and focuses on finding empirical regularities by identifying and testing falsifiable hypotheses. The school assumes that the social life of people remains "independent of human consciousness" and therefore empirical "evidence" may be collected and measured by researchers (Jones 1983: 118).

Interpretive theory focuses on uncovering the meaning and "reality" of people's experiences of the social world (Carey 2013: 60). Interpretivists reject the claim that scientists can objectively predict actions or behavior of actors or groups studied, and instead a subjective, personal understanding of people, groups, and the "world around them" becomes the overarching goal. Hence, instead of acquiring measurable "facts" they emphasize skills of observation and listening as a priority (ibid).

Critical theory argues that the goal of social research passes the point of simply collecting data, analyzing it, and reporting results in order to understand society. Instead, the goal should be to use social research as a "political activity working either for or against the status quo" (Carey 2013: 66). In the process, one should seek to change society for the better by trying to politically and historically investigate, understand, and explain the causes and impacts of social inequality, oppression, exclusion and other inequalities. Postmodernism disregards the hegemonic version of truth, and stresses the need to include previously excluded opinions and voices, such as people with disabilities, ethnic minorities, and women to name a few. The view is a critique of the foundational assumptions of Western philosophy, and stresses the importance of power relations, discourse, and personalization in the "construction" of world views and truth. As opposed to positivism, postmodernism denies that there is an objective reality and objective moral values. Instead the role of the scientist is to deconstruct and reconstruct different forms of dominant discourse (Carey 2013: 70).

1.3.2 Ontology

Ontology deals with the "nature of being," or of social entities and realities (Elliot 2005; Ezzy 2002). Ontology asks wider and more abstract questions than epistemology and allows the researcher to step back and consider deeper questions about our research methodology and its construction (Holloway 1997:113). One example is the distinction between objectivism and constructivism. An objectivist assumes, similarly to a realist, that social and cultural phenomena may be viewed as having a reality independent of social actors (Carey 2013: 78). Hence, a researcher can study these phenomena from an unbiased position. In contrast, constructivists argue that reality is formed and determined in certain ways by dominant social norms and culture, and reaching unbiased research is close to impossible. However, the researcher should, according to Carey (2013) still attempt to be as unbiased as possible.

This thesis will follow an interpretive epistemology, and a constructivist ontology in order to uncover and elaborate on the meaning and significance of the impact of KWFT, as well as their relationship with clients and investors. As our personal beliefs, biases, experiences, and feelings will interfere, I argue it is not possible to achieve full objectivity (Vidal and Peck 2012). But by following an interpretive epistemology, I can view the complex sides of the case through interactions with clients, staff, and others to grasp a larger and more nuanced picture of the chosen case. The ontological stance of this study follows a constructivist ontology, in which the society and culture I am situated in while researching microfinance will impact the way I understand the field. Therefore, my previous knowledge and each in-depth interview will form the way I understand the phenomenon studied, and as much as I will strive for objective findings, there will always be certain biases in such a study. In this study, I adopt a descriptive research design, collecting qualitative data from the staff within different departments of the KWFT, using participant observations to see how they conduct the loans, and semi-structural interviews with management staff and the participants of the organization. I also interviewed other organizations in the field, as well as their clients, and academics in the field. By using different types of evidence, I will triangulate the research question resulting in my findings being less prone to bias, as I do not rely on a single data collection method.

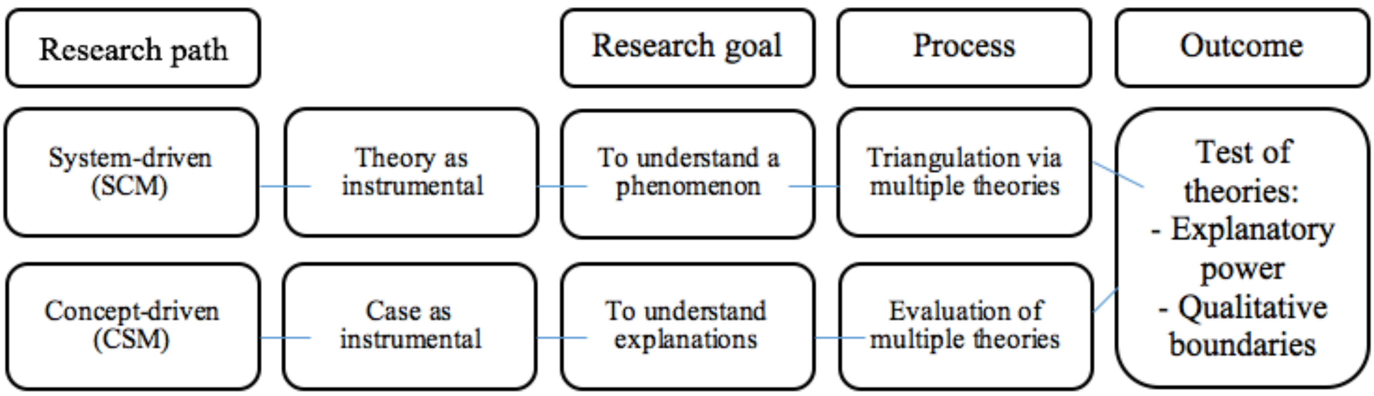
The research design chosen is a single case study. George and Bennett (2005: 17) define a case study as "the detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable to other events." Robert Yin (2009: 14), one of the prominent advocates of the case study design, defines it as "an empirical enquiry that investigates a contemporary phenomenon in-depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident." The case study provides a detailed understanding of different phenomena, which is similar to the ethnographer Clifford Geertz's (1973) concept of 'thick description,' emphasizing thorough analysis of the particularistic and complex nature of a phenomenon. Additionally, Ragin and Amoroso (2011: 115) argue that in-depth knowledge received from case studies provides the knowledge and material to advance theory. In this thesis, I seek to understand to what degree commercial microfinance impacts the livelihood of clients, as well as how NMI affects KWFT's efficiency and outreach, based on previous theoretical assumptions from two opposing theoretical camps. Gaining in-depth knowledge and observing how KWFT works may contribute to understanding this relationship, and speaking to their clients and other organizations can further help enlighten how well this particular model works.

Case studies have several different research goals. Eisenhardt (1989) describes three specific goals: description, theory testing, and theory generation. The connection to the researcher's goals in a design is ensured by the research strategy, and this becomes a way of "linking ideas and evidence to produce a representation of some aspects of social life" (Ragin 1994: 48).

Brinberg and McGrath (1985) propose three different domains of research path progress: a substantive "real-world" domain (S), a conceptual domain (C), and a methodological domain (M). Each of these domains can serve as a starting point for conducting research, and most studies cover all domains, as they are interrelated. The researcher will often use all of the domains interactively. When mapping out a research strategy, the researcher then choses a primary domain of interest, followed by the second and third domain. This study, however, has a theoretical path, leading to a product of tested theories. A theoretical research path describes a situation in which a study will focus on the conceptual domain, versus a substantive domain where cases are instrumental to the theoretical contribution (Løkke and Dissing Sørensen 2014: 67).

Theoretical paths are either system-driven, or concept-driven (Brinberg and McGrath 1985). This thesis focuses on concept-driven paths, as shown below.

Figure 1.3: Theoretical paths guiding a case study[1]



System-driven paths focus on explaining an empirical system, and mainly use theory-testing case study research design. The system-driven theoretical paths generally use multiple theories to examine a phenomenon from different angles (triangulation).

A concept-driven path seeks to understand the explanations underlying a phenomenon (Brinberg and McGrath 1985). This can help assess relative value in terms of strengths, weaknesses, boundaries, and other relevant dimensions in for instance rival theories. This

[1] Cited in Løkke and Dissing Sørensen (2014: 67).

helps undercover whether the original theory is correct, if the original theory fit other circumstances, or whether there may be other additional categories or relationships. This path can help in assessing research designs, which are built on multiple rivalry theories that are compared in order to assess their relative weaknesses, strengths, and boundaries. This type of research path can be used to test whether the "original" theory is correct, or if there are additional relationships that need to be taken in account. With a concept-driven path I will use the case of KWFT to evaluate both the welfarist and institutional theories about microfinance to see whether the critiques of microfinance from a welfarist and institutional perspective fit the case of KWFT.

The line between system-driven and concept-driven case studies is often unclear, and several purposes can be served within the same study. A classic example from political science comes from George and Bennett (2005) regarding the advent of revolutions and wars. In this case, variables are taken both from the cases and from prior theoretical explanations. See George and Bennet (2005) for more information.

This study takes a qualitative approach, using semi-structured interviews, and direct observations as the primary data, supplemented with reports and documents on the institution of interest, Kenya Women Finance Trust, to triangulate the findings. Whereas quantitative research focuses on gathering large samples and using statistics with an aim of being scientific, value-free, and objective, qualitative social research focuses on exploring in-depth attitudes, behaviors and/or experiences of the research participants. This approach focuses on "real life" events of selected people, and remains context-bound (Carey 2013: 3). It also engenders a close and sometimes a personal relationship between the researcher and the participants, and highlights both the political nature of social research and the impact of cultural influences such as gender, race, culture, power, class and so on (ibid). The qualitative study does not generally seek to be objective, value-free, and distant, but instead acknowledges the impact of the researcher upon participants, and attempts to create an understanding of the informants as equals rather than as subjects or distant objects seen "under a microscope" (ibid). Qualitative research "seeks meaning, rather than generality as with its quantitative counterpart, and contributes to theory development by proceeding inductively" (ibid: 42). Although smaller samples of data are collected with qualitative research, it may still be as complex as quantitative studies. In this case, it is important to look deeper into the real-life micro-level impacts of microfinance, instead of looking at the financial reports and numbers of success, which may not properly examine the impact of loans given to the poor, and its effect on their livelihood. While the financial reports may indicate positive outcomes from an increased member base and repayment rates, this may not sufficiently uncover how the loans are affecting clients' livelihoods.

1.4 Data collection methods

In order to study the financial and social results of microfinance, and the incentives and goals of foreign governments and businesses investing in microfinance, it is necessary to study KWFT from within the organization, from the view of other organizations, and from the perspective of investors. The key interviews were therefore set with staff from KWFT, their clients, as well as the local office of NMI in Nairobi. This sample is supplemented with in-depth interviews with staff from other MFIs in Nairobi, as well as NMI in Norway, Care International, The United Nations, USAID, World Bank, Life Bloom,[2] and Professor Mary Mutinda from Strathmore University. Care international engage not only with empowerment of women in Kenya, but also directly with microfinance through savings and loan groups (SLGs), however with a different approach than KWFT, making them an interesting addition to the data collection, as KWFT and Care international work with microfinance but with dissimilar strategies and approaches. The United Nations and World bank engage heavily in the financial inclusion work in Kenya, in which the United Nations directly work with microfinance-related projects mainly within the agricultural sector, and World Bank with several financial inclusion initiatives, have strong experience and knowledge about different poverty reducing initiatives, making both organizations highly relevant actors to include in this study. Further, similar to Norwegian Norad, USAID is the United States agency for development cooperation, ensuring that the development aid funds are spent in the best possible way for the best development outcome. A local organization in Naivasha, Lifebloom, was also interviewed, as they work closely with several of the women clients of KWFT in the area with women empowerment work, and have closely followed up these women as they increase their businesses. Professor Mary Mutinda from Strathmore university

[2] Life Bloom International is a non-profit organization focusing on strengthening women in a small community who have faced abuse and exploitation. Through mentoring and healing relationships they help the women regain their dignity. Their geographical coverage includes Naivasha/Gilgil, Nairobi and Thika. The organization works with several women in Naivasha who are also members of KWFT, and could therefore contribute with an outside perspective on how the women are benefiting from the loans, and what the main challenges are in the relationship between the women and KWFT.

was also interviewed due to her expertise on Kenyan development, and her experience on the topic was found very relevant.

As microfinance covers a great market in Kenya, the phenomenon is quite familiar to locals in Nairobi, whether they hold loans or not, and I found that most people I met during my fieldwork had an opinion about the subject, which was valuable to my work.

A sample is a group of participants drawn from a wider population, which can be used to draw generalizations about the whole population to some degree. There is a distinction between probability samples and non-probability samples. Each member has an equal chance of being selected by the researcher in a probability sample, while in a non-probability sample each member does not have an equal chance (Carey 2013: 46). Many qualitative researchers follow a non-probability sample selection, and this sample is less likely to be representative and allow for generalizations. However, it may provide a rich source of data for analysis. I chose my sample by using a convenience sample (ibid: 47) in which my sample is built from participants I have had convenience access to, and from the first participants I have used a snowball sample, by getting in touch with participants already known of by my previous participants, ensuring a randomized sample. The aid officials were contacted directly, and are therefore not a random sample. As these officials are experts within their field, and were contacted for that reason, I do not find it challenging to the study's validity and reliability.

1.5 Primary data

The primary data is used specifically to gather data for the research project at hand, and a common method is to do this through the use of interviews. To understand the performance of KWFT beyond their official reports, I found it necessary to speak with the staff of the institution, other MFIs, as well as their clients in order to get a grasp of how the institution impacts their clients' livelihoods. Since the landscape of microfinance I am examining is in Kenya, I also found it necessary to conduct fieldwork in the region as opposed to conducting interviews through phone or email, as most clients are not available through email or phone. By meeting the staff, other microfinance organizations, and microfinance clients, I could understand the environment in which the action takes place in addition to developing a relation to the informants, which is crucial to the analysis.

The study will use semi-structured interviews with the staff of KWFT and their clients, as well as interviews from other organizations, academics in the field, and social responsible investors, such as NMI who holds a 12.5 percent share in KWFT.

The sample within the selected case includes both the management staff of KWFT as well as participants receiving loans from the organization, limited to Nairobi and the region. The managers were chosen as they execute the strategies employed by the KWFT and provide greater data about the techniques and strategies employed by the organization, while the clients demonstrate how the services from KWFT impact their livelihood.

Conducting interviews is the most common way of collecting data (Johannesen, Tufte and Christoffersen 2010: 135). Interviews allow the researcher to directly interact with some of the individuals who generate and populate our theoretical models (Mosley 2013: 2). Interviews can provide a basis for general theories or they can be used to test the accuracy of previous theories. In sum, interviews can reveal causal mechanisms of certain phenomena. Compared with surveys, interviews generally involve a smaller sample of informants, but they also allow the interviewer to gather much deeper sets of responses. An interviewer can ask questions that allow for open-ended answers, and if the response generates additional queries, the interviewer can follow up with additional questions, probing more deeply into the attitudes and actions of the respondent (Mosley 2013: 6).

By using semi-structured interviews instead of or in addition to surveys, the informant has greater freedom to express him or herself outside of a settled survey. Through these interviews, the researcher can uncover the informant's experiences and perceptions to a greater extent. The semi-structured interview offers richer complexity and nuances than in a structured interview or survey (Johannesen, Tufte and Christoffersen: 137). The construction of reality provides the researcher great insight in the case.

In this thesis, the semi-structured interviews serve as the primary data, as it serves to increase understanding of how microfinance is improving Kenyan women's livelihood, and how foreign investments affect this relationship. After the fieldwork period in Kenya, I conducted interviews with NMI in Norway. The relationship between NMI and KWFT is interesting as NMI is a public-private initiative investing in microfinance in Kenya in a 'win-win' situation, since both parts benefit financially from the investment. What is interesting is what role NMI takes in the investment, and how they can improve the quality and results of KWFT. It is also interesting to see how NMI currently supervises and oversees their investments in KWFT, and whether this follows their stated values and goals of their investment, since their stated main goal is not profit maximization, instead decreasing poverty, creating jobs and empowering women. I also used semi-structured interviews with the management of KWFT and participants in the organization to shed light on how the organization works, and how the financial services offered have impacted clients of KWFT.

The interviews will provide an understanding of how KWFT impacts clients' livelihoods, and how commercialization and investments affect this.

All interviews were conducted face to face, and interviews with the KWFT staff, NMI, UN, USAID, World Bank, CARE, and Life Bloom were carried out in their offices. The focus group interviews with the group lenders of KWFT were carried out before their monthly meeting in a pre-selected anonymous location in Naivasha, a town north of Nairobi. The individual interviews were carried out at the subjects' places of work. The interviews took a minimum of one hour, lasting up to two hours, and were all recorded with the consent of each informant in order to simplify the transcription process (with the exception of one which was not recorded). All interviews were carried out in English, although a few women in the group lending focus group needed a translator. However, most informants were fluent in English.

1.6 Time horizon and fieldwork

The study follows a cross-sectional case study, which allows for a focus on immediate short-term outcomes and impacts of KWFT's services, and gives in-depth knowledge about the fine details of how their services impact the livelihoods of their clients now as opposed to earlier. The cross-sectional case study contains detailed analysis and description of a single individual, group, process, system or other actors at one point in time at great detail, in this case a group of actors who are involved or have an experience with the practice and impact of KWFT and its investors. Generally, the aim is to assess how the case works, and to identify factors or dynamics that lead to success or failure. The fieldwork period lasted for approximately five weeks, with research conducted in Nairobi and Naivasha.

Naivasha Municipality lies within the Nakuru County, and holds one of the largest tourist attractions, Lake Naivasha, in which most agricultural activities in the county occurs. Agriculture is the main economic activity in the district, especially in rural areas in Naivasha. An estimated 70 percent of the employment is within the agricultural sector, and the household income emanating from agricultural activity stand for 80 percent according to the Naivasha District Development Plan, 2008. This activity is however heavily dependent on rainfall, which is rare, and once it occurs is generally low, resulting in drought. In 2008, the overall absolute poverty rate in Naivasha was estimated to be at 39 percent, while estimated food poverty was 36 percent (Naivasha District Development Plan 2008). The plan argued that poverty and unemployment were identified as twin problems, affecting the population of

Naivasha. This poverty has been claimed to be caused by insecurity, landlessness, unemployment and lack of services such as health, education, services and inadequate credit facilities (ibid). This makes Naivasha an interesting case to study the impact of KWFT services, as they allegedly touch all of the aspects mentioned above, by providing first and foremost credit, and thereafter employment and services such as health, education and financial trainings. Whether KWFT has improved their clients' livelihood in Naivasha is therefore interesting if KWFT manage to improve these aspects of households in Naivasha when there is a great need for these specific improvements in the region. Further, simple observation was made during private travels after the fieldwork was conducted, while traveling through Kenya, in which the researcher travelled through areas of study observing physical features such as presence of financial institutions, poverty levels, human activities and general conditions of infrastructure. As most of KWFT's clients live in rural areas I find it necessary to include a rural sample, despite being based in Nairobi. Naivasha being located close to Nairobi, yet with a rural population, with high poverty and unemployment rates, provides a good sample for the data collection.

1.6.1 Individual interviews

The individual interviews took place at the office of each participant, including the offices of KWFT, NMI, the United Nations, and the offices of the small business owners who are clients of KWFT. All informants received a consent form in advance of the interview, and were briefed in detail on my research, its objectives, and their rights, both during and after the interview. Each interview lasted a minimum of one hour, and some lasted up to two hours, and went in detail about their work and their view of microfinance and its impact.

The majority of the individuals interviewed were contacted without the help of KWFT, which posed a fieldwork challenge. However, it also provided the opportunity to find a more valid and reliable presentation of the clients, as each interview was not received from the organization, as only being networked with success stories could result in skewed and biased findings. However, some of the informants were contacted through the help of one KWFT official, and in those cases the official was present throughout the interview.

1.6.2 Focus groups

Focus group research involves group interviews, in which certain themes or issues are discussed and examined, often over a period of time (Carey 2013: 145). The researcher takes the role of a "moderator" and leads the discussion by asking either predetermined or spontaneous questions. The focus groups were organized using a snowball sample, in which an informant outside of KWFT put me in contact with one group lending client, who organized two focus group meetings of randomly picked informants in each group. The informants were clients of KWFT in Naivasha, a rural area outside of Nairobi. By choosing a remote area to interview clients I got a more representative picture of the whole population, as most of KWFT's clients live in rural Kenya. Naivasha was picked due to its close proximity to Nairobi where I stayed for the fieldwork period, and because it is a county with many KWFT clients. When interviewing the clients of KWFT, they were divided into two focus groups consisting of 10 to 15 members in each group. Focus group 1 consisted of 13 members, while focus group number 2 consisted of 14 members. Both groups consisted of members of KWFT, however they differed as only one of the groups had received any non-financial services from the KWFT. This offered the opportunity to compare them and study the impact of non-financial services on the clients of the group lending system.

1.7 Ethics

Research ethics refer to the "rules of morally good conduct," which should be "grounded in moral and political beliefs" (Gomm 2003: 298). In order to protect each participant in the study, every participant was sent a consent form prior to the interview, as well as being briefed about the study's objectives and its use. All informants were informed of their right to take breaks or cancel during the interview or withdraw after the interview, and were guaranteed anonymity and confidentiality during the entire process. However, only the staff members of KWFT and their clients wished to be anonymized, and the other participants of the study will therefore appear with names. To protect certain statements from the aid officials, their statements will not be connected to their names, though their names appear in the presentation of informants.

All the interviews were recorded and then transcribed, and after transcription the recordings were deleted, along with personalized data that can be used to identify any of the anonymized informants.

1.8 Secondary data

Secondary data sources are previously collected data. This type of data is more cost-efficient and can be gathered much faster than primary data, and therefore stands as a good supplement to the primary data for descriptive research (Zikmund 2000: 61). This data was collected to set a theoretical framework for the research as well as to gain an overview of previous research and the microfinance landscape in Kenya. The theoretical frameworks used here are human- and social capital theory to assess the impact of KWFT services, along with competing theoretical camps within the study of microfinance, the welfarist and institutional approach. These show an evaluation of how different financial models affect the work of the institutions. Based on this theoretical framework I will test how the critiques of the camps correspond with the chosen case, by using human- and social capital theory to assess the impact on clients' livelihood within KWFT, and whether commercialization affects the impact, assessing the welfarist critique on microfinance. The secondary data is collected through electronic databases such as JSTOR, Google Scholar, and the Oslo University Library's database. Searches such as "commercialization of microfinance," "Microfinance Kenya," "Microfinance and women empowerment," and "Microfinance outreach" were commonly used to obtain sources. Statistical overviews of development issues, retrieved from the World Bank and the United Nations, have also been used to supplement the findings. As there is a lot of literature on microfinance in general I have based my theoretical framework on portions of the most influential articles on the topic, and then narrowed it to articles focusing on Kenya and KWFT. I have also used financial reports from KWFT to supplement the findings, though I did not have much access to these documents. Therefore, the primary data serves as the main data, with the supplementing interviews as triangulation, backed up by previous literature, theories, statistical data, and reports on KWFT.

1.9 Methodological challenges

When I arrived in Kenya I experienced several challenges getting in touch with KWFT. They did not wish to set up meetings with me. The representative for NMI in Nairobi reached out to the institution to help me set up a meeting, but they still did not wish to see me. As the organization did not help me reach out to clients and staff-members I needed to find these through my own network, mainly using a snowball sample. Being in a country in which I had no contacts made this a difficult task, but after I got one foot in the door, more and more people were willing to speak to me as long as they were anonymized, since they did not wish to get in trouble by speaking to me. Since KWFT has a large customer base, several people in my newly formed network could assist in finding informants for my study, and each informant generally knew more informants. I managed later to speak with one board member of the company, who asked for a large sum of money in return for an interview, which was unacceptable. This also presented a finding, in which a higher official of an idealistic organization wanted unethical high compensations for interviews, and may reflect some bad governance and practices within the organization. I did not accept the interview conditions.

By the end of my stay one of the Nairobi branches offered their assistance and helped me meet a few clients. The challenges I faced with not being assisted in meeting clients made the stay a much more time-consuming and costly process, but I believe it offered the study certain benefits. If the institution had been my main channel for getting in touch with clients, my sample may have been skewed and biased, as they would likely only introduce me to the success stories. By facing a non-cooperative staff, my sample was drawn randomly and depicts a more representative sample of the entire population.

Another challenge was that of time. As it took me some time to find a network which could introduce me to potential participants for my study, I did not have much time left once I finally got started with collecting primary data. Due to this I extended the stay, in order to reach more clients. I also found it was a challenge to get in touch with organizations and experts who would be ideal to interview, but were unreachable. I learned that in Kenya, it seems the best way to get in contact with potential informants is through "knowing the right people," and as a foreign student, I knew no one.

After a few weeks however, I felt I had built up a network, and people introduced me to new informants. Regarding the generalization of this study, I wish I could have traveled to more counties within Kenya, as I believe the practice of the institution differs greatly across the country. However, with little time, and even less funding, I had no opportunity to do so. This would however be interesting for further studies, implementing more counties and a much larger sample, examining differences across regions and income groups. In this study, however, I focused on Nairobi and Naivasha (a smaller city north of Nairobi).

Finally, the lack of cooperation from KWFT resulted in less access to documents and reports, which would have been a good supplement to the primary data. However, complementing financial reports and previous studies provided a rich amount of primary data I believe is sufficient for my findings. Nevertheless, they would be much stronger with access to more documents. With minimal studies on the institution, social performance, and impact reports, I only had access to a few official reports and documents.

1.10 Reliability, validity, and generalization of the study

Reliability, according to Hammersly (1992), is the "degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions." Hence, reliability refers to studies having a coherent result, wherein the findings are consistent and dependable. However, there are limitations to reliability in a qualitative study, as each interview is unique, and it is hard to re-create as each situation will naturally differ. Reliability looks at repetition and to what extent a method may be repeated to create similar results. A qualitative study will therefore not cover the reliability aspect in the same way as a quantitative study (Silverman 2007: 88), and according to Bryman and Bell (2007: 170) should instead be viewed as a representation like any other attempt.

Validity refers to what extent the findings of a study are authentic, sound, and genuine (Salkind 2006: 113). Validity is more achievable in qualitative studies because of its in-depth approach, where more questions are asked, themes are explored, and longer periods of time are invested, as opposed to survey research for instance, which may only uncover the 'what' and not the 'why' of each theme examined, and may still lack validity due to the scarcity of contact and exploration (Carey 2013: 49). The main critique of qualitative validity is that the findings may not be representative of the wider population, and can also hold certain biases.

Therefore, what a qualitative study gains in validity it may lose in reliability, and vice versa for quantitative approaches (ibid). My study therefore may have high validity since it goes in-depth, but it may not be as reliable as if another researcher were to study the same case, as they may find different or additional results.

According to Bryman (1989) it is hard to generalize the outcome of a qualitative study to a general population since there may be doubts regarding the selection of the research population. This is the case in this study, as it only covers aspects of microfinance in Nairobi and Naivasha, and it may not be generalized other geographical areas and other cultures, since microfinance greatly differs across the globe. However, while the study assesses the impact of KWFT and the implications for Norwegian development investments in the company, I have no aim of generalizing to the overall microfinance market. Instead I seek to assess the case chosen, and improve or advance the theories employed in this study.

1.11 Thesis outline

This thesis is organized into nine chapters:

The first chapter introduces the theme of microfinance, as well as give an overview of the topics, theories, and rationales of the study, and an overview of the research objectives and research question. The first chapter will also describe the study's methodology, and discuss research philosophy and methods chosen for the study;

Chapter two will present previous literature on the topic of microfinance, starting with the grand theories, followed by more specific literature, with results and critiques. This chapter seeks to review the topic of microfinance, and the paradoxes related to poverty alleviation. The chapter will also present the theoretical perspectives of the thesis, with a focus on the welfarist and institutionalist approaches, as well as human- and social capital theory, which will be further defined in the chapter.

Chapter three will give a more detailed review of microfinance in Kenya, and further focus on the Kenya Women Finance Trust, how the organization is structured, and results they have accomplished, and end with a presentation of the Nordic Microfinance Initiative which will be part of the main focus of this thesis.

Chapter four brings up the analysis, in which each sub-question of the research question will be analyzed, in order to give a more thorough understanding of the research question in its entirety. This starting with the financial impact, the human- and social capital theory, and further analyzing how NMI are impacting KWFT, and their breadth and depth of outreach, in order to evaluate the welfarist critique of commercializing microfinance. The first part of chapter four discusses the impact KWFT has on its clients by providing them with credit, and will examine the economic impact of their financial services given to their clients.

Further, the chapter will examine the impact the services provided by KWFT have on clients' human capital, with a specific look on education, health, non-financial services such as trainings, and women's empowerment, and how these may increase clients' livelihoods. Thereby it will discuss how KWFT's services impact clients' social capital, which is closely linked with the effect of KWFT services on human capital, and examines its impact on clients' livelihood. The social capital theory will examine whether clients have increased their social networks and mobility after taking loans from KWFT, and whether it has impacted their livelihood in a substantial way.

Next, chapter four will provide a deeper analysis of how commercialization affects breadth and depth of KWFT, and who ought to be their target group between the poorest of the poor, and the less poor, as KWFT are increasingly moving their target group from the extreme poor, to the less poor. This raises the question why they have changed target groups, and who benefit greater from the services of KWFT.

From the discussion of commercialization, the chapter further discusses how NMI affects the breadth and depth of outreach within KWFT, and why this type of investment is important for the work of KWFT. Further it will examine what role NMI takes in their investments in KWFT and what impact their contributions make. With increasing development-based investments in microfinance it is important to assess whether they are effective, and contribute to poverty reduction, such as NMI state they do.

Chapter five will conclude with a brief discussion of the empirical findings, relating them to the previous theories, and discussing implication based on the research question. Finally, this section will discuss the way forward and conclude the findings of the study.

Chapter 2
Theoretical perspectives

2.0 Introduction

Development aid, through the Marshal Plan, was introduced after the Second World War to rebuild economies, boost economic growth as well as advancing interest in growing globalized world. Its goal is to ensure steady growth long term, and we can divide it in three main categories of development aid: humanitarian aid, which refers to short term relief provided to countries after natural disasters, refugee crisis or other emergencies. The second type is charity based aid, which is provided by NGOs globally, and last systemic aid, which is typically grants or loans given to governments either bilateral or multilateral. With the establishment of the Millennium Development Goals (MDGs) in 2000 and the Paris Declaration (PD) in 2005, the international community is moving forwards in improving the impact of aid (Hirano and Otsubo 2014: 2). With an improvement of the MDGs, the Sustainable Development Goals (SDGs) were introduced by the UN in 2015, focusing in greater efforts on financial inclusion. As an improvement of the MDGs, the SDGs emphasized the importance of promoting development-oriented policies which support productive activities that promotes job creation, innovation and entrepreneurship, as well as formalizing the growth of micro, small- and medium sized enterprises, and the inclusion within financial services (Assembly 2015). The effectiveness of development aid has been greatly debated for decades, and while some studies argue that development aid has significant positive impact (Gulati 1978; Hansen and Tarp 2000; Clemens, Radelet and Bhavani 2004; Minoiu and Reddy 2010), others argue there is no significant impact of aid on developmental growth (Mosley, Hudson and Horrell 1987; Boone 1996; Easterly, Levine and Roodman 2003, 2004). With a great deal of criticism of traditional development support, new methods are welcomed to the landscape.

However, there are many challenges to be faced. Along with globalization, there has been increasing income inequalities, not just between countries, but also within them, as well as economic structural changes. The World Bank Global Financial Inclusion (*Global Findex*) Database indicate that 62 percent of adults worldwide have no bank account or access to other formal financial institutions. This account for 2.5 billion adults globally, about half of the total adult population, who have no financial inclusion to regulated financial services. Of these, women are less included, while 46 percent of men who have formal financial accounts, only 37 percent women do. The absence of financial inclusion leads to slower economic growth, and greater income inequalities (GPFI 2016). Financial inclusion is therefore vital in reducing poverty and achieving inclusive economic growth. In the 1950s and 1960s several prominent development economists such as Arthur Lewis, Alexander Gerschenkron and Gunnar Myrdal argued that the state should play a central role in the banking sector for the poor, and by the 1970s the state-owned 40 percent of the largest industrial countries banks, and 65 percent of the largest development countries' banks (Yeyati, Micco and Panizza 2004: 2). However, due to criticism, the 1980s and 1990s experienced a shift in the view of the state's role in the economy, and neoliberal economic policies lead to privatization codified in the Washington Consensus. The critique of the state-run banks was that politicians use and maintain state-run banks aimed at maximizing politicians' personal objectives rather than for social efficient uses (La Porta et al. 2002). Further, these banks demanded collateral to receive financial services, which the poorest of the poor did not have. As they were seen as risky, they did not receive financial services. Due to this, the poorest were excluded and left a huge gap of people in need of financial services, which the international development system did not tap into. This opened up for a new type of development, which had its origin from the Grameen Bank founded in the 1970s by Dr. Muhammad Yunus, father of microfinance and Nobel peace prize winner in 2006, giving small loans to the poor from his own pocket. The Grameen Bank started as a pilot study on giving out small-scale loans to the poor to improve their social and economic status, and save them from being charged high interest rates by local moneylenders, establishing income-generating activities for the poor.

2.1 Microfinance

The United Nations defines microfinance as loans, savings, insurances, transfer services and other financial products for low-income clients (UN 2006: 2). Microfinance includes small and medium-scale financial services, primarily credit and savings given to poor individuals. They are generally provided to individuals and households who farm, fish, herd, operate small enterprises or microenterprises where goods and services are produced, repaired, recycled, or sold. The loans are also given to individuals who work for wages or commissions, people gaining income from renting out small spaces of land, draft animals, vehicles, machinery and tools, as well as to individuals at the local urban and rural level developing (Robinson 2001: 9). Most MFIs are non-governmental organizations (NGOs), with a few non-bank financial institutions and regulated microfinance banks (Mazumder & LU 2015). Since the 1970s microfinance has been viewed as an integral part of developmental policy in order to diminish extreme poverty (ibid), as it close the financial exclusion gap left by the international development community. The state-run development banks have previously not served the poorest as they do not have any collateral or credit, and these poor have traditionally been left out of the financial market. The MFIs provide financial services to the poor without collateral, with higher interest rates than the formal banks, and fill the gap of people in need of financial services. This has not been done formally previously, by neither commercial nor public institutions, as these have not believed the poor would have the ability to pay back the loans. Traditionally MFIs give out loans in small groups of people, and in this way each member is each other's collateral.

The mission of microfinance is to improve people's livelihood by impacting the recipients' income, health, savings, food security, education, job creation, accumulation of assets and social cohesion, all improving recipients' livelihoods and raise quality of life. However, not all aspects must be covered. Livelihood is a vague and subjective measure, however this thesis chose to assess it as aspects in which gives an individual freedom to live a successful life in a modern world, where income, education, health and freedom are important variables. An increase in livelihood is therefore an increase in *life quality*, which can be raised by any of the measures mentioned above.

Microfinance and micro-credit are terms often used interchangeably. However, they are quite distinct. Microfinance serves the function of giving out provision of saving, insurance, remittance education, skill training, social awareness and health services (Rahman, Ahmed and Xiaolin 2012: 1055). Microfinance generally takes form of small-scale financial services including credit and savings services provided to people working with agriculture, operating small enterprises, service providers, and so on (Robinson 2001: 9). Microcredit, however, refers directly to the small loan given to individuals, and is among the microfinance services provided by MFIs.

When microfinance flourished in the 1990s the overall debate was positive, and microfinance became an alternative solution to end global poverty. Aghion and Bolton (1997), Banerjee and Newman (1993), Galor and Zeira (1993) argue that having access to capital enables poor to escape poverty as they invest in human capital and microenterprises, which also have spillover effects in the overall community. Before the success of microfinance, many argued that lending credit to poor households was doomed to failure, as the risks are too great, the costs are too large, saving propensities too low as well as very few households have any collateral to put up (Hulme and Mosley 1996; Morduch 1999: 1573; Ciravegna 2005), however, the implementation of microfinance globally has contradicted these assumptions.

2.1.1 The Grameen Approach

The Grameen model emerged from the practices of the Grameen Bank founded by Dr. Muhammed Yunus in Bangladesh. The Bank builds on the understanding that poverty is not created by the poor, but rather by the institutions and policies surrounding them, and there is therefore a need of change in policy. The Grameen Approach does not find charity the solution to end poverty, instead argue it only perpetuates it and creates dependence (Yunus 2004: 4077). Hence, the main issue lies within opportunities, which Yunus argue the poor has previously been stripped away from. Based on this the Grameen Bank developed a system of credit delivery according to their principles, having a reverse logic than conventional banks who start with the principle that the more you have, the more you get. Dr. Muhammad Yunus established the Grameen Bank in 1983, which was a milestone in the development of the microfinance industry. The main objective is to give out affordable loans to poor households, focusing mainly on women. The bank quickly reached high number of clients, and a remarkable high repayment rate, which was an impressive achievement for the microfinance bank, spreading the concept worldwide.

The Grameen model focuses primarily on the social returns of microfinance, and hence follows a poverty reduction approach, mainly focusing on poverty reduction, and to a lesser extent on financial sustainability, which will be elaborated on later. Their funding model rest on microfinance development funds, and they receive numerous donations and subsidizations. Kenya Women Finance Trust Limited (KWFT) has a stronger emphasis on financial returns than Grameen Bank, who prioritize the social goal over financial self-sufficiency. Primarily they are a regulated financial institution, and are funded by traditional donors, as well as social responsible investors and international foundations. The main difference between the Grameen model and KWFT is their funding models, as the Grameen Bank is a NGO relying on donations and subsidies while KWFT is a commercial bank focusing on self-sufficiency. However, it is important to emphasize that the Grameen Foundation receives a considerable amount of donations, as they have built a global reputation, in which most other non-profit MFIs do not have. Despite Grameen's incredible success and impact they rely on huge amounts of subsidies. Morduch (1998) illustrates this:

> While the Grameen Bank reports profits that sum to $1.5 million between 1985 and 1996, the profits rest on $16.4 millions of direct grants, $79.2 million of implicit subsidies via soft loans, $47.3 million of implicit subsidies through equity holdings, and at least $26.6 million in loan loss provision that should have been made. Holding all else the same, the Grameen Bank would have to raise the nominal rate on general loans from 20 percent per year to 33 percent to get by without subsidies.

Though the Grameen Bank has developed a program that has relieved many people from poverty in Bangladesh, their interest rates are yet around 20 percent, similar to KWFT, but follow a model most MFIs can't follow. There is a growing trend for MFIs to become financially self-sufficient, and many are trying to get attention from international investment funds. Many MFIs are also supplementing the group lending system, which is based on the Grameen model, with commercial individual lending to gather the funds in order to expand. One of the factors I will further examine, is the extent of benefits of transforming into a commercial MFI and receiving investments from larger microfinance investment funds as opposed to receiving donations and subsidies from NGOs and governments. Today the formal financial sector, including governments, donors, banks and nonbank financial institutions, have begun realizing that financing the poor can be both financially and socially profitable. Does commercialization of microfinance lead to poorer outreach, and can this lead to a mission drift, in which the organization shifts away from its original social cause and mission? Or is microfinance becoming a large potential market in the world?

2.1.2 Financial inclusion

Financial inclusion refers to people and businesses having access to affordable and appropriate financial services (Ledgerwood et al 2013: 114). It further includes factors such as proximity, being within the reach of a branch, MFI, an automated teller machine (ATM) or agent. It includes having the choice to choose between multiple providers with varied and relevant products and services, as well as being financially capable of understanding how to use them (ibid). The Alliance for Financial Inclusion (AFI) has designed four dimensions of financial inclusion: access, usage, quality and welfare (AFI 2010a, 2010b).

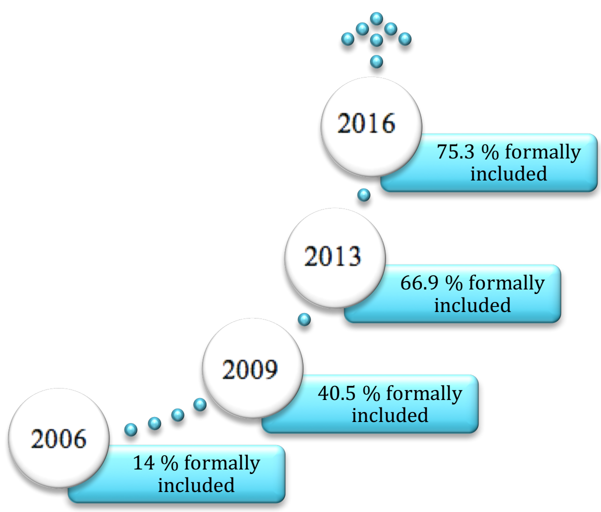
Access considers having the ability to use financial services such as credit, savings, payment and insurance from more than one provider, and within a certain distance, and without great barriers. Usage refer to whether the financial services are actually being used.

This includes regularity, patterns of use over time, frequency, and includes the combination of services. Here we can look at whether the account is active or not, for instance

Quality concerns what choices are available to the consumer, what capabilities they have and how they use these (Ledgerwood 2013: 115). Welfare include the impact that the financial services offered have on the livelihood of the consumer, and is much harder to measure. This includes change in consumption, quality of life and business productivity. The indicators also include increased savings and consumption and increased decision making in the household.

At the Alliance for Financial Inclusion's 2009 Global Policy Forum in Nairobi, the director of the Central Bank of Kenya, Gerald Nyoma, approved the first FinAccess survey in 2006. The survey disclosed that only 14 percent of the population in Kenya had access to banking services, leading the central bank to allow Safaricom, the leading communications company in Kenya, to launch the M-PESA platform, a mobile money system, which lead to 40.5 percent of all Kenyans having access to financial services (ibid). This technological innovation filled much of the financial inclusion gap that existed in Kenya, although there is much more remaining to be done. In 2014, according to the World Bank database, 75 percent of all adult Kenyans, have a formal financial account, meaning that the numbers of Kenyans having financial accessibility has increased by more than 50 percent in the last ten years, in which MFIs have taken a great role in this inclusion, by offering financial services to the poorest part of society.

Figure 2.1.2: The landscape of financial inclusion in Kenya



Source: FSD Kenya, Annual report, 2015

The introduction of mobile money, in which M-PESA is the leading platform, has contributed extensively to the growth of MFIs, as they can use these tools to much benefit and decrease costs by transferring transaction processes mobile, this is however not a microfinance platform in itself, but have been used greatly by the microfinance institution to make transactions more cost-effective, quicker and easier for the clients, increasing the availability of finance. M-PESA does not lend money, however, it is a portal for financial institution to make transactions quicker and easier.

2.2 Types of microfinance institutions

There are several providers of microfinance, ranging from non-profit organizations to commercialized for-profit organizations, and informal to formal providers. KWFT is a for-profit commercial MFI, who previously transformed from a non-profit NGO. The first microfinance approach, introduced by Muhammed Yunus with the Grameen bank, followed a non-profit approach, and much of the critique on microfinance stems from its institution type. The following section present the main types of microfinance providers, and further its funding schemes.

2.2.1 Informal microfinance providers

The informal microfinance providers are simple organized actors, who are not supervised by a government. They usually provide credit at a high cost. These include moneylenders, deposit collectors, and agricultural input providers, traders and community savings clubs. However, the most common informal microfinance provider is a friend or a relative who helps out in the time of need with money, either to help or take advantage of an opportunity (Helms 2006: 37). Providing credit to individuals in one’s community can improve an individual’s livelihood and charging high interest rates are accepted, as credit is needed. Moneylenders are the most well-known informal microfinance providers, known for exploiting poor individuals. According to Helms (2006), the majority of poor individuals all over the world take up loans from family members and friends instead of financial institutions.

Poor individuals can also get access to financial services through rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs), which are clubs formed by individuals sharing common characteristics, such as all members living in the same community.

ROSCAs pool resources from a broad group of neighbors and friends in a community and further, each month or so, distributing the entire sum to one member in the group based on illness or who is in the most need of money. Each participant will eventually receive the big sum, until all have, and then they redo the process (de Aghion and Morduch 2004: 59).

ASCAs function similarly, however, instead of rotating payouts, the deposits are used to give out loans to the group, which is payed back with interest, either by group members or external parties. After a shorter period (six months and up to a year) the entire fund with interest is paid back to the member group. These clubs are based on funds given by all members which are handed out to the whole group or in part, rotating, to the members who are in most need of the credit (Rutterford 1999). The group members also ensure that loans are payed back in time, as the group itself encourage each member to pay back.

2.2.2 Membership-based organizations

Member-based organizations can be both formal and informal. Credit unions are formal organizations, while there are informal groups, such as self-help groups (SHGs).

Credit unions are member-based and rely on their own member's savings and funds. These groups are often divided into federations at both local and regional levels, which offer supervision, regulation and liquidity management. These groups also have low costs and are close to their members, which make them attractive to members in remote communities (Helms 2006: 40).

Self-help groups (SHGs) is generally associated with India, and refers to unregistered groups of 10 to 20 members, with more than 90 percent women, involved in primary savings and credit activities (Nair 2005: 3). The SHGs collect and promote all members' savings, and eventually some gain access to bank loans. These groups target the poorest of the poor, mainly landless and marginal farmers (ibid). This is the model Care International follow, in which they encourage the poor to save first and foremost, and thereby invest. These groups can however be very fragile, and small shocks may compromise their survival. The main critique of the SHG is that they offer inflexible loans, which their members typically do not have the capacity to repay.

2.2.3 Non-governmental organizations

Non-governmental organizations (NGOs) stand for most MFIs worldwide, as they comprise 80 percent of the entire microfinance sector (Dieckmann et al. 2007: 6). NGOs can be run independently by the local community, or with help from the international network, granting donations and subsidizations. NGOs fill the gap left by commercial banks and the state to serve the poor effectively and have increasingly become a pioneer in the development discourse. These organizations fill the states absent capacity to provide welfare to the poor, by offering financial services to the individuals in need of it. Most microfinance NGOs are not regulated and cannot therefore provide unlimited services such as savings and deposit services (Helms 2006: 45). NGOs are heavily donor dependent, especially the small organizations, resulting in an inability to reach out to everyone in need of financial services.

This leaves a large untapped market of people wanting financial services, but do not have access to it. In recent years, microfinance organizations have developed in two ways: some that adopt a commercial strategy while others stay non-profit. The non-profit organizations focus on sustaining the original mission of poverty eradication above all other needs, and often view commercialization as a hinder to this. On the other hand, the for-profit organizations see commercialization as necessary to expand outreach to close the great gap of poor individuals in need of financial services.

2.2.4 Formal microfinance institutions

The formal MFIs include regulated cooperatives and credit unions, regulated banks, and private financial institutions. These institutions have a wide network of branches and can offer more services such as savings and transfers, and funds to invest in non-financial services (Helms 2006: 49). Microfinance policymakers and practitioners are in greater consensus that facilitating savings has become of greater importance than finding better ways of lending to low-income customers. Many low-income households desire to save, but have no formal way to, as they lack convenient and secure deposit facilities (de Aghion and Morduch 2004: 172). With greater funds the formal institutions can reach a greater number of poor people, both on their own, as well as in collaboration with other financial providers such as NGOs. Within this group of formal microfinance providers, government-owned banks, private commercial banks that are regulated and non-bank financial institutions (NBFIs), have less regulations than the commercial banks.

The government-owned banks have many clients, and are often the only option for the poor in rural areas. These banks are regulated, and provide several services including savings and deposit-services. However, there are several limits to government banks, such as a legacy of subsidized loans captured by the local elite, political domination and weak loan collection (ibid). The government-owned banks normally also demand collateral from their clients, which the poorest do not have.

On the other hand, there are private commercial banks and NBFIs, which can be divided into four types of private financial institutions: small community or rural banks, NBFIs, specialized microfinance banks, and full-fledged microfinance banks who use microfinance as their line of business (ibid). As the microfinance banks are regulated and under supervision, they have the opportunity and permission to offer a wider range of services to the poor, including transfers and savings mobilizations. This is what differs them from the NBFIs, small community and rural banks. The formal MFIs generally have a more professionalized management, larger branch network and experience, which benefits their clients.

A study by USAID (1995) placed the microfinance institution types into three categories based on degree of sustainability, which are still relevant to this date:

(1) Institutions in which revenues from interest and fees do not cover operating costs.
(2) Institutions in which revenues cover operating costs but do not cover the commercial costs of loanable funds.
(3) Fully self-sufficient institutions that cover all costs and risks and generate a profit

The first and second categories mainly consist of informal and member-based organizations holding a non-profit status. As it is more challenging covering operating costs, their clients do not get full financial services, and their outreach may not be widened, leaving a great-untapped market of people needing financial services.

Most NGOs fall under the second category, and these comprise most of the microfinance market, but are not able to cover all costs, and can therefore not expand as much as there is need for. Formal MFIs mainly fall under the third category, which depicts the most developed MFIs, accounting for a small fraction of all MFIs. These serve the vast majority of borrowers, as well as they hold most assets. Foreign investors generally seek to invest in this category as they are generally more profitable, regulated, less risk averse, and have more trained and professionalized managers.

The two most common types of investors providing the main share of funding to MFIs are international financial institutions (IFIs), including bilateral and multilateral development agencies such as the European Bank for Reconstruction and Development (EBRD), and the World Bank (WB), as well as private investors including NGOs, individual donors, foundations, institutional and individual investors (Dieckmann 2007: 9). Recently, many MFIs have increasingly gone from being unregulated NGOs to formal financial institutions such as KWFT. As the banks can now facilitate access to commercial borrowing and deposit-taking they are gradually becoming financial self-sufficient.

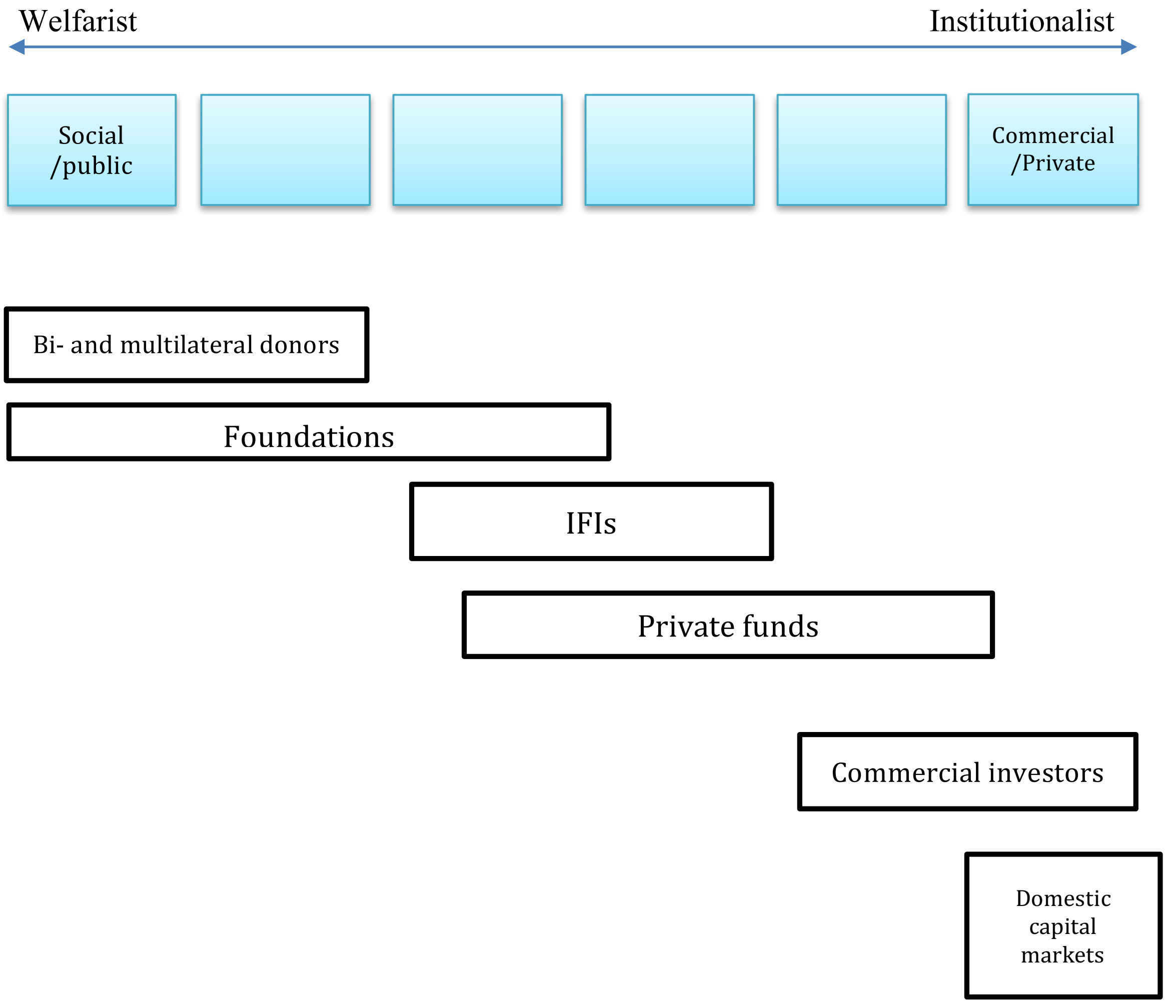
The first three microfinance institution types, informal providers, member-based organizations and NGOs, focus primary on alleviating poverty without a great focus on financial sustainability, while the formal finance institutions emphasize financial self-sufficiency. By focusing solely on poverty alleviation many MFIs face financial challenges, which affect their outreach of financial services. The formal finance institutions generally have a variety of investors and donors funding their operations allowing the institutions to expand and reach out to more clients in need of financial services. The next section will present the different funding approaches provided to MFIs and its relation to microfinance mission goals.

2.3 Funding

Apart from the traditional donor community of MFIs there has been an explosion of new types of international microfinance funding sources. There is a larger focus on domestic sources of funding, as well as there are a vast number of socially motivated investors entering the field. More and more MFIs are moving away from only serving credit to serving financial services focusing on making financial systems more inclusive. To do this however, there is a greater need of increased capital. The landscape of microfinance funding is wide and dynamic, ranging from actors with a social mission to alleviate poverty to actors with greater commercial interests.

The institutional criticisms of subsidized funding of MFIs has been documented in several studies (Adam et al. 1984: Morduch 2000; Robinson 2001), arguing that increasing subsidies makes MFIs less innovative and effective. However, other schools argue that subsidies enable MFIs to widen their outreach. This discussion has created a conflict on how to finance MFIs, which Morduch (2000) refers to as the “microfinance schism”, where the competing perceptions between the two parts perceive the implications for financial sustainability on depth of outreach (Brau and Woller 2004: 4). The two camps are divided by how they believe MFIs should be financed and organized, and is illustrated in figure 2.3 below. The figure ranges from social and public funding towards commercial and private funding, and present the typical funding institutions from each specter. On the social and public sphere, the main funders are generally bi- and multilateral donors and foundations, with the former, for instance, being governments through development aid, and the latter foundations such as the ford foundation donating large sums of money to development agencies or initiatives. The social and public MFIs usually follow a welfarist approach, in which poverty alleviation is the main goal, while the institutionalist focus on financial self-sufficiency in much greater degrees. The commercial and private MFIs are generally funded by international financial institutions, private funds, commercial investors and domestic capital markets. This type of funding often come in the form of investment, and many funders expect a financial return from their investment.

Figure 2.3: The microfinance funding landscape



Note: IFI = International financial institutions

Source: Helms (2006)

The funding of MFIs whose focus is mainly on poverty alleviation, and run a non-profit line consist of bilateral and multilateral donors and foundations. These donors do not expect a financial return for their donations. The donations are seen as social investments to alleviate poverty. On the other side, the investors expect financial returns, and the MFIs who belong to this camp run for-profit companies. As they follow a commercial line, they can expand their projects to widen their outreach, and as investors profit from their social responsible investments, more actors are willing to invest in such companies. Further I will elaborate on each funding type along the specter from MFIs with purely a social goal towards a commercial line. We can separate the social and public funders and the commercial and private funders between international donors and international investors, as the former do not expect a financial return, while the latter do.

2.3.1 International donors

International donors underline a wide range of international development agencies, which we can separate into three categories: bilateral donors, multilateral development banks and organizations, and foundations. Bilateral donors are the government owned aid agencies in industrial countries, which aid microfinance and credit projects. Multilateral development banks and organizations consists of agencies such as the World Bank and UN agencies (e.g. United Nations Development Program, UNDP and the International Fund for Agricultural Development, IFAD) (Helms 2006: 94). Within the international donor category, there foundations such as the Ford Foundation, which are privately owned non-profit institutions through private capital, that is distributed for charitable purposes. The microfinance development foundations act as nonprofit entities and grant capital to MFIs at favorable capital conditions without necessary expecting any financial returns (Dieckmann 2007: 12).

These three types of donors spent estimated in 2013 $6.4 billion on microfinance and credit projects, and this number has likely grown substantially (CGAP 2013). International donor agencies support microfinance in numerous ways including technical assistance, policy support, grants and loans, equity investments and guarantees to mention some (ibid). Donors should be able to take greater risks than private actors, as they are better opt to absorb losses.

Being more prone to risk can result in donors focusing on funding institutions that commercial or social responsible investors generally would avoid.

2.3.2 International investors

International investors include public investors, which are mainly referred to as international financial institutions or IFIs, and are investment arms of bilateral or multilateral development agencies. The IFIs have a greater commercial focus than donors and may increase financial supply where donor funding is no longer needed, and commercial funding is not available. The international investors also include private funds of many different types as well as commercial investors, who also comes in various shapes and sizes. There has been a substantial growth of international investors within microfinance. The international investors provide financial instruments that cover the financial need of MFIs, and they can have a positive impact on management and governance of MFIs (Helms 2006: 99). However, the approach of IFIs and private funds are risk averse, and these funds tend to concentrate on small established groups of strong MFIs.

2.3.3 Domestic funding markets

The last category includes domestic funding markets, mainly domestic emerging commercial banks. These domestic funding markets have the availability of deposit services, which is highly attractive to low-income people, and further they avoid foreign exchange risks.
However, domestic funding markets are typically averse to lending to MFIs, and capital markets in developing countries are generally thin and many domestic markets are averse to or legally constrained from investment in microfinance (Swanson 2007: 2). Therefore, most MFIs rely on international funding rather than domestic funding markets.

2.4 Microfinance impacts

There is no universal truth that microfinance contributes to global poverty reduction. Different models have had different results across the globe. Context matters. If a particular microfinance program work in one geographical area, it does not mean the same program will work in other areas. Further, the definition of impact is important. Whether a client needs to be entirely out of poverty, or if they have improved some aspects of their livelihood differs in being viewed as a success or not. Therefore, results from one experiment can hardly be generalized, as there is no international standard for what accounts as impact on livelihood.

The solution to this is to find certain practices of 'what works' and repeat it in different contexts. The published and available non-randomized impact evaluations are mixed. The most influential paper on the field is by Pitt and Khandker (1998) evaluating microfinance impact using household survey data in Bangladesh from 1991-1992. They find that microfinance has resulted in higher consumption expenditure, especially with loans taken by women. Further Khandker (2005) find in a follow up study, using panel data from 1991,1992 and 1999, that the extremely poor benefit greater than the not-so poor from microfinance. These studies have been heavily criticized for instance by Rodman and Morduch (2009) arguing that their instrumentation strategy is incomplete and the results are driven by omitted variables or reverse causation problems (Hermes and Lesink 2010: 7).

However, more recent studies have found similar results as Pitt and Khandker. Chemin (2008) use the same surveys from Bangladesh takes the critiques into consideration, applying the propensity score matching technique and finds a positive relationship between microfinance and poverty reduction, with higher expenditures, school enrollment and supply of labour, though not differing between socio economic status.

In Kenya, microfinance accounted for job opportunities for 2.4 million people in 2001 according to Hospes et al. 2002, which accounts for 70 percent of all economic activity. By 2008, this increased to 75 percent of the national workforce, which contributed to 22 percent of the national Gross Domestic Product (GDP).

2.5 How can the impact of microfinance be measured?

In order to test clients increased or decreased livelihood as a result of microfinance loans, this study will use human- and social capital theory to examine how KWFT has impacted clients' livelihood. Livelihood can be measured by looking at income, health, savings, food security, education, job creation, accumulation of assets and social cohesion. This is to assess the two opposing theoretical camps on commercializing microfinance, and its impact on livelihood. To measure livelihood, I will use human- and social capital theory, which is a relatively untouched area of assessing microfinance. By utilizing human- and social capital theory, the study will assess how microfinance is improving both performance and well-being of their clients.

2.5.1 Human capital

Human capital relates to an individual's knowledge and ability that affect changes in action and economic growth (Coleman 1988). This may be achieved through training and education, which increases your skills and capabilities for that individual to do well in society (Dakhli and De Clercq 2004: 4). Previous research has made a distinction between three main types of human capital (Florin and Schultze 2000) dividing between firm-specific human capital, industry-specific human capital and individual-specific human capital.

Firm-specific human capital refers to the sets of resources individuals bring to a firm (Wright, Dunford and Snell 2001). This consists of experiences, education and skills an individual has gained in a given point of time (Boxall and Steenveld 1999). Although traditional human capital theory focused on what each worker could gain in earnings as a result of increased human capital (Becker 1980), while later theories have in greater extent applied the theory on small- and medium scaled business owners (Bruederl, Preisendoerfer and Ziegler 1992). The theory of human capital therefore refers to the "skills, knowledge, attributes and competencies represented in an individual that facilitates their personal, social and economic well-being and growth (Becker 1993). Industry-specific human capital refers to the derived knowledge from an experience specific to an industry. This theory argues that workers within an industry can exchange high-quality knowledge between the members of that industry (e.g. Bianchi 2001). This can be used to create new innovations as new product ideas emerge from a combination of know-how present in existing technology and communication between the network partners in that industry.

Finally, individual-specific human capital refers to the knowledge that can be applicable to a wide range of firms and industries, including academic education, vocational training, age, and managerial and entrepreneurial experience (Dakhli and De Clerq 2004: 6). Prior research (Kilkenny et al. 1999; Prais 1995) argues that the level of human capital has an impact on economic success, which they can acquire through education, business training, experience, confidence, health and income.

A major challenge for Kenya is population density. Lutz and Samir (2011: 587) find that universally women with high levels of education have fewer children. Further, greater education is related to lower mortality rates and better health. Better education is associated with human capital as it has a positive relationship to health, democracy and economic growth (ibid). Becker (1994: 17) argues that education and training are the most important investments in human capital, as it according to his studies in the United States raises an individual's income after controlling for several aspects such as cost of schooling and family backgrounds. According to Schults (1999), health is the ultimate indicator of nations well-being. Health-capital increase an individual's efficiency to produce education and other forms of human capital (Gyimah-Brempong and Wilson 2004: 298). Hanushek and Dongwook (1995) further argue that improved health advance an individual's mental and intellectual capabilities which leads to better economic and educational outcomes. The 1993 World Development Report indicates that improved health in the LDCs will increase growth rates of incomes in these countries, which correlates to the findings of Gyimah-Brempong and Wilson (2004) who find that both stock and investment in health in Sub-Saharan African and OECD countries have a positive effect on the growth rate of per capita income, controlling for factors that affect income growth.

Chandler and Hanks (1998) argue that the skills gained from increased human capital investment can to some extent offset the lack of financial capital. Further, increasing the skills of individuals with previous no- or little skills will bring them into a modern economy, and increase the supply of skilled workers to dampen the rising wage or employment gap between skilled and unskilled workers (Heckman 2000: 4). These skills are taught both within the educational system and outside, such as in the workplace or in trainings. Acquiring skills by 'learning-by-doing' is largely neglected in discussions as its harder to measure, however it is an important source of skill formation that stand for one third to one half of all skill formation in a modern economy (ibid: 5).

Further by strengthening previous aspects covered, such as education, health and skills women have much greater labor market opportunities, higher earnings as well as greater decision-making power within their household, which have ring effects to their children and the community (Mitra and Singh 2007: 1228). There is little research on the relationship between human capital and women entrepreneurs. However, Inman (2016) found in her study that the success of women entrepreneurs highly relies on their motives and circumstances. Women who plan their business strategies for the future will actively seek out trainings, networks and learning continuous to gain access to future capital and economic success. In sum, women who increase their human capital will be more effective and successful in running their business and experiencing goal achievement and economic growth.

2.5.2 Social capital

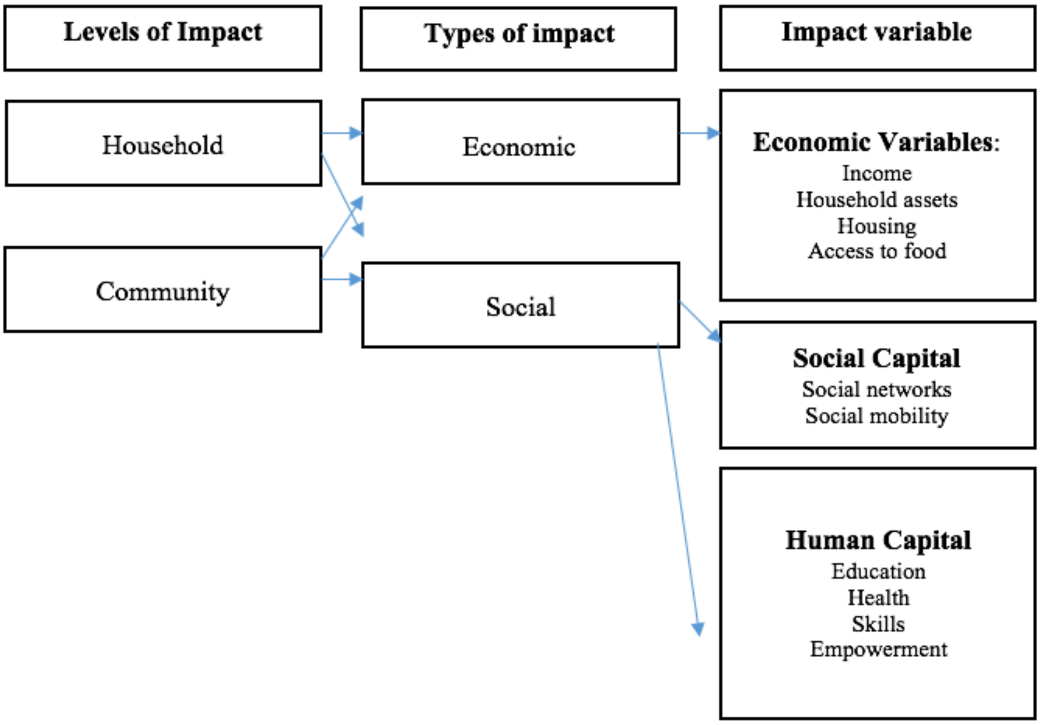
Social capital theory regards the networks one makes constitute the important asset that is used for an individual's own sake, and can be leveraged for material gain. The individual's family, friends and associates constitute an important asset for these individuals according to social capital theory. A diverse social network and civic association will put an individual in a stronger position to confront vulnerability and poverty (Moser 1996; Narayan 1997) and resolve disputes (Schafft 1998; Varshney 2003) as well as taking advantage of new opportunities (Isham 2000). There are several definitions of social capital, including "a resource that actors within a society derive from their surrounding social structures and then use it to pursue their personal interests; it is created and driven by changes in relationships among actors" (Baker 1990). It emphasizes the social relations and networks between people, such as Burt (1992) describes as "the friends, colleagues, and more general contacts through whom an individual can receive opportunities to better use their financial and human capital".

During my fieldwork, one microfinance client within a group lending system claimed: "It's not what you know, but who you know"- This aphorism generally summarized the main body of social capital. Social capital theory argues that when social capital of an individual increase, either through social networks or an individual's social mobility, so will their resources and ability to achieve personal goals (Baker 1990). Hence, social capital may have a positive impact on an individual's economic outcome and growth.

The success of a woman entrepreneur in raising equity capital may rely on who she knows, or her amount of social capital (Carter et al. 2010: 6). One critical source of social capital derives from an individual's social network, which provide an exchange of information and resources that may enhance the success and survival of the entrepreneur's business (Carter et al. 2010; Aldrich 1989; Brass 1984; Blau and Alba 1982). It allows the entrepreneur to gain opportunities and access, which saves them time. Further the entrepreneur may gain advice and moral support from their networks which previously may have been unavailable. Social capital has according to Flores and Rello (2003) reduced poverty by pooling together resources and abilities in societies with high trust, have alleviated the stranglehold of poverty. Further, Morris (2002) found that communities who support environment of groups coming together in advancement were more successful at reducing poverty. Social capital will therefore reduce risks in starting a business, and may help the microfinance clients in increasing ideas, knowledge and support by their network, who may also be of help during different stages of their business start-up.

Figure 2.5 demonstrates the levels and types of impact microfinance services has on women entrepreneurs, focusing on economic, human and social variables. The economic variables are impacted through the provision of credit, in which all microfinance clients receive in the form of a loan. Next, the impact variable focus on human capital in which clients can receive loans to pursue higher education, pay health bills or improve skills through trainings. Finally, the clients may receive social capital, by participating in group meetings, and using each group member as an assistance, security or network. These make each client more capable of having an independent source of income and social status improving their overall livelihood. It is however the social impact that affect the human and social capital variables. This is what differs microcredit from microfinance, as the latter has the ability to impact all three variables, while the former will only affect the economic variable. Further in this dissertation all three variables will be discussed, economic variables and social and human capital, and what impact these variables has had on KWFT clients' livelihood.

Figure 2.5: Levels and types of impact of microfinance services



Source: Eoin Wrenn, 2006

The objectives of this research is to identify the different levels of microfinance impacts on the clients of Kenya Women Finance Trust, using human-and social capital theory as a means to measure clients' livelihood. By testing the impact microfinance has on its clients' human- and social capital, in addition to their economic growth, and thereby livelihood, I will manage to measure the impact of KWFT services on their clients and further discuss the implications of commercializing MFI, assessing the welfarist and institutionalist approaches to eradicating poverty. An increased income and assets will determine the economic variables. However, to determine whether the clients have been empowered by the services of KWFT, I will study the human capital impacts, looking at education, health, skills and empowerment, which should be retrieved from the various non-financial services offered by KWFT, as well as social capital looking at social networks and mobility, which should result from a group lending system approach by the institution.

Wrenn (2007) argues that previous research indicate that microfinance plays a key role in three steps within development: First, it helps poor households meet their basic needs and protects them from risks. Second, microfinance improves household economic welfare. Third, microfinance empowers women by supporting their economic participation, in which the women feel more autonomous with their money, and empowers them as individuals. Ledgerwood (1999) argues that the provision of credit in itself is not enough for a comprehensive livelihood impact on the poor. MFIs must adopt tools to reduce information asymmetries, and decrease the gap in gender and illiteracy inequality. It is therefore essential for MFIs to offer trainings to their clients with entrepreneurial skills for SME management skills (Cuhna 2007; Robinson & Malach 2004). Entrepreneurial training has had documented positive impact in the growth and progression of SMEs across the world (Ibru 2009; Cheston & Kuhn 2002; Jill et al. 2007; Reavley & Lituchy 2008). MFIs facilitate women empowerment through extensive training programs, such as trust building, leadership and communications training, and supplier and customer relationship management. This study will mainly focus on human capital in measuring impacts of microfinance, although the social capital impacts have also been important in increasing the livelihood of the clients. However, the human capital impacts are more evident with both the group-lending system as well as the individual lending system, while social capital impacts were more evident with the group-lending system than the individual-lending system.

2.6 Empowerment of Women

The large focus on women within microfinance stems from Professor Yunus's conviction that lending to women has a stronger overall impact on the household welfare than lending to men, which has been confirmed by a large volume of microfinance research (Sengupta and Aubuchon 2008: 24).

Onyuma and Shem (2005: 207) present three ways in which microfinance empowers women:

(1) It must provide independent sources of income outside the home and reduce economic dependency between women and their husbands, which increases autonomy,
(2) Income-generating activities together with the women's exposure to new sets of ideas, network and values should make women more assertive to their rights, and
(3) By promoting women autonomy of material resources, microfinance should raise women's prestige in the eyes of their husbands and further promote inter-spouse consultations on household decisions.

These three ways of women empowerment fit the theory of social and human capital, as the women apart from an increase in income will experience a greater social network, and increased skills and experiences, contributing to the empowerment of women. Findings from Hulme and Mosley 1996; MkNelly and Watetip 1993; Chen 1996; Pitt and Khandker 1996 reveal that there has been an improvement in women's empowerment due to microfinance services, looking at physical mobility, independency, freedom from violence, political awareness, ability to make own purchases, increased self-confidence, and schooling of female children to name a few.

Robinson (2001) studied the role of microfinance on the economic status of women, who are the main clients of microfinance, and found an increasing role of women entrepreneurs in economic development at several levels: the community, within the household, health, community and at the national level. Investing in women, according to Robinson (2001), has a great impact not only on the individual itself, but also on the family expenditure on education, health nutrition and food security. Morduch (1999) agrees, adding that women have an important role as risk managers in poor communities, which makes them better suited to receive microloans. Further, Khandker (2003) studied microfinance in Bangladesh finding an overall reduction of poverty by more than 20 percent among borrowers, and 40 percent if considering spillover effects, in which the clients were mainly female.

2.7 Main approaches to microfinance

There is a considerable debate on whether MFIs should take a non-profit or for-profit status. Most microfinance NGOs have a non-profit status, while the nonbank financial institutions and microfinance banks mainly run for-profit. The proponents of non-profit MFIs argue the main focus should be poverty alleviation, which commercialization may hinder. Further, the proponents of a non-profit path argue that donors and subsidies are given as a social investment, from donors who don't seek financial returns, keeping the MFIs sustainable. However, as the idea is to keep the main focus on poverty alleviation, the non-profit MFIs are struggling to cover costs, and this decreases outreach of financial services, as the funding is not sufficient. This discussion has resulted in two opposing theoretical camps, the welfarist and institutionalist approaches.

The microfinance literature today is dominated by the *welfarist* and the *institutionalist* paradigm (Morduch 2000; Woller et al. 1999). The former arguing the main goal needs to remain the poverty lending goal of microfinance instead of financial sustainability, and the latter arguing the institutions should aim to cover their costs based on their program revenues. The institutional paradigm has a greater for-profit focus, while the welfarist paradigm relies on MFIs remaining a non-profit status. The defenders of both schools do agree that the main goal of microfinance is poverty alleviation, however, they differ in strategy to achieve this.

2.7.1 The welfarist approach

The welfarist approach focuses mainly on poverty lending. The overarching philosophy of this approach within microfinance should be to give small amounts of money in order to stimulate creative income generating activities among the poor. The welfarist approach emerged after the Second World War, in which many governments placed economic development and increasing food cultivation (Robinson 2001: 71). Foreign donors and governments took responsibility in aiding development of agriculture. Giving out loans would not be sufficient, as the farmers would need more capital than they could save, and would therefore not be able to pay the full cost of credit needed to cultivate enough food. The result of this was a government and donor subsidized credit program, which spread throughout the developing world. This subsidized-credit model is currently dominating many microfinance NGOs, who rely on donors and subsidies to stay financially sustainable. Due to lack of funds, subsidized MFIs have a hard time providing microfinance credit *and* savings services with wide outreach (ibid). Though there is a new approach emerging (e.g. the institutional paradigm), the welfarist approach is still deeply rooted in many places, and new MFIs continue to be built on the principles of this approach.

The welfarist approach reaches out to the poorest of the population, who are riskier and less accessible, most living in rural areas. The actors are generally NGOs or cooperatives who consider microfinance a vital tool to eradicate extreme poverty, and use their financial services to directly relieve the effects of poverty, even if their services require subsidies (Omri and Chkoundali 2010: 151). In regards of financial criticism, the welfarist approach argues that MFIs can achieve sustainability without achieving financial self-sufficiency (Woller et. al. 1999; Morduch 2000; Brau and Woller 2004). The welfarist perspective views donations as a form of equity, and the people and institutions donating to MFIs are social investors, who do not expect monetary returns. Further, they believe that if all MFIs are to focus on financial self-sufficiency, the poorest of the poor will not be reached, and that there is nothing wrong giving subsidies to MFIs if this results in lifting the poorest out of poverty. The main issue here is, however, to collect enough equity to cover all expenses. With a few exceptions institutions who provide microfinance as well as social services have proven to be inept at financial management. These institutions cannot afford to be effective in both offering credits and savings as incoming interest rates are too marginal to cover costs and risks within the practice of large-scale sustainable microfinance (Robinson 2001: 71).

2.7.2 Institutional approach

The institutional approach emphasizes the importance of financially sustainable microfinance programs, and the importance of MFIs to be able to cover their costs of lending money out of the income generated from the outstanding loan portfolio, as well as reducing their operational costs as much as possible (Hermes and Lensink 2010: 11).

The main criticism of the welfarist approach argue that funding restrictions limit the potential of MFIs, and decreases the breadth of outreach. As the welfarist approach achieves an immensely important outreach, it is still not sustainable, since the organizations lack the funding to increase their outreach and reach broad financial services to the most remote clients. Institutionalists argue that the commercialization of microfinance allows greater opportunities to fulfill the social mission and increase access to the great demand of financial services to the poor (Charitonenko 2003).

The institutional approach was established by researchers at the Ohio State University's Rural Finance Program, who diagnosed the primary reasons for failure of MFIs as "lack of institutional viability" (Gonzalez-Vega 1994). This diagnosis established two principal conclusions "(1) institutional sustainability was key to successful provision of financial services to the poor, and (2) financial self-sufficiency was a necessary condition for institutional sustainability" (Brau and Woller 2004: 4). For institutionalists, reaching financial self-sufficiency is key for MFIs to provide better and more services to the poor (Morduch 2000). As there are numerous successful MFIs when it comes to social outreach, only financially self-sufficient commercial MFIs are in position to meet the great demand for microfinance on a global scale (Robinson 2001: 31). Because profits are the main objective, MFIs following the institutional approach concentrate on providing financial services to as many borrowers as possible, including the not so poor, and the poorest, as targeting only the poorest may result in high transaction costs.

The Consultative Group to Assist the Poorest, also known as CGAP, is an independent policy and research center dedicated to advancing financial access for the world's poor. CGAP (1996) argues that the access to credit is more important than its price. Further they argue that subsidies are problematic as it weakens incentives for innovation and cost-cutting, as well as there is not enough quantitative of subsidies to enable microfinance to grow, therefore microfinance will not be able to reach enough people. There is therefore no good alternative than to pursue profits and commercial status to increase outreach (Cull et al. 2010).

Subsidized loan programs generally have a limited amount of capital and therefore cannot deliver broad access of credit to low-income households (Robinson 2001: 29). Informal moneylenders can, however, this is generally at a high cost. These lenders have traditionally had a monopoly on the market, and can charge higher interest rates than regulated financial institutions, which the poorest are excluded from.

Sustainable financial MFIs have greater access of credit leading to a wider breadth of outreach and a greater range of financial services. Based on investments, grants and loans, institution can cover all their costs and risks and also generate a profit, potentially leading to further increased outreach. These institutions are mainly banks, and in some places credit unions, savings- and credit cooperatives and other nonbank financial institutions.

MFIs are very labor intensive, as they have a widely-spread staff where the clients are located, and have rudimental infrastructure and communication in these areas. Further, it is costly to process many small loans and services provided by MFIs as opposed to large loans to fewer clients such as in traditional banks. Therefore, providing microfinance services in many small and scattered locations is far more expensive than the financial services provided by urban banks. As operating costs are much higher in rural areas interests are therefore higher with MFIs as compared with commercial banks. MFIs have developed innovative lending systems to reach poor clients, making the services somewhat more cost-effective. The absence of these structures may explain why traditional banks have avoided microfinance. Some of the main structures MFIs follow is by using short-term working capital loans, introducing each loan as small, and further increase in size. Lending based on individual character instead of collateral, in which microfinance often use group loan mechanisms as a collateral substitute (Baydas et al. 1997: 15). They use simple loan procedures, and frequent repayment schedules to facilitate borrowers, and staff from the local communities who sits on information about the clients, and many lending facilities. MFIs therefore charge higher interest rates than the large banks, to cover all of the above costs.

The institutional camp, focus strongly on financial self-sufficiency within MFIs, emphasizing that they offer a wider range of financial services, both credit and savings, which increases profits and growth (ibid). However, there have been several cases in which commercial microfinances have left their social mission, and become an 'institutionalized loan shark'. Banco Compartamos, in Mexico, is an example of an unethical commercial microfinance, who in 2007 issued shares in a secondary offering, initial public offering (IPO) selling shares at 12 times their book value. The bank was also charging up to 86 percent in interest rates to their clients, in which the poor clients were sacrificed for rich investors (for more information see Ashta and Bush 2008), demonstrating the welfarist concern of commercialization of MFIs.

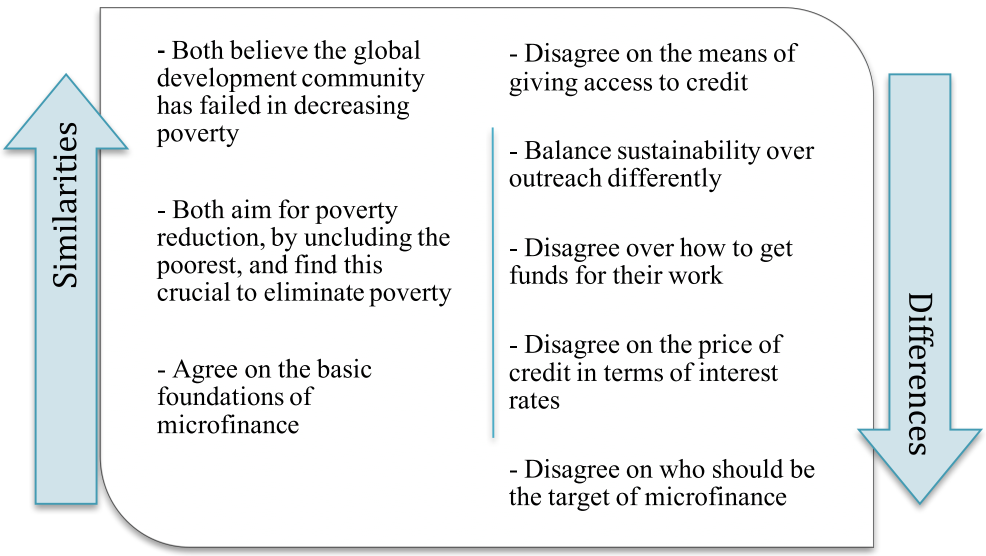
2.8 Paradigm shift

The two camps are based on the same foundation. That private organizations need to enhance financial inclusion for the poor, and that this is a market in which the global development community has left an untapped market. They both agree that microfinance is vital to eliminate poverty, as the poor are in need of credit to boost their livelihood. Both camps agree on the basic foundations of microfinance. The institutionalist approach is, however, a reaction to the limits of the welfarist approach, as they have had challenges with financing their operations and therefore cannot increase their outreach and quality of financial services.

The institutional approach argues that "poor households demand *access* to credit, not 'cheap' credit" (Morduch 2000: 617), as the most important factor is that everyone has access to financial services, in which they do not as of today. The two schools therefore agree that the poor need microfinance services, however, they don't agree on the means to achieve full access for as many as possible. Further, the institutional approach tends to target people closer to the poverty limit, as they argue that the poorest of the poor are better off with other services improving their livelihood, covering basic humanitarian needs, such as food, health and access to education. As opposed to the welfarist, they argue that microloans will only trap the poorest in debt, instead of benefiting their livelihood.

Though the two theoretical schools have the same goal, they differ in how to reach it. Both approaches have the goal of eradication poverty, but the strategy on how to reach this goal differ. They both believe their products are needed due to an international failure in financial inclusion and poverty elimination. The main difference between the two camps are their funding schemes, in which lay down the groundwork of how they operate. By stressing financial self-sufficiency, a MFI will prioritize efficiency, transaction-costs, target groups and interest rates, while the welfarist stressing poverty alleviation over financial self-sufficiency will emphasize low interest rates, and focus on the poorest clients. The figure below demonstrates the main similarities and differences between the two theoretical schools.

Figure 2.8: similarities and differences between welfarism and institutionalism



Source: Robinson (2001)

Traditionally, MFIs have operated their costs from subsidies and donations from governments and other donors, following the welfarist approach. According to Hudon and Traca (2010) only 5 percent of all MFIs are financially sustainable, showing that there is a need of new funding models. The main critique of the institutional approach is that focusing too much on financial self-sufficiency and profits leads to a mission drift in which the social goal of eradicating poverty comes as a secondary goal.

Hermes et al. (2010) use data from 435 MFIs in the period 1997 to 2007 to explain the existence of a trade-off between sustainability and outreach. They focus on the relationship between cost efficiency (which they use as a variable for financial sustainability) and the depth of outreach, which they measure by average loan and savings balance and percentage of women borrowers (Hermes et al. 2010). They find that increased sustainability and efficiency decrease outreach of MFIs, arguing that the social goal of an MFI is shadowed by the quest for profits. Further, they found that commercialization may induce a stronger emphasis on efficiency, though this leads to a lesser focus on the poorest of the poor. This concurs with the critique of institutionalism by supporters of welfarism, that commercialization leads to mission drift. Their results are robustly significant, even after taking several control variables into account. However, they do not imply that a greater focus on efficiency is bad for poverty reduction, instead they agree with much of the literature (Hulme and Mosley 1996; Onyuma and Shem 20005; Schneider 1997; Scully 2004) that microfinance may be a better poverty reduction tool for people closer to the poverty limit, and not the poorest part of the population.

Yet, with the critique (Hermes et al. 2010) that the greater focus on financial returns undermines the social goal of microfinance, more and more MFIs are turning to the for-profit sector, trying to increase their financial income (Robinson 2001: 34). There is a growing market for microfinance offering a solution to the challenges of becoming financial sustainable, arguing that MFIs who commercialize will boost efficiency, and by doing this they may also increase their outreach.

Financial sustainability has become a key concept within microfinance, as many of the institutions are reliant on subsidies to survive, and commercialization of MFIs is a growing phenomenon. With this we can see a paradigm shift from the welfarist approach towards a more institutional approach with MFIs. According to a study conducted by the MicroBanking Bulletin (autumn 2007) based on the THEMIX 2006 dataset of 704 MFIs find that 41 percent of MFIs are not sustainable, where sustainability is paralleled in the literature as financial self-sufficiency. These institutions, however, manage to function without covering their expenses due to subsidies and donations from governments and other donors (Mersland and Strøm 2010: 28). The main goal of a microfinance institution is not primary to reach financial profits, instead to increase social and economic welfare for its clients, hence increase livelihood. The financial mission within MFIs is now to manage a combination of serving the social good, as well as covering all expenses, and maintaining financial sustainability, without falling in a mission drift.

> If capital markets can be tapped to give MFIs the needed funds to be self-sufficient, and if investors can earn returns commensurate with the risk borne, the vision of a poverty-alleviation mechanism that pays for itself (both implicit and explicit costs) may be realized in greater proportions.
> (Brau and Woller 2004: 5)

There is growing potential to introduce microfinance to the world's capital markets, as MFIs experience high repayment rates. By engaging in the capital market, MFIs can reach financial sustainability, and become self-sufficient. Does financial sustainability undermine the goal of outreach as Hermes and Lensink (2011) argue, or will increased focus on financial sustainability further increase outreach as Robinson 2001; Cull et al. 2010; CGAP 1996; Morduch 2000 and Woller et al. 1999 argue in which the former follow a welfarist approach, while the latter an institutional approach.

2.9 Critique of microfinance

The critics of microfinance are critical whether microfinance helps alleviate poverty substantially, as well as its inability to reach the poorest of the poor (Onyuma and Shem 2005; Scully 2004), and some argue that the poorest clients are deliberately excluded from microfinance services (Simanowitz 2002; Montgomery 1996). Rubinstein (1996), Hulme and Mosley (1996), and Schneider (1997) further argue that the people benefitting from microfinance are generally right on or above the poverty line, and microfinance therefore does not reach out to the poorest of the poor, as they will not spend money on income-generating activities. He argues that they rather need services to cover basic human needs, such as food, shelter, clothing and health. Hermes et al. (2010) study the tradeoff between sustainability and outreach, in which they find that increased self-sufficiency leads to lower outreach. However, they view outreach as percentage of women clients and average loan and savings balance. Outreach is therefore not necessary depicting impact on livelihood, which is the reasoning of using human- and social capital theory as a framework in assessing outreach. When studying outreach one should study what the loans actually does to the recipient's livelihood in order to evaluate the impact of the loans.

The poorest of the poor often decide not to participate in microfinance programs as they lack credit, confidence and value the loans too risky (Ciravegna 2005; Hulme and Mosley 1996). Further, the extreme poor are also seen as too risk averse for MFIs to give out loans, and are therefore often not accepted in group lending programs, both by the MFIs and the other group members, as they are viewed as a bad credit risk (Hulme and Mosley 1996;

Marr 2004; Onyuma and Shem 2005), and as MFIs are moving towards commercialization and away from the Grameen model, those without proper risk profiles will not be served. These critiques can drive MFIs to concentrate on clients right below, on or right above the poverty line, while alternative assistance both financially and socially needs to be developed generating the need for innovation by rural developers (Onyuma and Shem 2005: 202).

There is also some evidence that the poor do not use microloans for income generating activities, but instead use the credit for general consumption. Though this may be necessary for the client, it does not create any income generating activity, and they will have challenges in repaying the loans long term. Binns (1998) reported that up to 50 percent of the credit distributed to women end up in consumption, in ACP countries (African, Caribbean and Pacific Group of states), which is mainly valid for women who are responsible for everyday needs as food, education and health of their family. Binns (1998) therefore argue that microfinance loans should be delivered to individuals closer to the poverty line, as the extremely poor need credit for every day services, such as food, shelter, health and clothes. And for these consumptions there needs to be other development services in place.

Critics of microfinance are now focusing on the assumption that MFIs are becoming so occupied by the goal of financial sustainability, that they move away from the poor, as they prefer a clientele that they can provide larger loans to, in order of gaining a greater income, thus decreasing outreach and falling in a microfinance mission drift (Augsburg & Fouillet 2010: 330). The discussion between outreach versus sustainability, as Morduch refers to as the microfinance schism are influenced by critics, arguing that we are seeing a shift from the primary objective of MFIs, as they are hastening to become self-sustainable (ibid). Previous studies by Milgram (2001); Ahmad (2002; 2003); Wright (2005); Dixon, Ritchie, and Siwale (2007); Guérin and Kumar (2007); and Kori and Onneshan (2007) depict how financial sustainability conflict with their social mission and finding a negative consequence on development work at the field level. Armendáriz and Szafarz (2011) however find that there is a thin line between what constitutes a mission drift and cross-subsidization. Wealthier clients are cost-effective, and can contribute to the MFIs outreach to unbanked poorer customers. The cross-subsidization therefore allows the MFI to maximize their outreach objective, while focusing on a larger number of people and not necessary decreasing number of poorer clients.

As many MFIs do not have enough funds to expand their services it is clear that new models are in need to widen outreach and financial services to the poor. Investing in a better and more professional management team may decrease the risk of mission drift, having greater regulation from both investors and public institutions, such as the microfinance act of 2008, which tightly regulates all MFIs, leaving less space for poor management.

Some studies (Todd 1996; Goetz and Gupta 1996; Onyuma 2000; Mutiso 2003) reported that women microfinance clients are passing on microloans to their male family members, which gives the females little or no control over the use of the capital. To solve this issue, they recommended that MFIs should continue to focus on non-financial services to empower women, by offering leadership- and empowerment training.

2.10 Operationalization

KWFT has undergone a transition from being a non-profit NGO to a full-fledged microfinance bank, and they have experienced a huge transformation in organization, strategy and outreach. In the first section of the analysis, I will assess the impact of KWFT services by applying human- and social capital theory, to measure the impact on client's livelihood. The second part will discuss the implications of commercializing MFIs assessing the welfarist and institutionalist critique based on the impact-findings in the previous section, and further discuss the relationship between KWFT and NMI. KWFT has used different types of funding models, and are now funded by incoming revenues, donors and private investors. Are social and development missions overshadowed in commercial microfinance? This is one of the main critiques of commercializing microfinance, as the financial returns are of greater focus than the social goals. Or does the new approach improve efficiency, cost-cutting and innovations, such as CGAP previously argued? Further, what role do the foreign investors take? And how can they 'better' the practices of the MFIs to increase outreach and social performance? The KWFT follows the institutionalist paradigm, and has a great focus on financial sustainability, and I will therefore analyze MFI performance in number of outreach with relation to their financial growth. Further, I will examine whether financial sustainability has an impact on not just quantity of outreach, but also quality of outreach to the poor in terms of financial and non-financial services.

The CGAP report from 1996 argues that donations and subsidies weakens incentives for cost-cutting and innovations, while MFI who are funded by social responsible investors and funds are expected to be innovative to increase market and profits. Does the third microfinance category based on degree of sustainability increase innovations to stay competitive, while NGOs funded by social donors and subsidies do not, and what role do the foreign investors play on the MFIs? The critics of the CGAP argument argue that commercialization of microfinance may lead to efficiency, but it also leads to mission drift, in which the MFIs steer away from their original social goal. Is outreach compromised by commercialization, and does this diminish the goal of microfinance?

There has been a great debate whether microfinance has succeeded in one of its main goals: to empower women. As presented previously, the literature argues for both, however most of the established cases verifying women empowerment are based in Asia. Has there been a substantial empowerment of women caused by microfinance in Kenya? Further, does commercialization of microfinance decrease the focus on women empowerment?

By investigating the KWFT I will study to what extent microfinance has had a substantial impact on women's livelihood before and after their transformation to a commercial MFI.

And finally, much of the critique on microfinance discusses whether it helps lifting the poorest of the poor out of poverty. Should microfinance target the poorest, or the less poor? Or should there be other programs targeting the poorest of the poor with other poverty-lifting services? I will examine *why* KWFT chose to only give loans to women who already have an established business, and not the poorest women trying to establish a new business, keeping their target group closer to the poverty line rather than far below it. Here I will examine whether microfinance services benefit the poorest, and if not, why?

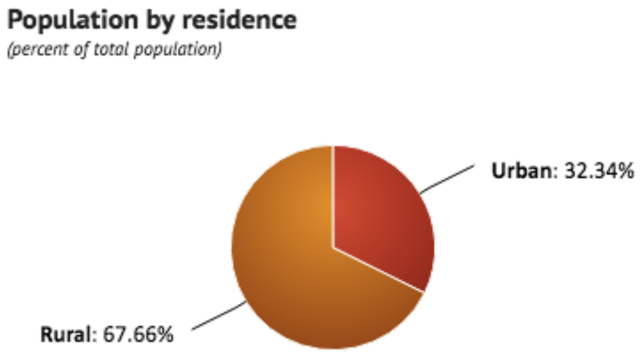
Chapter 3
Microfinance in Kenya

This chapter provides a brief presentation of microfinance in Kenya, and then focuses on the structure and operations of Kenya Women Finance Trust Limited (KWFT). Kenya is one of the leading countries, in economic growth, in sub-Saharan Africa. Further, Kenya has proved successful with new technological innovations, which has been quickly adopted, such as mobile banking, making it much more cost-effective and efficient providing financial services nationwide to a low cost. KWFT is one of the country's largest microfinance bank, currently holding 47 percent of the overall market, which has since 1981 gone through several institutional transformations, and is today a full-fledged microfinance bank, offering financial as well as non-financial services in its mission to alleviate poverty and empower women. As the organization is continuously growing it is interesting to see how the transformation from an NGO to a formal financial institution has affected their depth and breadth of outreach, and how their foreign investors, such as NMI affect the outreach.

3.1 Poverty and development in Kenya

Kenya is one of the faster growing developing countries in Sub-Saharan Africa, with its economy rated number 14 in Africa (IMF 2010). The banking system dominates the financial landscape in most countries, and stands for the largest share of assets, with the exception of middle-income countries. However, poverty alleviation in Kenya is a disappointing story. In 1981, the poverty rate was estimated at 48 percent (World Bank Group 2016: 33). In 2005, this percentage had only decreased to 47 percent. In 2005, 16.7 million Kenyans could not afford the costs of basic needs such as food and nonfood goods deemed necessary to escape poverty (ibid), in which 85 percent of these lived in rural areas, lacked formal education and primary worked in family farming. Further, 95 percent of the families lived without electricity in their home and 49 percent had no access to decent drinking water in the home. The households with no electricity, and challenges in providing basic needs generally live in the rural areas of Kenya. According to the Kenya National Bureau for Statistics 67,66 percent of Kenya's population live in rural areas, demonstrating the immense need for development work in the remote areas.

Figure 3.1: Population by residence in Kenya, 2016



Source: Kenya National Bureau for Statistics, 2017

Agriculture is now the main source of employment, and can be used as the largest tool to decrease poverty. The biggest decline in poverty has been seen within the rural areas of Kenya, on rural workers doing nonfarm work. Research based on a panel survey data by Suri et al. (2008) find that poverty rates declined from 42.3 percent in 2000 to 37.6 percent in 2007 fielded in maize-growing areas in rural Kenya. Their findings illustrate that diversifying income apart from farming in rural areas is an effective poverty reduction tool, and found that education lead to more people obtaining skills to perform income generating work or become self-employed (World Bank Group 2016: 35).

The poorest 40 percent Kenyan population live in remote areas. Therefore, the poverty alleviation work needs to focus on rural Kenyans to have a substantial impact on poverty reduction. Although poverty is around 40 percent of the population, rapid development of modern services such as finance and mobile technologies have thrived, especially in the capital, Nairobi (ibid: vi). These sectors of the economy, with land development and commercial services have had an accelerating growth, and between 2006 and 2013, 72 percent of the GDP increase came from services (ibid).

Access to financial services in Kenya remains low, despite a remarkable growth in inclusion over the past decade, in which particularly the poor, women and the uneducated are still secluded (Mlachila et al. 2016: 25). The development of mobile banking systems, such as M-Pesa, M-Shwari, and M-Kopa in Kenya, has assisted reducing transaction costs, facilitated personal transactions as well as contributed to the use of financial intermediation services (International Monetary Fund 2012). Both mobile payments and microfinance has grown rapidly in Kenya, providing services to the poorer parts of the population with little or no collateral, enhancing financial inclusion.

Microfinance has had a positive impact on gender equality in the region, with 60 percent women MF borrowers in 2014 in Sub-Saharan Africa, which is twice the size of women's share of formal bank accounts (Mlachila et al. 2016: 35). Savings mobilization has outpaced credit services within MFIs, where growth in the number of depositors has exceeded MF borrowers. This has positive impact on the MFIs in Africa as it reduces their funding needs and advance financial sustainability. Further, taking use of new technologies such as mobile banking helps MFIs reduce operational costs by tapping into a fast growing and high-penetration mobile network (ibid). Finally, strengthening supervision has been crucial in addressing financial stability and consumer protection while supporting financial inclusion. This especially with a focus on small-sized and numerous MFIs, as well as strengthening professionalism within the microfinance sector to mitigate governance risk (ibid). There has increasingly been a shift in donor funding towards the for-profit institutions, based on a belief that these institutions can obtain long-term sustainability (Kenya FSD 2012: 1). MFIs in Kenya have only been regulated since 2008 (ibid), and before the regulations were implemented, institutions were easily set up without barriers such as minimum capital requirements, and innovations could easily take place. This allowed the microfinance industry in Kenya to thrive. At this point many new MFIs was established, and the need for regulation was needed, to allow MFIs to offer deposit-taking and savings- services to clients nationally. The regulations do not harm the establishment of new MFIs as they are not formal institutions, such as KWFT. It only allows MFIs to grow and offer increased services in a regulated market, without falling under the Central Banking of Kenya Act, which the commercial banks are under.

3.1.1 Microfinance Act of 2008

The Kenyan government recently encouraged a regulatory system for microfinance, through mandated standards of performance, leading the market from a less regulated environment, to a tightly regulated one (Ali 2015: 127). In Kenya, the sector is regulated and supervised under different jurisdictions and laws than the formal banking sector or other microfinance sectors in other countries. Kenya issues separate laws to promote microfinance, and it is primary the Microfinance Act of 2008 and the Central Bank of Kenya Act who are governing the industry. The Microfinance Act was put in practice, as it would be too costly for formal microfinance banks to be under the Central Bank of Kenya Act, regulating commercial banks, as they recently issued a cap on regular banks on 14 percent interest rate. The formal MFIs would not be able to cover their costs with an interest rate on 14 percent, as they have a much costlier practice, opening branches in remote areas and providing services and follow-ups to their clients.

The principal objective of the Microfinance Act is to provide a regulatory, legal and supervisory framework for Deposit-Taking MFIs (DTMs), which includes KWFT. According to the official microfinance Act document it is “An Act of Parliament to make provision for the licensing, regulation and supervision of microfinance business and for connected purposes” (Microfinance Act, Chapter 493d: 5).

The Act apply only to formal MFIs. Informal moneylenders, member-based microfinance organizations and microfinance NGOs are not under this law, as their organization does not provide formal financial services such as deposit-taking. The Act classifies MFIs into three different tiers: deposit-taking institutions, credit-only non-deposit taking institutions and informal organizations (Kodongo and Kendi 2013: 99). The first category includes formal MFIs such as KWFT, the second category includes NGOs who do not offer deposit-taking, and the latter category includes rotating savings societies and other member-based organizations. According to the act (Microfinance Act, Chapter 493d: 6) a “deposit-taking microfinance business” means— (a) a microfinance business in which the person conducting the business holds himself out as accepting deposits on a day-to-day basis.”

The Act was set up to include more actors of microfinance in the formal financial system, allowing them to expand and offer more financial services such as deposit taking, in a safe and regulated environment securing their clients and the overall market. As these financial services are regulated, the clients can be a part of these systems with greater certainty. The Act does however limit practices of formal financial institutions, but at the same time it allows them to expand to offer banking services such as KWFT bringing forth self-sufficiency and economic growth for the MFI, which they previously could not. Before this Act, MFIs who wanted to offer formal financial services such as deposit-taking, would lie under banking regulations, which are much stricter than the regulations of microfinance banks. If the MFIs were to be under the same regulations as banks, with an interest rate cap on 14 percent they would not be able to cover their costs, and could not offer deposit-taking services as they do under the Microfinance Act. And without regulations, the organizations were limited in what services they could provide. Therefore, after the microfinance act was implemented in 2008, much more formal MFIs have been formed, and these institutions are able to grow substantially and serve formal financial services, which they were unable to do before the Act.

3.2 Kenya Women Finance Trust Limited (KWFT)

Kenya Women Finance Trust Limited was established in 1981, as an affiliate of Women's World Banking (WWB), which is a large global non-profit with the aim to give low-income women financial access tools and resources for them to build security and prosperity. The organization has worked for more than 35 years with influencing financial institutions showing them the benefit of investing in women as customers, and as leaders (Women's World Banking, no date). WWB provide technical assistance, strategic support and information to a global network consisting of more than 40 independent MFIs, and other financial institutions providing financial services to low-income women in the developing world. WWB is the largest microfinance network in the world.

In 2010, KWFT transformed into a deposit-taking Microfinance Institution (DTM), while being the largest non-bank microfinance institution, serving 250,000 female clients, controlling more than 45 percent of the entire microfinance market in Kenya (Kenya FSD 2012: 10; Ouma and Rambo 2013: 58). KWFT's stated mission is to promote and advance direct participation of economically active women in viable business, with the goal of improving social and economic status, by providing financial and non-financial services (Hospes et al. 2002: 39). As stated on their website, KWFT social mission is:

> KWFT endeavors to empower women since for a long time women have received limited services from the financial sector. Lack of hard collateral has been a great challenge to the women, hence KWFT encourages group leading, where women take up loans and co-guarantee each other, consequently giving the low-income earners equal chances of accessing credit which will help them to improve their economic status… The Institution provides products aimed at empowering women such as Water Solutions, where women can access loans to buy water tanks to store clean water for the family, Renewable Energy Solutions for cooking and lighting, Housing Loan designed to meet the low cost housing needs of low-income families, Education Loan to enable clients to pay school fees of their family members as well as Business and Agricultural loans to help them improve their economic status as well as curb rural urban migration.

As affirmed in their mission, the social goal is emphasized, in which empowering women is a must. This coincides with the objectives of NMI, in which the social return is more important than the financial return. Hence, first and foremost KWFT focus on empowering poor women in Kenya, and lifting them out of poverty in a financially sustainable way for the institution.

3.2.1 Organizational Structure

Kenya Women Microfinance Bank Limited (KWFT) took over the microfinance business from Kenya Women Holding in 2008, and began its operations in 2009, and has since become one of the most successful MFIs in the Kenya, with the largest network. In 2009, KWFT started the transformation towards a deposit-taking institution, and at this time it was the largest non-bank financial institution in Kenya, serving 250 000 women (FSD Kenya 2012: 10), which has increased to 757,823 in 2015, transforming from Kenya Women Finance Trust to Kenya Women Finance Trust Deposit Taking Microfinance (KWFT-DTM) offering deposit taking services. In 2014, Kenya Women Finance Trust Deposit Taking Microfinance changed its name to Kenya Women Microfinance Bank Limited (KWFT), and now the MFI offers fully-fledged banking services to low-income women.

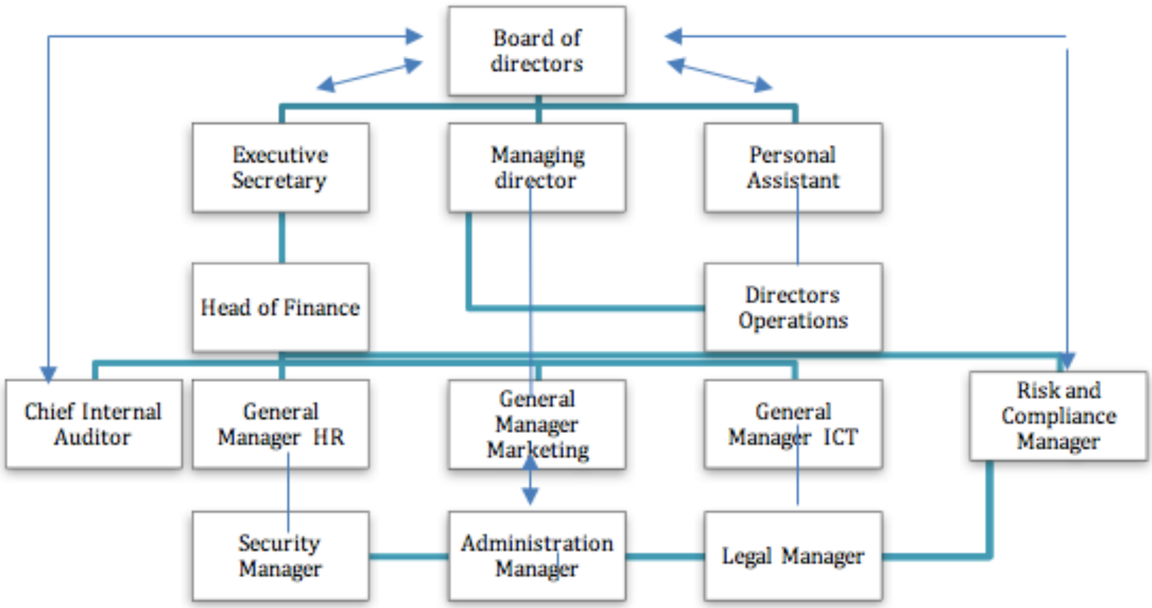
The first step in this transformation was decentralization, in which they decentralized into 210 offices throughout Kenya, which has further increased to 230 offices today (ibid). The organization was established in 1981, and experienced weak management and widespread insider lending among the Board of Directors in the early years. By the end of the 1980s most of the loans were non-performing, and new practices needed to be built (IFAD no date). In 1991, UNDP and the Ford foundation, who were the organizations original donors, stepped in to rehabilitate the KWFT, and due to their help the organization could resume business in 1992 expanding the provision of financial services (ibid).

After a transformation of the institution, and greater focus on staff training, the trust became the largest MFIs in Kenya. KWFT was running well, however the management knew this could not last indefinitely, as they were heavily dependent on grants from donors. Although KWFT had a sound growth and good loan recovery rate, they still posted annual losses, and was far apart from financial sustainability. If KWFT were going to remain in the business they needed drastic change, and in the early 2000s the organization started a transformation with the goal of ultimately becoming a full-fledged microfinance bank.

In 2006, with support from Financial Sector Deepening Kenya (FSD) – an independent trust seeking to change market systems to help the poor and boost financial inclusion in Kenya – KWFT contracted Genesis Analytics, a South African consultancy to enhance different transformation strategies, and completed a costly transformation into a commercial microfinance bank. As the Microfinance Act was established in 2008, an alternative strategy was presented to KWFT. This Act did not grant full benefits of transforming into a bank, however it provided KWFT a chance to mobilize deposits and grow (ibid). And in 2008 the organization decided to become a for-profit deposit-taking MFI. The focus initially was on capacity building, as KWFT assets were expected to increase rapidly, increasing institutional capacity was necessary. Consequently, they hired and trained staff, enhanced their technological advancement, hardware and software, as well as setting up new offices, reorganizing the entire organization. The organization hired approximately 800 new employees in two years, between 2008 and 2010, almost doubling their staff members (ibid).

The new management structure incorporated five new senior management staff working together with the CEO, increasing the total board to eleven members. Further the entire organization chart has expanded with the transformation including managers such as the risk and compliance manager and chief internal auditor.

Figure 3.2.1: KWFTs organization chart



Source: Kenya Women Finance Trust, Governance

3.2.2 Operations

In 2010, KWFT became a deposit-taking microfinance institution. The accounts vary from no minimum amount of input up to Ksh 5000 (NOK 419). The saving periods are flexible, and offer attractive rates of interest. Further, opening a savings account gives special consideration when one applies for a loan. KWFT offers savings accounts for children, students and adults, of both genders

Deposit and savings accounts

The KWFT savings account allows low-income individuals to grow their savings to attain financial goals. The savings accounts differ in minimum opening balance, with some not requiring any minimum opening balance. KWFT offer several different savings accounts with diverse requirements of withdrawals, statements and minimum opening balance. Some of the savings accounts require a minimum opening balance, and in turn the interest rates are more attractive. The withdrawal time also differs from a minimum of 7 days and up to quarterly withdrawals. KWFT have since before their transformation increased their product range, with several different savings accounts. By tailoring their savings accounts to their clients' needs there is less defaults, and more flexibility based on individual preferences. Before opening a savings account the clients is consulted by a branch officer in choosing an account perfect to their need focusing on opening balances, interest rates and amount of withdrawals per year. KWFT offer 8 different savings accounts as described in Table 3.2.2:

Table 3.2.2: Deposits and savings accounts

Account Name	Function	Minimum opening balance	Interest rates	Withdrawals
Tausi Junior Account	A savings account for parents to save for their children under the age of 18	low	high	free quarterly withdrawals
Tausi Teen Account	A savings account for teenagers to accumulate savings.	none	high	free quarterly withdrawals
Student Account	A savings account for students to build financial freedom and independence. Also gives access to services such as mentoring programs	none	high	free quarterly withdrawals
Inuka Transactional Accoung	This account enables clients to access their cash regularly.	none	medium	unlimited daily access.
Tegemeo Savings Account	This account is designed for individuals who want to increase their savings	none	high	free quarterly
Riziki Fixed Deposit Account	The Riziki fixed deposit account is suited for individuals who want a savings plan for a fixed duration.	minimum opening balance of Ksh 5000 (419 NOK)	high	Determined by the duration
Call Account	The Call account is ideal for shorter term deposits. It suits individuals, groups and companies with funds for short term investments or savings	low	low	withdrawals every 7 days

Tujiunge Chama Account	This savings plan is designed for groups of women of at least 3 members.	KsH 2000	Interest rates paid every 6 months, with optional 6,12,18 or 24-month investment schemes	withdrawals are decided by the group

Source: Source: Kenya Women Finance Trust, Products

Loans

Following the Grameen model, KWFT also uses group-lending programs for women in the lower socio-economic group of at least 3 members, providing microloans and financial services. It offers the following three types of business loans: Biashara loans, Mwangaza loans and Mwamba loans:

Biashara loans are set up to support women with small and medium scaled businesses, which can for instance vary from selling second hand clothes at a local market with a permit, to owning a small shop selling groceries, clothing or other articles, with affordable financial services. These loans aim to create jobs, and provide women with the opportunity to further grow already established businesses. They have flexible security requirements, loan amounts, repayment time and monthly meetings. It also offers low monthly savings, low processing fee as well as they offer business skill training and leadership training to their customers. This type of business loan requires group membership, and they must be in an already established business (KWFT 2016b).

Mwangaza loans are given to medium and big sized businesses owned by women, offering affordable financial services with flexible security requirements and loan amounts, access to business skill training, and fast processing of loans. This type of loans also requires group membership, however in smaller groups than with Biashara loans.

Both the Biashara, and the Mwangaza loans are under 150 000 Ksh, (12,234 NOK), with a loan term ranging between 6 and 60 months, designed for small and medium scaled businesses. As the loans exceed this amount the client will receive a Mwamba loan.

Mwamba loans are given to individual entrepreneurs with larger businesses, offering access to affordable financial services. This loan can be used to buy important assets for their businesses such as different technologies, offices and vehicles to mention some. The access to loans are individual, with flexible loan amounts and repayments, flexible security requirements as well as a quick loan processing. Clients within the Mwamba loans are required to have their own business, and need bank statement for the last six months as well as two guarantors (KWFT 2016b). KWFT also offers emergency loans, education loans, consumer loans, smart loans to improve their housing, clean and renewable energy loans, water, sanitation and hygiene loans, and finally the Kilimo Bora loans focusing on agriculture.

KWFT has also introduced mobile banking, which is a convenient way of doing banking without having to visit a branch office (KWFT 2016c). Through mobile banking clients can open an account, cash deposits, withdraw cash, transfer funds, use ATM services to mention a few. These services have made it easier for rural individuals to access financial services such as deposits and loans, as they can open accounts directly from their mobile device, in which mobile money can be used in all KWFT transactions.

3.2.3 Outreach accomplishments

KWFT targets low-income women entrepreneurs in Kenya, and defines low income as people who do not have access to credit by formal and commercial sources. The average income per client is estimated to be around Kshs 7,000 (NOK 578) per month by KWFT, which is just below the minimum wage in Kenya (Kshs 10,000: NOK 826) per month.

KWFT only lends to prospective clients that are already carrying out businesses, and not those intending to start a new business (Siringi 2011: 191). It does not target the poorest of the poor, and as the literature in the previous chapter states, microfinance may have better poverty alleviating results by targeting individuals closer to the poverty line.

A study conducted by Siringi (2011) found that KWFT has a good reputation among low-income women who find KWFT a reliable and quick source of financial credit and non-financial trainings and services.

KWFT has by the Kenyan media been praised for having a well-developed banking system, but also for deepening financial inclusion among genders and ages who have traditionally been secluded from the financial system (See Omondi 2015 for further details). Innovations such as mobile banking have widened their outreach, addressing insufficient infrastructure for physical access, now promoting financial literacy in a country that has low access to financial services (ibid).

How we made it in Africa, a business-focused Kenyan newspaper, conducted an interview with Jennifer Riria, who served as the previous CEO of KWFT and current CEO of the parent company, Kenya Women Holdings (KWH).[3] She argued that the initial goal of KWFT was to empower women by financing their businesses to boost financial independence and contribute to family wealth. She further added they have now accomplished this, by giving women financial services makes people nationwide understand that women also have an economic force. In her mission to empower women she works to find further ways of empowering lower income women, by providing different programs, she stated:

> My next challenge is to unite women across the country to have one voice and embrace sisterhood. At KWH, we shall empower women not just financially but in other aspects of their lives such as education and human rights (Mulupi 2010).

As KWFT is growing financially, they have the opportunity to increase their services, in which Dr. Riria is focusing on providing mentoring programs for girls, scholarships and business development support to further empower women. She further argued that giving out loans may help women's financial situation, however, to fully take on the task of women empowerment much more services needs to be provided.

> We know that women need more than money hence our continued efforts to offer credit plus products. We do these by offering insurance products to cover medical services for our clientele and their families, providing water harvesting solutions and electricity loans to improve their lifestyles (Ibid).

3.2.4 Financial performance

KWFT was originally set up as a NGO in 1981, focusing on the financial needs of low-income women in Kenya. As they were a non-profit organization they had obstacles covering financial expenses (Mwea 2010: 7-8), and started seeking out donor funds both internally as well as externally to finance their operations, and expanding offices countrywide. The first offices were set up in Karantina and Kilifi with an overall membership of 100 in 1991. As the organization did not manage to overcome financial and perceptual obstacles they found themselves in an organizational standstill, and realized the need of organizational change. The donations and subsidizations the organization received was insufficient for the organization to grow substantially to reach their goal. In the beginning of the 2000s the

[3] Which KWFT is a subsidiary of since 2008.

organization started a transitional period towards commercialization, and switched from being a non-profit organization towards for-profit, and after the reenactment of the Microfinance Act by the Central Bank of Kenya (CBK) in 2008 they started a transformation to become a deposit taking institution, which they achieved in 2010, now being a microfinance bank offering both financial loans, non-financial services and savings.

Table 3.2.4: KWFT Audited financial report, 2015

KWFT growth	2011	2013	2014	2015
Total income	4,132,248	5,814,029	6,432,516	7,386,576
Total profits	302,469	395,473	465,811	395,144
Customer base	565,049	525,930	627,910	757,823

Source: KWFT Audited financial report, 2015; MIXmarket reports

Based on the audited financial report from KWFT in 2015, the bank has increased its total income from KShs 4,132,248 in 2011 to KShs 7,386,576 in 2015. Their profits did however decrease from 2014 to 2015 from KShs 465,811 after taxes, to KShs 395,144 after taxes. The organization has had substantial growth in the past years, increasing their customer base from 565,049 members in December 2011 to 757,823 in December 2015. Though their profits decreased somewhat between 2014 and 2015, their total assets have grown substantially between the years, presenting that the financial performance of KWFT has seen a steady growth since 2010. In sum, the growth of the organization connects with their decision to commercialize and focus further on profits and financial sustainability, and as they started relying of foreign investors and microfinance investment funds (MFIF) they have seen a large growth in total equity, assets and profits.

3.3 The Nordic Microfinance Initiative

The Nordic Microfinance Initiative (NMI) was established in 2008 and is a public/private partnership investing in MFIs in developing countries. Their mission is to gather private and public investors to unite capital in an effort to give poor individuals in developing countries access to financial services (NMI 2017). NMI offer different instruments depending on which growth phase the MFI is in. They offer funding through debt, sub-debt and equity. NMI offer *debt* to MFIs when the target is to finance the growth of the institutions loan portfolio. The debt is usually given in the local currency, minimizing risk for both parts, is tailored to the

MFIs needs. NMI also offer *sub-debt* to MFIs, which is a debt-product with attributes linked to equity. Finally, they offer *equity,* which serves as a long-term instrument. They only offer this to MFIs who have proven growth track records within both social development and sustainable financial development. Through equity NMI ensure the continued growth of the institution. Equity is rarely invested in new MFIs as the new institutions may face losses in the early years of their development (Ledgerwood 2013: 109).

NMI invests in KWFT through equity, as the institution is already strong and has documented results in sustainable financial and social development. This type of investments has clear advantages over other instruments as it may create appropriate incentives for managers, and may mitigate the problem of market distortion (ibid). However, investing in microfinance, investors do not expect to break even for several years, making these types of investments long-term partnerships. Since the beginning of the 2000s, there has been an increasingly ethical consideration in the financial market, in which the philosophy has been following what is labelled social responsible investments (SRI). This phenomenon involves investors making sure their investments fulfil their environmental and social criteria, while also sustaining financial goals (Sjöström 2004). The socially conscious multinational banks of today are also concerned with the "double bottom line" (Hermes and Lesink 2007), which is achieved when the investments are fulfilling a greater social goal by financing and supporting MFIs, while also reaching a financial surplus. In this way investors can combine a financial return and a positive social impact by investing in MFIs (Tulchin 2002).

According to Dieckmann (2007), microfinance stands as the most successful investment among all SRIs in attracting investors due to the double bottom line. Therefor it is attractive for both private investors and government agencies, as serving the double bottom line benefit both parts financially. NMI is a new public-private initiative serving the double bottom line, by investing in poverty eradication projects, while also receiving a profit. This provides sustainable development projects, with greater control and accountability. As Kenyan development aid is decreasing, new innovative initiatives are required in decreasing poverty and creating employment. With a poverty rate of 47 percent there is a growing need of financial services. Microfinance funding is also shifting from the non-profit sector to the for-profit, and regulations such as the Microfinance Act of 2008 makes the commercial investments less prone to risk. NMI invest in KWFT to decrease poverty, empower women and create employment while still receiving financial returns, and ensuring their investments going to MFIs with strong regulations, transparent operations and good government, and are among the majority of investment funds following the same model.

Chapter 4
Analysis

The qualitative approach, with the use of in-depth interviews, offer deep insight into the phenomenon studied, and in this case a greater understanding of how there is more nuance than can be measured simply with numbers of success, repayment rates, and new customers, as depicted in KWFT's financial reports. Although KWFT has had an increase in all of these factors, the impact on livelihood is not necessarily described by that growth. For instance, many women in the village of Naivasha joined KWFT because other women were members, and they did not have any other microfinance options in the area. When asked why they chose KWFT in particular, most women answered it was because KWFT is their only choice, as there are low requirements and it is easy to get a loan. Furthermore, many of the same women only took on new loans because they needed the new loans to pay back their old loans, which is why one major critique of microfinance is that it can become a 'debt trap'. If I were to take a quantitative approach to this study, the growth in customer base and repayment rates may have been misleading. By studying this case qualitatively, I had the opportunity to interact with the clients in-depth, gaining a much greater and nuanced understanding of the environment than if I were to study the same phenomenon quantitatively.

4.1 Economic growth and poverty in Kenya

Kenya is one of the fastest growing economies in Sub-Saharan Africa, rated number 14 in the whole of Africa (IMF 2010). However, despite the increasing growth there is still huge inequalities and high levels of poverty in Kenya, particularly in rural areas. The biggest poverty decline has been evident in urban areas, and the country still faces the challenge of reaching the poorest rural citizens. Suri et al. (2008) find that the majority of poor Kenyans live in rural areas, and access to these groups are limited. Phyllis Kariuki, the financial inclusion manager of CARE Kenya, confirmed the findings of Suri et al. (2008), arguing that the "government doesn't have the capacity to reach out to the poorest of the poor," and hence there is a great demand for various NGOs and institutions to reach the poorest segments of Kenyan society including the poor, rural women, who have previously been financially excluded.

There has recently been a shift in donor funding from non-profit to for-profit organizations (Kenya FSD 2012: 1). International organizations such as the United Nations, World Bank, and USAID are cutting development funding to Kenya. One aid official stated that "less development money is now going into Africa, as the organizations and donor governments aren't seeing the short term results they want to see." One UN officer explained further challenges:

> Kenya has been declared as a middle-income country, or lower middle income country. So the funds that has been channeled for the major development agencies have gone down and are getting smaller and smaller. That has increased major challenges. A lot of these agencies are therefore now trying to presume a more philanthropic platform, where private investors are playing a greater role. Meaning the more we work on a project the more engage with private sector.

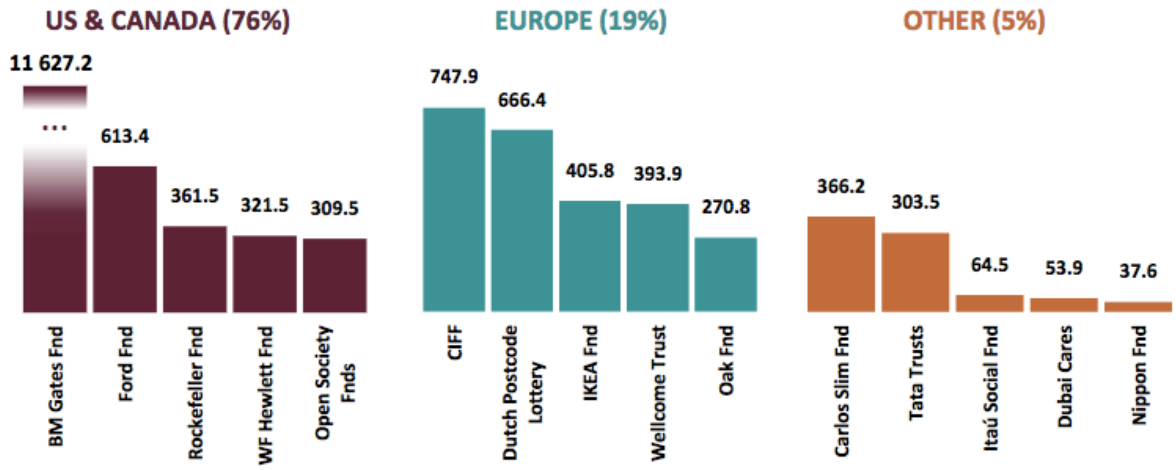
Figure 4.1: Net official development assistance and official aid received, 2013 (current USD)

Source: The World Bank database

As presented in Figure 4.1, net official development assistance has decreased since 2013, when it was 3.312 billion USD. In 2014, it decreased to 2.665 billion USD, and then to 2.474 billion USD in 2015 (OECD 2017). The trend since 2012 has therefor been a decrease in development assistance, increasing the need of alternative funding. This has opened Kenyan development up to more private investments and projects, such as public-private initiatives like NMI. And with public/private partnerships there is a new way of tackling Kenya's development challenges, as one aid official added:

> I think this change is good. Because in this country there is no sustainability in the aid organizations programs at all. We come in for two or three years in a project, let's say women's empowerment, and then there is nothing happening, and before we manage to see any progress we switch our programs to other themes, say sustainable environment. The transaction costs are therefore very high, meaning that there is minimum impact on the ground.

Figure 4.2: Largest foundations working for development per region, USD in millions, 2013-2015



Source: OECD Data survey

As presented in Figure 4.2, the OECD carried out a large-scale data survey on private philanthropic development investments in 2016. The total (US & Canada, Europe and other) philanthropic investments for development amounted to 19.5 billion USD in 2013-2015, drawn from more than 70 private philanthropic foundations. Most of these foundations are giving donations, and do not expect a financial return such as NMI – while others do. In Kenya, philanthropic investments amounted to 367.3 million USD (Sangaré and Hos 2016). Introducing long-term projects supported by international donors and governments such as NMI may solve the challenges that come with decreased development aid from governments and major development organizations. The organizations work does not have to rely on external funding, and can seek a long-term investment, leading to lower transaction costs and higher impact.

Previous research has shown the advantages of savings, with standard theory suggesting that individual clients should be able to save their way out of credit constraints over time (Basu 1997; Bewley 1977). In Kenya, there is a demand for savings services rather than loan services for the poorest segment of the society. For MFIs to offer formal savings services they must become deposit-taking institutions, as in the case of KWFT. Dupas and Robinson (2012) in their study examining formal financial services and business growth in Kenya show there is a significant demand for formal savings in developing countries, and this demand exceeds the demand for credit access in the lower income group. This is consistent with several previous studies (Bauer, Chytilová and Morduch 2010; Johnston and Morduch, 2008; Ahraf Karlan and Yin 2006; Thaler and Benartzi 2004). During fieldwork, I found this consistent with my own findings, as the poorest women interviewed found the greatest challenge with saving, and did not benefit from loans to the same degree as the clients with higher incomes. Savings accounts have a significant impact on long-term asset growth, while credit and loans differ in impact results. However, the MFIs generate their income from loans and not savings, which one of the clients of KWFT emphasized in an interview:

> When you take a loan from Kenya Women, that's where they are taking revenues from. Because when you are paying the interest of that loan, that is where they generate a profit, not from the savings. The women in our group therefore can't be in a group for more than two or three months only saving. They are forced to take a loan.

From this one can see there needs to be an emphasis on savings for the poorest clients, as it is something both preferred and needed. The clients need to have solid ground to start taking loans, which many of the informants in this study did not. This was emphasized by CARE Kenya, arguing that they differed from traditional microfinance providers, as they did not require the poorest clients to take out loans. Instead they stressed the need for their clients to save to a point at which microfinancing can pick them up. A KWFT official added to this, arguing there is a lack of a savings culture in Kenya, saying most poor clients only wanted access to credit to spend without thinking long term, which eventually led to several challenges. It should therefore be the microfinance providers' responsibility in their training with clients to emphasize saving and careful planning of their finances.

4.2 Economic impact

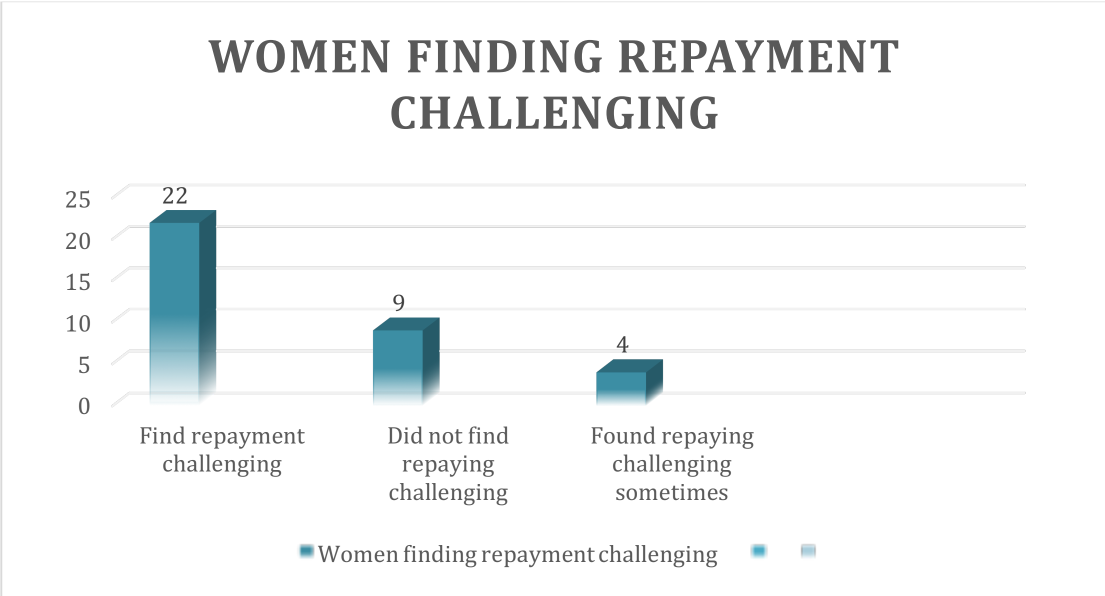
Today 75 percent of all adult Kenyans have access to finance, as opposed to 14 percent in 2006. In the past ten years, financial access has increased more than 50 percent. KWFT reach out to poor women in rural areas who have not had access previously, and are not able to get financial access through other channels. “The main impact is the one of funds. We give clients access to finance, in which they did not have previously. And just that is enormous. With these funds, they can turn their life around,” said one KWFT official. By offering several different loans and savings- accounts, KWFT are tailoring their services to their clients, which provides the clients with the best account for their needs.

In 2015, KWFT had over 750,000 customers, rural- and low income women who previously did not have financial access. KWFT, through their financial services, has taken part in closing the financial inclusion gap, and provided previously excluded individuals to finance in Kenya. One individual client emphasized the importance of financial access, arguing:

> The poor are in need of credit. It does not matter to them how they get it, and how much they have to pay back. When you need to send your kids to school or pay for someone on the death bed, it does not matter to you whether the interest rates are 10 percent or 30 percent

Opposing the view of this KWFT individual client, many women still found repaying the loans to be their biggest challenge. Out of a total of 35 women clients included in this study, 22 of them found repaying the loans challenging, and some stressed how this has posed major difficulties in their everyday lives. For example, according to one female borrower, “some women struggle so much repaying the loans, which they end up committing suicide. We have seen this happening here in Naivasha.” However, the women in the group-lending system stressed that despite the challenges, they benefited more than they were disadvantaged by the loans and their repayment rates, as the loans provided them with opportunities such as an education, household improvements, business improvement, and trainings. One of the clients stressed that the group overall benefitted from the loans, though there will always be extreme cases, and that the negatives are always emphasized higher than the success stories. Most of the women argued they would be worse off without taking loans. The nine informants who did not find repayment challenging were all individual clients of KWFT. Although the women in the group lending system claim there are more benefits than challenges, they still struggle from time to time with repaying their loans. Some of the women who said they find repayment most challenging argued that the loans became their main income, and they spent most of the loans on consumption, and hence became dependent on these loans.

Figure 4.2: Women finding repayment challenging



Source: Own compilation based on data

One of the aid officials within the UN stressed his concern with microfinance, saying he worried many of the loans do not go into innovation and investment, but are rather for general consumption: "One important thing to realize is that in rural areas they use this microcredit for consumption. So, it's funding consumption." And because of this there is no productive use of the money, and no growth. The women keep taking loans to pay back old loans and spend much of the loans on consumption. Increased follow-ups with clients by KWFT are therefore necessary to ensure that the money is not spent unproductively, as this harms both KWFT and the clients.

4.3 KWFT impact on human capital

Human capital refers to the sets of skills and knowledge an individual acquires that affect changes in action and economic growth (Coleman 1988). This can be achieved, for example, through skills gained with education, which will increase an individual's ability to do well in society (Dakhli and De Clercq 2004: 4). There are several aspects one can study within human capital theory, but this study emphasizes four in particular: education, health, skills, and empowerment. This theory is used to measure an increase or decrease in clients' livelihoods as a result of microfinance loans and services. An increase in human- and social capital, along with financial income will therefore equate an increase in livelihood.

4.3.1 Education

Increased education boosts human capital, and is related to lower mortality rates, better health, economic growth, and increased democracy. “Education is power. So, any education women go through they utilize that education to improve their lives,” argued a KWFT officer, emphasizing that education had the most significant impact on clients’ livelihoods after using services from KWFT. Furthermore, education may help tackling Kenya’s increasing population challenge: Lutz and Samir (2011) argue that higher female educational levels result in women having fewer children. In 2012, there was an 84 percent primary school enrollment rate in Kenya for women, which is a drastic increase from 75 percent in 2005, and 62 percent in 2002 (UNESCO institute for Statistics).

Table 4.3.1: Net primary and secondary school participation 2008- 2012*

Primary school participation, Net enrollment ratio (%) 2008-2012*, male	83.5
Primary school participation, Net enrollment ratio (%) 2008-2012*, female	84.5
Secondary school participation, Net enrollment ratio (%) 2008-2012*, male	51.6
Secondary school participation, Net enrollment ratio (%) 2008-2012*, female	48.4

- Data refer to the most recent year available during the period specified in the column heading

Source: UNICEF State of The World’s Children 2016 Country Statistical Information

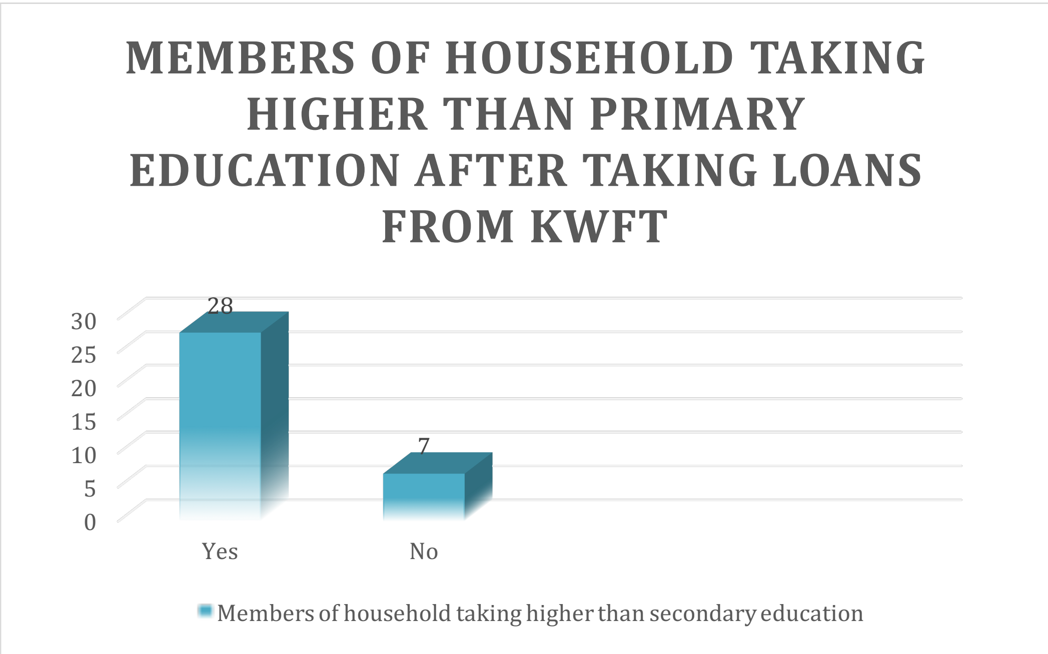
Suri et al. (2003) find that education in Kenya leads to individuals obtaining skills that lead to income generating work or self-employment (World Bank Group 2016: 35). KWFT offers an education loan, in which clients can take up a flexible loan to enroll in higher education. Most of the clients interviewed had taken such a loan or spent their income on higher education for their family, and saw this as one of the greatest benefits of being a KWFT client. One of the KWFT clients shared her experience, stating that:

> The education loan is what has brought us [the women’s group] all so far. I remember, I went to the university to admit my son, but they wanted 25 000 shillings in order to fix his admission. I therefore

> went to Kenya Women and filled a school fees loan, and wrote the name of the university, and they sent a check directly to the university. No one else could have given me that money. So if there is something that has helped the women, it's the education loan.

Many of the women interviewed, both within the group lending system as well as individual clients, shared similar stories. However, most of the women in the group lending system had directly taken an education loan to cover the educational expenses and fees for their kids enrolling in primary and secondary education, while the women within the individual lending system did not have the need for such a loan. Instead they funded their children's education through revenues derived from their growing businesses.

Figure 4.3.1: Women in households with at least one member taking higher than primary education after taking loans from KWFT



Source: Own compilation based on data

Out of all the clients interviewed, 28 of the women have family members taking higher than primary school education, with many enrolling their children in universities. This accounts for 80 percent of informants with household members actively taking a higher education and increasing their household human capital substantially, which may lead to increased income, job-opportunities, skills, and wealth accumulation. This findings, with 80 percent attending higher education is far higher than the national average, in which only 48.4 percent of women attend secondary or higher education, demonstrating positive impact of KWFT services.

4.3.2 Health

By investing in women's health, KWFT is investing in their human capital. "Say you are in medically good health. You are capable of running a business, and you are capable of doing your day-to-day activities" argued one of the KWFT officers, and a client emphasized the same point:

> I have received a water tank from Kenya Women, and amplifiers and electricity. In fact, electricity connections. Most of the homes taking loans from Kenya Women has this, making our everyday lives much healthier, warmer and safer, leaving time and energy to do other things.

A UN official stressed the challenges with clients spending their loans on consumption, and thereby not generating any income. Though KWFT offers loans directly for consumption, many of their poorest clients still use the business loans on consumption and non-business related activities. For instance, one KWFT client's mother was ill, and although she spent loans on her mom's health bill instead of on her business, as the loans were intended, this choice saved her mother's life:

> My mom recently got sick, so I took a loan from Kenya Women to pay her health bills, which helped her recover. If I wouldn't get this loan from Kenya Women, I wouldn't get it from anyone, and my mom wouldn't recover.

When clients are unable to repay their loans, KWFT loan officers will auction clients' possessions to repay the remaining loan, which was what happened to the informant above.
The client stressed however that this was much better than not admitting her mom to the hospital. This loan therefore was not spent on any productive measure, but it had a great impact on the client's quality of life. The loans taken by the client were spent on her business, and created a surplus for her, although the health bills posed a delay in this growth. Opposing the aid official's view, some of the loans are spent on non-productive measures, such as health, sanitation and household products, and consumption. Though these investments may not contribute to a financial return, they increase the client's livelihood, which leads to better health and conditions in which this individual and their family can thrive, whereas they previously had no source of income to improve their everyday lives. An individual with good health, a warm a safe house, and all their basic needs covered are in a much better position to thrive in their business. However, the poorest clients who spent their loans on consumption

were far worse off than the clients who did not spent loans on consumption. Hence, based on the findings, a continuous usage of loans for consumption may harm the economic and social growth of the client and decrease their livelihood.

4.3.3 Non-financial services

The non-financial services by KWFT have proven to be vital. This is one of the main differences between microcredit and microfinance, in which the latter provides additional services apart from access to credit. These services include financial management and asset training, leadership training, as well as teaching poor women how to read and write. The trainings provide the women with certain skills and knowledge on how to spend their loans and manage their incoming loan and business revenues.

Women in remote areas in Kenya have little formal education, and many are illiterate. When they start up small businesses they therefore have little or no knowledge about financial transactions or how to do business accounting. As Chandler and Hanks (1998) find, the skills gained from human capital investments can offset the lack of financial capital, and increasing skills may bring individuals into a modern economy. Furthermore, KWFT emphasizes the importance of basic skills such as reading, writing, and basic financial and managerial skills to succeed with a new business. One of the KWFT staff members said the main challenge they found with the clients in remote areas of Kenya was the issue of illiteracy, which still needs to be emphasized by the institution as the first step in their training.

Table 4.3.3: Literacy rate Kenya

ISO Code	Countries and areas	Reference year(s)	Total	Sex	
				Male	Female
KEN	**Kenya**	2007	72	78	67

Source: UNESCO Institute for Statistics

In Kenya, 67 percent of the female population and 78 percent of the male population is literate. There is therefore a 33 percent illiteracy rate among women in Kenya. They commonly live in remote areas, are generally the poorest population in society, and are also the target group for microfinance. The work of KWFT closes the illiteracy gap, and provides rural women with basic skills such as reading, transacting, and accounting. A KWFT officer stressed this point:

> The way it is in the rural areas now most people do not go to school. So, they don't know how to transact. Once you empower these [women] with skills they are able to manage their own finances well and prosper. The trainings are done in groups and done continuously. And the women feel very empowered. Particularly, many of them didn't have the chance of going to school, and now they have accounting skills. Honestly, that's incredible.

These trainings empower women to independently start their own businesses and allow them to grow. One of the main challenges the women found in this study was with managing their own money. Without any previous skills, it is easy to mismanage loans. One of the individual loan clients of KWFT brought up this point stating:

> So, you find you might be getting a lot of money, like getting a million, and you think that this one million is yours. You are not remembering that you have not paid the people who have supplied things to you … You will only realize when they knock at your door. You forget that you have a loan to pay.

Several of the KWFT clients stressed this point, that many clients saw the money as 'free money' in which they, due to lack of financial and managerial skills, did not know how to manage money, and easily spent it on consumption. A KWFT official argued that one of the main challenges with clients was their lack of skills and financial knowledge, which retards their growth, as the clients often mismanaged the loans they were given to increase and boost their business:

> You may find that someone has money, and the finances and they do not know how to go about what they want to do. Then I also find that generally in business and entrepreneurship you need some basic accounting or financial background and majority of the people don't like working with figures. Or keeping records. And that is necessary for each and every business. Which is why the trainings we offer are crucial.

This study undertook two focus group interviews with women participating in the group lending program with KWFT. The first focus group had 13 women, and the second had 14, all residents of Naivasha.

The two groups differed in that only the second focus group had received non-financial services in terms of trainings by KWFT. The first group had not undergone such training. Throughout the focus group interviews there were evident differences between the groups. The first group stressed that they had the ability and desire to work, but that there was no work for them, and they were seeking my assistance in finding a suitable market in which they can find employment. The first group experienced greater challenges than the following group. Many were too scared to invest their loans, did not have the knowledge, skills or experience of running a business, or had mismanaged their money. Some of the women in the first focus group interview stated that if I, as an outsider, could give them money, and find an office, as well as potential clients, they could go together and start a business in which they can weave or make small bags or other items, which they can further sell, hence relying on an external person for their well-being.

The second group discussed the very same idea as the first focus group, that of starting a weaving business. Five of the women started a weaving business together in which they pooled their resources and created handcrafted products, which they sold, not relying on external resources or assistance. The second group had in practice followed through with the same idea as the first focus group, but on their own initiative, without any outside assistance. Although many of the women had faced failing businesses, they restarted their business straight away, with new strategies or a new business. As the second group had gone through financial and managerial training, they were better opt in running a business, while the first focus without such training did not have the capacity or knowledge to run a business, resulting in their setback. The second focus group demonstrated much greater determination and ambition, as they had been trained and motivated to manage their business and use each other. The second focus group also stressed the importance of the trainings and services they had received, as it helped them understand how to start up a business and allocate their money. The trainings had prepared the women for an industry they knew little of previously. Several of the women emphasized the danger of mismanaging money coming from KWFT, and said that they know of many people who see this as "free money," leaving them in greater hardship then before taking loans. The women in the second focus group agreed that the received trainings were a major reason for their success. One client argued that "non-financial services and trainings are key. They teach you how to manage your assets, and this changes everything".

Non-financial services have also intensified innovative practice. Previously there have been problems in rural areas with clients who observe other locals starting businesses and succeeding. The clients then take up a loan and start the exact same type of business, expecting the same result. But as an increasing amount of people start the same business they face a declining market for their products or service, and do not grasp why they are not facing the same success as the primary entrepreneur faced. This was also brought up by one of the aid officials as a major issue in remote areas: "There is only so much need for a small business focusing on a niche product. And once the entire village is selling bananas, there will not be any prosperity. These people are failing to understand this concept." The non-financial trainings, as well as a group system, help the clients understand the importance of market diversity. They learn the basics of a market economy, such as rules of supply and demand, which the second focus group emphasized as having had a great impact on their business.

6.3.4 Women's empowerment

> The women are the bread basket. If you improve the woman's life, you improve the family. If you improve the family, you improve the community. If you improve the community, you improve the country. I guess thats how I would summarize the impact and importance on empowering the woman. – KWFT official

Onyma and Shem (2005: 207) illustrate three ways microfinance empowers women, as presented in the literature review. Primarily it must provide women with an income and reduce dependency on their husbands, hence increasing autonomy. One of the KWFT clients stressed this point, saying that simply having an independent income empowers women and improves their livelihoods:

> When you have money, you are independent. You can create your own livelihood and make your own, independent decisions, regardless of the man (…) the mentality of needing a man is phasing out in Kenya, and the role of the woman is increasing. So as soon as the woman has an income and her own job or business, the man will respect you, and therefore financial access lays as a key foundation of women empowerment.

Furthermore, Onyuma and Shem argue that income-generating activities will expose the women to new sets of ideas, networks and values that make women more assertive regarding their rights. The women benefit greatly by being together in a group of other women in which they can share ideas, discuss finance and business, and broaden their network. The study finds that KWFT female clients create a stronghold within the group where they support and help each other through hardships, which in itself is a great benefit. This was echoed by an official at KWFT:

> The women have their own way of improving themselves apart from finances. Remember, they meet and discuss other things apart from finances. Maybe how to raise their children, especially for girls in the slum area, so we see them improving in much more sectors than finances.

Another KWFT official emphasized the aspect of empowerment, in which the women receive an "avenue" where they can flourish. This increase the women's social capital, as their expanded social networks increase their likelihood of succeeding, both financially but also socially as they are further empowered:

> Basically, the financial aspect is quite important, because you find that women are poor in Kenya. And by specializing in Women you give women a place. It's like giving an avenue for women to express themselves, in which other organizations do not. They can therefore easily talk about their problems, work with other women, employ people and that gives empowerment. – KWFT official

Finally, Onyuma and Shem argue that by promoting women's autonomy regarding material resources, their prestige will increase in the eyes of their husbands, and promote inter-spouse consultation on household decisions. This study included interviewing women about their autonomy in their household. To supplement their views and opinions, I found it relevant to speak to a husband of a KWFT client. In the interview, he emphasized how women in Kenya are growing more and more autonomous. He added that:

> In Kenya women rely much on the men. But if she works she has a bigger role. It's still not 50/50, but somewhat more equal, in which because the woman has her own income and a stronger network, they take bigger part of decision making as well. And a lot of women don't marry anymore, but focus on their business, and they are still doing very well.

The client's husband also emphasized that women's marginalized role has not been due to lack of respect, but rather that the woman has traditionally taken a household role, and with the husband being the breadwinner, he naturally makes more of the financial decisions. However, with more women in charge of their own finances, this role is changing somewhat.

Several of the women clients of KWFT have their independent businesses in which they employ workers outside of their household. One of the individual loan clients had grown her business substantially since she started seven years ago with two workers. Now she has a large office in the Central Business District in Nairobi, and has more than ten workers. The client stated, "As a woman I am more independent than if I were to rely on someone else privately. I am able to stand on my own two feet. I actually even support men financially, as most of my workers are male." Her position has raised her autonomy not just within the home, but in relation to other men in her community.

4.3.5 Time saved from taking KWFT services

One point stressed by several of the KWFT official, aid officials, as well as clients was the aspect of time. A lot of the services provided by KWFT focus on minimizing time-consuming activities for their clients, such as spending hours finding water, going to the bank miles away, and installing electricity in clients' home to increase time for children to study in the evening. By saving these women that time, they can opt to do something more productive, and while this does not create financial surplus, it has great impacts on the livelihoods of the clients. Godfrey Kaindoh, the investment manager of NMI in Nairobi stressed this point as one of the most important results of KWFT, arguing that:

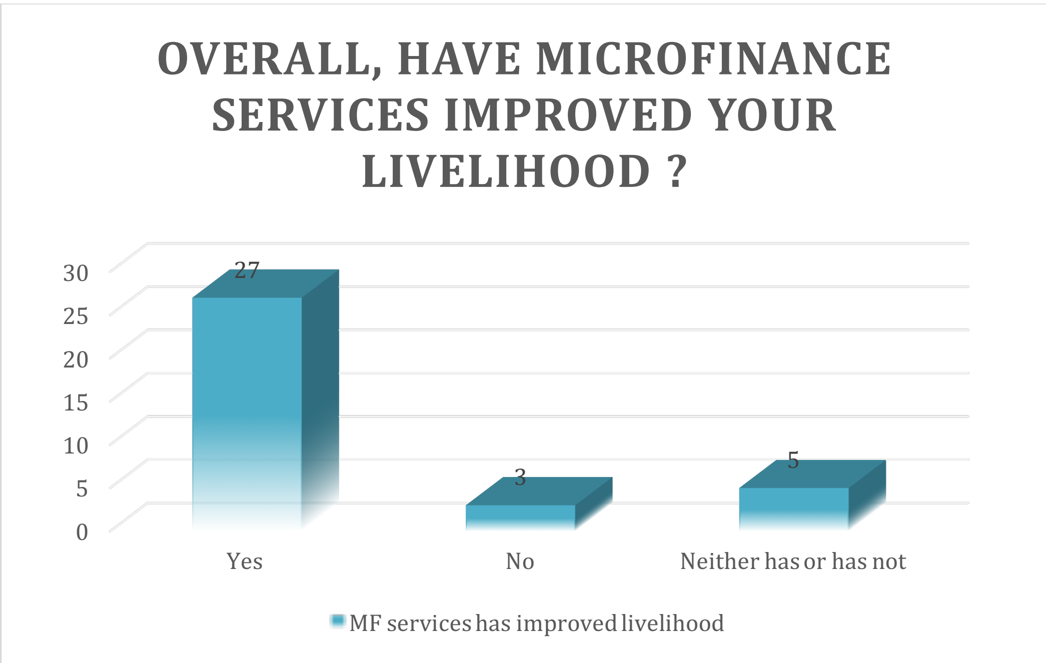
> If you lend a woman a ten-thousand-liter tank, that she pays back over the course of three years, there are a few things happening. Number one, when it rains it will accumulate water, in which will save the woman three or four hours a day of gathering water. These three or four hours can thereby be used for something more productive, and in that way, you have improved the quality of life for that one person. That's just one aspect. It's important to not just look at the income, but also at the quality of life for these women.

This point was further emphasized by a KWFT official who said, "If you don't spend so much time going to fetch for water, because you only have a small water tank in your house, you empower the women, as they can use that time on something else." The time saved with products provided by KWFT such as electricity and water tanks have a great impact on these clients' quality of life, and on their entire household.

4.4 KWFT impact on social capital

The impact of social capital was mostly evident within the group lending system. As mentioned in the theoretical section, the success of a women entrepreneur may rely on her social network and mobility. Social capital in this study is derived from the women's social network, which is provided through the group lending system. By pooling together their resources, knowledge, and abilities, the women in the group lending system were able to start businesses despite little assets owned. The second focus group demonstrated this with five of the informants having gone together and started a weaving business. Several of the members had wanted to start such a business previously, but did not have the resources to do so. With the support and desire of the group as a whole, however, they managed to start the business together, and with the help of financial and managerial trainings they set up quickly. It has been running for several years. Their social capital has therefore assisted the women in increasing their financial income, as well as their human- and social capital. This study finds that the human- and social capital effects impact each other, as the trainings have been done in groups, and their effect may be somewhat overlapping. For instance, the financial trainings not only increase the client's human capital in terms of skill, but also facilitate an interaction between the women in the group, meaning they can further learn and use each other's networks and knowledge. In addition to trainings, the groups are also used by the women to solve everyday issues, such as problems the women may face with for instance their husbands and children. Furthermore, the women are empowered through increased skills and education, which also improves both their human and social capital as they expand their social network and mobility. Despite certain challenges in repaying loans, or hardships faced with clients' businesses, most the informants found the microfinance services provided by KWFT having a positive impact on their livelihood.

Figure 4.4: "Overall, have microfinance services improved your livelihood?"



Source: Own compilation based on data

Out of all 35 clients interviewed, 27 clients believed their livelihood had improved after taking loans from KWFT, while 5 neither believed it did or did not. Only 3 informants did not see an increase in livelihood after taking services from KWFT. With a 77 percent positive experience I find the overall experience with KWFT successful, in improving poor women's' livelihood in Kenya.

4.5 Depth and breadth within commercial and non-commercial MFIs

In 2009, KWFT started a transformation towards a deposit-taking institution, and began their practice as a for-profit, deposit-taking microfinance bank in 2010. Some major changes happened, in which they increased staff, offices, and branches. The institution grew from 80 offices in 2006 to 219 in 2015, and from 359 personnel in 2006, to 2,802 in 2015, all of which demonstrate growth in breadth of outreach. One of the main concerns from the welfarist perspective is that with a strong focus on profits and commercialization, the social mission of the organization will drift away. Applying this theory to the case of KWFT after their transformation in 2010 demonstrates the opposite, in which the commercialization of the company increased outreach both by breadth and depth, by setting up more branches and increasing staff to reach more clients in need of financial services, as one KWFT official emphasized:

> I can say it has really transformed, because previously with the issue of depositing money, you have to physically go to the branch, but with it becoming a deposit taking, they rolled out agents on the ground. The agents out in the village gets a machine, and they gave out ATM cards to their clients, so once you wanted to deposit money you don't have to come all the way to the branch, because at times the client has to travel 100, 200 kilometers. They also expanded to deposit taking units, so they reached many more clients.

Previously, distance was a major challenge for KWFT and their clients. According to the World Bank Group (2016: 35) the poorest 40 percent of the population lives in rural areas, hence there needs to be greater poverty alleviation work in these areas. Although there are many innovative technological services in development in Kenya, these organizations are mainly operating in urban areas such as Nairobi or Mombasa, and have yet to reach the remote areas of Kenya. MFIs therefore need to increase their services to the remote clients, who are left without any financial access. By transforming to a commercial institution, KWFT managed to reach out to previously left out individuals. The institutionalist approach argues that commercialization is therefore needed to increase breadth of outreach and assist more people, counter-arguing the welfarist tradition in the case of KWFT. Another KWFT official commented on the transformation:

> It was all for the better. We have more capacity to get out and our market needed the growth over the years. And if you look at the statements, and the amount of offices that have opened up in the last two or three years. It's incredible.

Comparing KWFT before and after their transformation in 2010, we see the general critique on welfarism from the institutional approach. KWFT was running on subsidies from IFA, the Ford foundation, the government of Kenya, and UNDP, but it was not sufficient to reach their market and offer the services they wished to offer. As analyzed previously, non-financial services such as financial trainings have been vital for the success of the clients of KWFT. Before the transformation, the institution could not afford offering these types of trainings, as there were not enough financial resources to offer any non-financial services. Furthermore, their main work centered Nairobi and other large cities, and the organization did not have enough resources to open branches in remote areas. This has been done in the past years, and they now have branches in 45 of the total 47 counties in Kenya. One of the informants interviewed has worked in KWFT since its start-up years, and emphasized how the institution was struggling to keep their finances in check, meaning they did not have to ability to offer any additional services:

> In 2003 KWFT was relatively new. We had actually just broken even. So, we found that we were still struggling financially to start other services on the side, beside financial. But now that we have expanded, we can. Previously, there was not so much funding coming in, and the interest and fees were not enough to cut the expenses. We got funding from IFA, Ford foundation, the government of Kenya, and UNDP. However, sometimes the money... it was just not enough. So, we were struggling because we were not making profits, and had to rely on external funding. When I started, we had a Nairobi branch office, which was targeting the Nairobi people, and we had not gone deep into the villages. Well that's why women are not empowered, that's where the money was not reaching, where there is no banking facility, where even telephone networks are not available. Lucky enough, now there is a lot of growth and with the help of MPESA, other technological innovations, and the transformation of the organization, we can finally reach the deep and remote parts of Kenya.

The KWFT official, who had worked in the institution since the early 1990s and experienced the institution before and after the transformation, argued that a change was necessary.

Previously the organization was struggling to be financially self-sufficient. The welfarist approach argues that MFIs can reach sustainability without achieving financial self-sufficiency, because each donor is viewed as equity. The investors donating to the MFI (in this case the investors mentioned above) as social investors, and don't expect a financial return. This may be the case for KWFT, but with the inadequate funds they received they could not expand and reach out to the remote parts of Kenya most in need of financial access, and they could not offer any non-financial services for investing in their clients' human capital. Figure 4.5 depicts the transformation in interest rates, offices and staff members from 2008 to 2017, demonstrating a great increase in both offices and staff from 2008 to 2017, due to increasing revenues. The interest rates have also gone down since 2008, proving the mission drift theory wrong.

Table 4.5: Interest rates, number of offices and staff: 2008 and 2017

Year	**2008**	**2017**
Interest rates	31	22
Offices	115	230
Staff	1294	>2500

Source: Microrate report 2009, KWFT webpage and collected data

As the organization grew they were still short of staff and branches. For instance, in 2008 there were 238 borrowers per staff member, which decreased to 80 in 2015. This allows each staff member, often loan officers, to focus in-depth on their clients and follow up on their growth and challenges. One of the individual clients stressed this, stating:

> Before when I was getting started I didn't know who to talk to, and who was going to handle me right as a client. The beginnings weren't so smooth. The only thing that made me hold on was the fact that they were available for me and wanted to help me. But I think then the staff was a bit too few, so sometimes the person you were talking to were too busy to help you.
>
> But currently I just lift my phone up and they are always responding immediately. There are no delays and they are very swift. Before we used to que quite a lot, and wait for so long. Now you walk in and walk out, as the service is faster, the facilities are getting better, which makes the process much easier for me as a client.

Increasing profits allows KWFT to expand their business in terms of offices, branches and staff members. This allows each staff member to give faster and better service, which would not be possible under the old system of KWFT before the transformation. In terms of expanding, KWFT has increased breadth of outreach by reaching the remote areas and more clients who previously have not had access to finance, serving far more clients than before they commercialized. Furthermore, the institution has increased their depth of outreach by focusing on improving services to their clients, and doing better follow-up and guidance for each client. Table 4.6 presents the annual productivity in KWFT, underlining the change from 2006 to 2015, in which we see there are fewer clients and loans per staff member, allowing them to give better and more thorough services to each.

Table 4.6: Annual productivity in KWFT

Fiscal year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Borrowers per staff member	238	308	271	254	243	140	113	107	90	80
Loans per staff member	238	308	271	265	256	163	143	131	122	98
Borrowers per loan officer	349	518	256	442	447	210	227	199	176	156
Loans per loan officer	349	518	256	461	470	244	287	245	238	193
Depositors per staff member	284	308	228	254	243	283	274	218	242	270
Deposit accounts per staff member	284	308	228	254	341	465	470	433	455	368
Personnel allocation ratio	68.25 %	59.44 %	105.80 %	57.40 %	54.45 %	66.50 %	49.82 %	53.61 %	51.39 %	50.93 %

Source: MIX Market FSP Analysis

Between 2006 and 2015 there has been an increase in staff members and loan officers per loans, deposit accounts, and clients. This allowed the organization to give each client increased focus and service, as underlined by the individual client's statement above. Staff growth has therefore increased the depth of outreach by increasing productivity within the institution.

One observation during the fieldwork period in Kenya was made while traveling through remote areas in Kenya by car, in which there were only a handful of MFIs present; KWFT, Faulu, Cooperative Bank, and Equity. These are all commercial full-fledged microfinance banks, and are among the top MFIs in the country. As there are many new microfinance initiatives in Nairobi focusing on technological innovations, lower interest rates, and other attractive attributes, the rural areas only have the choice between the commercial large-scale MFIs. In interviews with an USAID official, concern about bad governance and practice by the large microfinance banks was raised. There are some good microfinance initiatives with lower interest rates and innovative practices, but these were nowhere to be found outside the main cities. The welfarist approach argues that the commercial MFIs will focus to a greater extent on their profit margins, and not on the social goal. The critique from the institutional approach argues that these are also the only ones who can reach those who need the loan the most, in the remote, rural areas. This was the case in Kenya. By following an institutional approach, the main MFIs managed to set up offices in remote areas, in which no other organizations were present, serving the clients who are in most need of finance. As emphasized by several KWFT officials, the not-for-profit microfinance organizations may find it challenging to reach remote areas, as the transaction costs are too high. This was the challenge KWFT faced before transformation.

4.6 Who benefits from MFI loans?

Only women with an established business are eligible for a KWFT loan. They have to be able to demonstrate a business plan and verify they have already started a business. One of the main critiques of commercial microfinance is that it does not fund the poorest of the poor. This does not mean that the poorest cannot get loans, only that they need to start a business prior to getting that loan. This business does not have to be a large-scale business, but rather could, for instance, be selling fruits and vegetables at a stand or going from door-to-door selling various objects. The reason for this is to demonstrate that one will use the loan in a productive way that will give each client a revenue, with which they can repay the loan and acquire personal and economic growth. With many of the poorest, they are in need of basic things, such as food, clothing, shelter, and health services. The microfinance groups generally wish to avoid lending to the extremely poor, as they will not be able to pay back the loans, and their life situation may decrease once they are caught in a cycle of debt. These individuals should therefore be served by other charitable and non-profit organizations, such as CARE International, who seek to lift the poorest of the poor out of major poverty, and secure shelter, health, education, and food for them. The financial inclusion manager at CARE emphasized this point, stating that, “We lift them [the extremely poor] to a point where microfinance can pick them up.” CARE and other MFIs have different target clients. CARE seeks to help the poorest part of the population with their basic needs and to boost savings. This is the target group KWFT does not wish to fund, as the clients are not engaging in any income-generating activity, and will therefore have a hard time repaying a potential loan. Mrs. Kariuki further emphasized that this is a good way of organizing it, as the poorest of the poor cannot fit in the microfinance scheme. Instead the two institutions supplement each other; CARE helps the poorest of the poor reach a level at which they can generate an income and a business, where the microfinances pick them up and help them grow. This is one of the major critiques from the welfarist approach, that microfinance does not target the poorest, and rather increasingly targets the less poor. Based on the findings during the fieldwork, this was accurate, with many of the microfinance providers now focusing greater on the less-poor, although individual clients are still below the poverty limit. The fieldwork observations and interviews however contradict the welfarist critique, as the few extreme poor clients I interacted with were not benefitting from the loans, but rather were in high debt. Because these individuals used the loans for consumption instead of productive measures, they did not benefit from loans, and microfinance instead worsened their previous situation. One of the individual loan clients highlighted this point:

> You cannot start a business based of microfinance loans. Because you will not be able to pay back the interest rates, based on your generated income from the startup. Kenya Women already knows this, and as they have a lot of experience in the field, they know to give women who have already established businesses, so they can grow from there. Unless you have a steady business, the microfinance business-loans won't lead to any good.

This study's findings indicate that microfinance providers should seek to fund the individuals who are able to grow from the loans, and can demonstrate that they have an income-generating business they can profit from. Other institutions should seek to assist the extreme poor in covering their basic needs. One of the KWFT officials illustrated this stating "we cannot help eradicate poverty in its fullest, but focus on some areas in which we can improve, while other organizations focus on other areas." To this another KWFT official added:

> I still think we can't ignore the poor people. Because if the banks don't fund the poor, as they need collateral and a lot of information. If we ignore the poor people it means we are ignoring the economic development in a particular country. It's always important to push the poor people up, regardless of the circumstances. And emergency goes together with development. You can't develop if you're not heard. Always help the poor, and get them involved somehow.

The official emphasized the importance of reaching out to the poorest in rural areas, where there are no other actors. They provide loans such as the education loan or medical loans, though the poorest clients will always find repaying a challenge. And where there is no other option, KWFT will provide the poorest with loans. The findings of this study do, however suggest that other institutions, such as CARE International and other relief programs, should reach out to these people to optimize their possibility of growth. There are great prospects for cooperation between the private institutions in the field, such as with CARE International.

4.7 Impact on MFIs from foreign investments

The first section of the analysis has examined the impact of KWFT services on clients' livelihoods, measured by human- and social capital theory. The second part of the analysis has analyzed depth and breadth of outreach within KWFT, and what socioeconomic group benefit greater from microfinance. This section will assess the impact generated from foreign investors, studying the role and impact of NMI on KWFT client outreach in light of the welfarist and institutional theory on microfinance. The welfarist approach is concerned with commercializing microfinance, and argues this often leads to a mission drift, in which financial profits are prioritized over the social mission of poverty alleviation. KWFT started as a non-profit organization, and has since commercialized and become a full-fledged microfinance bank, offering several types of financial and non-financial services to their clients, ranging from the extreme- to the less-poor women of Kenya. The institutionalist approach argues that commercialization is necessary to reach the poverty alleviation goal, otherwise the institutions will not be financially sufficient to reach the remote individuals who are most in need of these services. The increased profits may also promote the MFIs in providing trainings for their clients in order for them to increase their financial and business skills and succeed economically.

The previous section established that the increased skills, empowerment and social networks and mobility are crucial for the success of the clients' business growth, which has been realized due to the commercial transformation of KWFT. However, with an increased focus on profits, and several commercial entities investing in KWFT, the welfarist concern is whether they take an active role in supervising and controlling, or whether they emphasize the profits rather than social mission. As one KWFT official stated, "I think they [NMI] are more silent, and maybe sit back and wait for their check." NMI is a public-private initiative, which makes the case interesting as more developing funds will go towards these types of initiatives. An assessment is therefore necessary in order to examine the outcome and effect of the investment, and whether NMI is using the role of shareholder to the full extent. Finally, the last part will discuss whether KWFT has increased their breadth and depth of outreach, and who benefits most from the microfinance loans provided by KWFT. According to the welfarist critique, by commercializing KWFT will increase their profits on behalf of the social goal, hence decreasing outreach. The following section will assess whether commercialization has decreased outreach, leaving KWFT in a mission drift.

4.8 Shareholder role and impact

NMI provide among several services, technical assistance (TA) to KWFT. This is used to improve staff, leadership, strategy and growth. And according to Knut Frigaard, the investment director, emphasized during the interview that it is crucial that the microfinance institutions invested in have a clear social goal, and that they have to fulfill certain requirements on how they work with their clients:

> To secure that social and financial goals are reached, NMI require measurement and reports. This makes it possible for us to give a comprehensive assessment of the institution. Measuring and reporting of the social development entails that we can document what effect microfinance has on the life of the poor, and show that microfinance can be an effective tool to reduce poverty and create employment. In the microfinance business there is an agreement on a set of standards for good customer service, called Client Protection Principles (CPP). All microfinance institutions NMI invest in follow these principles, and we regularly monitor that they follow them.

Previously all the monitoring of KWFT has been done from NMI's offices in Oslo, with the exception of a few visits to oversee their projects. To work with and follow up KWFT closer, NMI introduced their Nairobi office in July 2016, who oversees all the investments in Sub-Saharan Africa. They carry three main roles, according to Godfrey Kaindoh, NMI's first employee in Nairobi explaining his roles within the company:

> Basically, I have three roles.
> 1. Sorting the deals.
> 2. Going through it, and making sure this thing goes through the procedure, and follow the criteria for NMI. And therefore, we accept or reject to close the deal.
> 3. The current investment, where we have already put money. Something called portfolio management. So, there is a lot of discussion because everyone will be sent a report. And therefore, usually we have a template, and see what's the performance. Are we dragging behind? From the annual budget? Or from the initial strategy plan? Because when they are pitching for the funds they present a business plan. So, where are we? We have a lot of discussion with the senior

> management. And one of my collages who are sitting in the board. So, we walk very hand in hand. He is a representation of the board. And basically, on the ground to see what is happening and ensure that whatever is meant to achieved is achieved.

As Kaindoh explained, his role overseeing the Sub-Saharan African investments mainly focus on the financial and legal aspects, and entails less groundwork. The company contribute with trainings and resources to KWFT if wanted, and make sure each procedure, such as checking performance and budgets are in place. This role does, however, focus on the business and economic related aspects of the company, and to a lesser extent execute impact assessments on the ground. As Frigaard mentioned, each institution invested in however, has to follow a set of standard and procedures such as following the CCP, as well as reports and measurements are required. All the KWFT officers interviewed found NMI's role crucial to KWFT's work and outreach, and argued that without the international investment, the company would not perform as they do today. "NMI is a strong shareholder, and with all the resources they injected into KW microfinance bank, we definitely could not do without them", argued one KWFT officer, further emphasizing the importance of external funds and investments, not just for increased finances, but international investors increasing the company's accountability and professionalism, arguing:

> Also, the investors help keeping the business in check. Because with the investors you don't want to mess up, because then they may walk away … They help keeping check in terms of accountability and the investors will push you, because they expect results. So, you really have to work, to reach the demands.

By investing in a commercial MFI, NMI contributes to poverty reduction, while receiving financial returns from their projects. However, they emphasize that their main mission is not the profits, instead the social mission of financial inclusion, job creation and poverty reduction. NMI's official mission statement emphasizes this:

> The mission of NMI is to contribute to the empowerment of poor people and to the creation of jobs, wealth and economic and social sustainability in developing countries. We accomplish this by investing in and building up microfinance institutions, which especially target poor women in developing countries. NMI combines existing experience in the field of microfinance and international development cooperation, with the capital strength and financial experience of institutional investors.

The office in Nairobi work as Kaindoh mentioned “hand-in-hand” with KWFT and NMI does not expect much apart from financial profits in return. Though NMI state the main mission is the social aspect of poverty reduction, empowerment and job creation, they still take a somewhat passive role in holding KWFT accountable for any mission drift, or bad practice. One KWFT official emphasized this point arguing that though KWFT have grown to become increasingly professionalized and transparent, there is still more to be done. Both the KWFT official and the World Bank official both argued in their interviews that the international investors have a positive impact on MFIs as by investing in the companies, they are held responsible and accountable for any bad practice done. However, as the KWFT official stated, NMI could be more visible, and demand more from the institution to increase their practices:

> In terms of accountability NMI can do more. You know even sending someone like you to Nairobi, to inspect the procedures and the impact on the ground. Even if you won’t be looking at it, but once they know you are there, they seem to minimize their own frauds. But on the positive side in case of funding, it seems to really help, especially the non-financial impact. It really helps us. Because if you leave it to the institution, if you tell them to remove a certain amount of profits, there’s only much you can do, which was the situation we were in a few years ago. But with the help of investors, you will see that we can stretch our services, other than just giving money we can actually impact livelihoods and improve societies. Although, I think NMI should take a greater role, and inspect what is actually happening in the field.

All the KWFT officials interviewed emphasized the positive impact the foreign investors have had on the institution. However, they also all stressed the importance of accountability and expectations from the investors, as they can improve the institutions impact and practice greatly. In this case, NMI are in a position in which they can place more expectations and transparency within the institution, to increase KWFT depth of outreach, and improve the livelihood of the KWFT clients.

The goal of this thesis was to assess to what extent does KWFT improve the livelihoods of poor households in Kenya, by examining the impact on livelihoods by implementing human- and social capital theory, finding that the services of KWFT has improved 77 percent of all the informants interviewed, while 14 percent neither found their livelihood improved or disproved, while only 9 percent did not find their livelihoods improved after taking services from KWFT. Overall, this is a good result, finding that KWFT improve their clients' livelihood, in several aspects discussed, such as through education and business improvement. Commercializing KWFT as opposed to the welfarist prediction, has led to increased breadth and depth of outreach, allowing the organization to reach more clients in rural areas, as well as offering increased and improved financial- and non-financial services. The findings of this study demonstrated that commercializing KWFT increased both depth and breadth of outreach, and the international shareholders increase the institution's accountability and professionalism. This result therefore contradicts the welfarist assumption of mission drift within commercial microfinances, and find that this transformation has both been necessary and positive in the case of KWFT. By establishing a positive impact on clients' livelihood from KWFT, a partnership between NMI and KWFT is positive, and follow the stated mission of NMI in reducing poverty, creating jobs and empowering women, and their funds are crucial to the survival of KWFT. However, an increasing role should be emphasized by NMI to minimize bad governance and increase transparency.

Chapter 10
Conclusion

Today 10.7 percent of the world population live on less than 1.90 USD per day, the international poverty line (World Bank 2016), and about 90 percent of the population in developing countries lack access to formal financial services (Robinson 2001: 9). Kenya is facing the prospect of declining development aid from foreign governments and there is a greater need of new innovative initiatives in tackling the high unemployment and poverty rate in the country. Since its birth 34 years ago in Bangladesh, microfinance become a global phenomenon, taking many different shapes, from small non-profit NGOs to grand commercial financial institutions. As the development agencies of nation-states are now focusing on sustainable development, investing in job creation and empowerment is becoming increasingly common. Due to this, microfinance has become a strategy to invest in the poor, to increase self-employment and decrease poverty and unemployment. The public-private initiative NMI is one of many investment funds investing in microfinance in Kenya, generating a profit. While this type of investment is becoming increasingly popular with aid agencies globally, there is considerable doubt whether such initiatives work, or whether they simply function as a profit-machine. The major critiques of commercial microfinance argue that the for-profit MFIs may fall in a mission drift, in which the financial return overshadow the social mission of the institution, and the business becomes a moral problem. This thesis studied the impact of KWFT on their clients' livelihood in order to answer the welfarist critique on commercial microfinance and demonstrate the effect of commercializing a MFI. This is particularly relevant in today's climate as the Norwegian government has decided to redirect more development funds toward initiatives promoting job creation in the developing world. As the public-private initiative, NMI, invests in KWFT, the effect of their work is relevant in demonstrating whether such mechanisms work, and whether it is a profit-seeking institution hiding behind an altruistic mask.

The focus of the thesis was how and to what extent KWFT improve the livelihoods of poor households in Kenya. The main goal was to uncover the impact KWFT has on their clients, and the implications for further Norwegian investment in similar projects. The findings show that clients have increased financial income, human- and social capital after taking loans from KWFT. There are degrees to how well each client has benefitted, though the overall impact is positive. By increasing depth and breadth of outreach, which became possible after commercializing and receiving foreign investments, KWFT has improved its services and access to more than 750,000 clients throughout Kenya, yet growing. The findings, however, indicate that the target clients of KWFT should focus on the productive poor, where the loan can result in income generating activity. However, the microfinances cannot ignore the extreme poor, though they will benefit greater from other organizations such as CARE international, who emphasize saving over investments. The commercialization of the institution has been crucial for its impact and outreach, and in this case NMI has taken the role of a profitable altruist – an actor who contributes to the social good, including poverty eradication, employment and empowerment of Kenyan women, while at the same time receiving a financial return and thus resulting in a win-win situation for both parties. The commercial microfinance institutions therefore have become businesses, with high revenues, which in turn positively impact Kenyan development. The commercial aspect of microfinance is crucial in creating sufficient revenue to expand nationally, and reach the remote areas and clients that the non-profit MFIs do not reach. Investing directly in a development partner such as KWFT provides direct- and visible results, higher transparency and lower transaction costs. And with a strong regulation system in place, such as the Microfinance act of 2008, both the investors and the clients are ensured good practice.

5.1 Impact of KWFT on financial income

Increasing financial inclusion in Kenya from 14 % in 2006 to 75 % today is a significant economic achievement. More Kenyans are now receiving financial access than ever before, and a growing number of women are included in the process. The findings of this study demonstrate that KWFT has increased the economic status of its clients, and in turn increased the organizational member base to more than 750,000 clients in 2015. KWFT provides a wide array of products, in which the clients are assisted in choosing the right loan, and offered trainings on how to repay and manage their incoming revenues. The findings of this study demonstrate that by providing financial services with low rates and flexible repayment times, KWFT covers the financial inclusion gap, which exists in Kenya. Indeed, almost all informants emphasized the fact that the process of receiving loans was easy, and that eligibility criteria is not very strict. In addition to helping increase incomes, KWFT also plays a crucial role in helping to improve local livelihoods of clients. Thus, I find that clients of microfinance have experienced improvements in human- and social capital in relation to education, health, increased skills, empowerment, and increased social networks and social mobility.

5.2 KWFT impact on human and social capital

This study finds that KWFT improves clients' livelihoods mainly through non-financial services. The findings demonstrate that several women in the group-lending system had taken an education loan to attend higher education. The study also finds that 80 % of the sample have family members taking higher education, which is higher than the national average. Education is key for economic development in Kenya, and an important step out of poverty for the poorest part of the population, as emphasized by all KWFT clients I interviewed. Further, it was emphasized by the few who did not have any family members taking higher education, that they were planning on enrolling themselves, or their kids in the near future. An overall improved health positively correlated with economic and social prosperity with the women interviewed, as better health resulted in increased work capacity, and overall well-being. Saving time by receiving water tanks and electricity, for instance, led to more productive use of time either with education or with their business.

KWFT offers non-financial services such as leadership training and trainings on how to manage assets and loans. The findings of the study show that these trainings are crucial to the success and growth of women entrepreneurs. It teaches them not only how to transact, but how to run their businesses, which has led to success, compared to the women who have not participated in any trainings. By increasing income, education, time and skills, the female clients of KWFT are naturally empowered. Due to increased income and autonomy of their business they increase their financial independence, while increased education, time, health and skills they demand a stronger voice in the household, as many of the informants explained. Due to these aspects, they are no longer reliant on a man, and as the husband of one client emphasized, women in Kenya are no longer in need of a husband to support them financially, as they can now do this themselves.

The social capital gained through the group-lending system and the trainings provided by KWFT have made the women less prone to risk, as they support each other in the group, and more open to new ideas, cooperation and innovative initiatives. The new networks further increase their dependence, further increasing their empowerment. The study further found that the groups also offer the women advice and support, which increases their motivation to do well with their business ideas.

5.3 Commercialization and outreach

Despite the welfarist critique, the findings indicated that by increasing profits and transforming to a commercial MFI, KWFT has not fallen in a mission drift, and the transformation has resulted in greater outreach, both in terms of breadth and depth. Throughout the transformation KWFT have increased from 80 offices in 2006, to 219 today. Their personnel have increased from 359 in 2006, to 2802 in 2015, and is constantly expanding services. The findings of the study further demonstrate that this change is due to commercialization, and there is a positive relationship between commercialization and outreach. With proper regulations intact, both clients and investors are protected from bad governance and practice, and several agencies are in place to measure MFIs performance. However, the shareholders hold an important role in supervising and controlling that the social mission is preserved, and should use their position to influence better practices of the institution, in terms of interest rates and moral conduct, regardless of external monitoring institutions in place.

5.4 Relevance and impact of NMI on KWFT operations

NMI can use its shareholder-position to hold KWFT accountable, professional and increase transparency. This partnership is highly valued by the KWFT, and is found necessary to continue expanding their services. NMI argue that the social mission is the first and foremost goal, and financial return is a bonus. Though the findings of this study show that KWFT improves their clients' livelihood, this study argues that NMI can do more to improve the quality of the KWFT services, and the transparency within the organization. Several aid officials in Kenya point to bad governance and inefficient practice within KWFT, which should concern NMI. With NMI's experience, ambition and social responsibility being a public/private investment fund, and as shareholders of KWFT, they are also accountable of their practices. Therefore, they should expect high professionality and transparency from KWFT. By improving the practices of KWFT, this type of development investments can be lucrative for Norwegian development agencies, as it has a strong impact on ground level, and there is visible result in poverty reduction, job creation and women empowerment. NMI through its investment and assistance to KWFT has become a profitable altruist, as they receive a financial return, while the activities contribute to decreasing poverty, creating jobs and empowerment for the poor, women living in remote areas of Kenya.

5.5 The way forward

The theoretical debate on microfinance is dominated by the welfarist and institutional approaches. The welfarist approach accuses the institutionalist approach of resulting in a mission drift that undermines the poverty eradicating mission of microfinance. This study has proven otherwise, and largely disproved the critique from the welfarist theoretical stance. This does not mean that critique is not valid in certain cases, such as the Banco Compartamos case in Mexico. The findings have demonstrated the importance of MFIs being self-sufficient to increase outreach, opposing the welfarist critique. This determines the need to advance previous theories on commercialization of MFIs, which the findings of this thesis can contribute to. The empirical results of this thesis demonstrate the weakness of an outdated welfarist approach. However, it also illustrates the need for investors to be aware of mission drift in all commercial MFIs. The case of KWFT, however, does not belong completely in one camp, but lies in between the two, leaning towards the institutional approach. An updated theoretical model can be developed capturing MFIs like KWFT, which emphasize financial self-sufficiency together with poverty alleviation as the main mission. This thesis has also shown that the MFIs such as KWFT, that follow both theoretical approaches, have a good success rate, as they manage to expand outreach and quality, while retaining the social mission of poverty eradication as their main goal, not falling in a mission drift. A theory advancement is furthered needed, as more commercial MFIs belong in the same camp as KWFT, and though following the institutional approach, the social mission is still central to their practice.

Due to time and funding restraints, this study only focused on a small number of informants, and in a limited geographical area. Further studies may compare different counties in Kenya and their challenges and results to present a much more nuanced view on KWFT impact. An assessment of technological solutions such as mobile money could also be interesting in viewing transaction-costs, and examining how MFIs can increase their outreach and remain financial sufficient, while keeping low interest rates for its clients. A study comparing KWFT to other development initiatives such as CARE would also be interesting as this may illustrate alternative strategies for both organizations aimed at improving their practices and results. Future research should also assess the impact of microfinance in improving client livelihood and avoiding a mission drift, as the emerging issues may be commercial MFIs not being transparent enough and experiencing bad governance and practice. The investors therefore must use their role to better the overall practices of these institutions to have a substantial impact on poor individuals lives.

By offering financial and non-financial services, KWFT improves the livelihoods of clients, who previously have been financially excluded. By transforming to a commercial MFI, the institution offers more and better services to clients, both in urban areas and in the most remote Kenyan villages. It thus contributes in the fight against poverty by creating new jobs and stimulating economic growth as well as increasing empowerment of women in a country where male patriarchy is deeply entrenched. Despite broadening their target group, ranging from the extreme poor to the less poor, does not mean that the poorest are excluded. However, the findings of this study find that the less poor benefit greater from the loans, while the extreme poor would benefit more if they were targeted for savings-plans by other institutions like CARE international, which focus on savings rather than investments. The investors of KWFT impact both quality and quantity of the services provided, and by receiving a financial return of their investment, they become profitable altruists, contributing to poverty alleviation, job creation and empowerment in Kenya.

What in 1983 started as a small initiative in Bangladesh, has since grown spectacularly on a global level. Microfinance, though widely praised and criticized, has impacted millions of lives. It has in the past few years also become a lucrative investment for both public and private companies focusing on philanthropic investments. Philanthropic investment opportunities in the type of development projects examined in this study can be further encouraged, on condition that the investors demand a high level of transparency and accountability from MFIs. This study demonstrates that profitable altruists are needed, as by investing in for-profit MFIs they expect more transparency, accountability, documented results and professionalism by the MFIs, leading to better practices and results by the MFIs. An increased focus on microfinance can help include more of the poor in the financial system, and thereby increase the overall economic activity in remote villages, which in turn will improve the overall livelihoods of households and communities in many parts of the developing world.

"***This is not charity. This is business****:* business with a social objective, which is to help people get out of poverty". – Muhammed Yunus (Bateman 2014: 2)

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Appendix

Overview of informants

Company	*Informant*	*Position*	*Tool*	*Interview themes*	*Number of informa*
KWFT	Anonymous	Administration officer	Key informant interviews	Overview of organizational structure and work, challenges and success stories on clients, commercialization and transformation on KWFT, investor relationship with NMI	1
KWFT	Anonymous	Finance and accountant officer	Key informant interviews	Overview of organizational structure and work, challenges and success stories on clients, commercialization and transformation on KWFT, investor relationship with NMI	1
KWFT	Anonymous	Credit analyst	Key informant interviews	Overview of organizational structure and work, challenges and success stories on clients, commercialization and transformation on KWFT, investor relationship with NMI	1
KWFT	Anonymous	Unit manager	Key informant interviews	Overview of organizational structure and work, challenges and success stories on clients, commercialization and transformation on KWFT, investor relationship with NMI	1
KWFT	Anonymous	Unit accountant	Key informant interviews	Overview of organizational structure and work, challenges and success stories on clients, commercialization and transformation on KWFT, investor relationship with NMI	1

KWFT	Anonymous	Clients within the group lending system	Focus group discussions	Challenges and benefits from the loan structure. Experience with KWFT, on a financial, social and business-related stance. Trainings offered by KWFT. Individual experiences and challenges.	27
KWFT	Anonymous	Individual loan client	Key informant interviews	Challenges and benefits from the loan structure. Experience with KWFT, on a financial, social and business-related stance. Trainings offered by KWFT. Individual experiences and challenges.	8
KWFT	Anonymous	Husband of loan client	In-depth interviews	Challenges and benefits from the loan structure. Experience with KWFT, on a financial, social and business-related stance. Trainings offered by KWFT. Opinion of women empowerment in Kenya.	1
NMI	Godfrey Kaindoh	Investment manager	Key informant interviews	Transformation and commercialization of KWFT. Goals and intentions with investments. How the company interact and work with KWFT.	1
NMI	Knut Frigaard	Investment director	Key informant interviews	Transformation and commercialization of KWFT. Goals and intentions with investments. How the company interact and work with KWFT.	1
CARE, Kenya	Phyllis Kariuki	Financial inclusion manager	In-depth interviews	Overview of the development landscape in Kenya. Outside perspective on microfinance and who benefit from loans. Differences and similarities between the institutions.	1
Lifebloom	Anonymous	Program officer	In-depth interviews	Outside perspective on KWFT and their clients. What has been major challenges and benefits for the clients	1

				of KWFT in Naivasha.	
Strathmore University	Mary Mutinda	Professor	In-depth interviews	Outside perspective on KWFT and their clients. Overview on development landscape in Kenya.	1
United Nations	Elias Kahla	Aid official	In-depth interviews	Development issues, the work of the UN in Kenya, its challenges and benefits. Outside perspective on KWFT and their clients. Overview on development landscape in Kenya.	1
World Bank	Anonymous	Aid official	In-depth interviews	Development issues, the work of the World Bank in Kenya, its challenges and benefits. Outside perspective on KWFT and their clients. Overview on development landscape in Kenya.	1
USAID	Stephen Brager	Aid official	In-depth interviews	Development issues, the work of the USAID in Kenya, its challenges and benefits. Outside perspective on KWFT and their clients. Overview on development landscape in Kenya.	1
					Sum: 49

Interview guide: KWFT staff

Part 1. Introduction

(1) How long have you been working with the KWFT?

(2) Which department do you work at?

(3) What educational background do you have?

Part 2. Impact

(1) What are typical challenges both the bank and your clients experience through the loan process? And how do you overcome them?

(2) KWFT offers different types of non-financial services other than credit services empowering women, such as leadership training. Can you tell me about some of these services and how they work?

(3) In what way does KWFT improve its clients' livelihood

(4) How are women empowered through KW?

Del 3: Depth and Breadth

(1) KW has throughout the years gone through a transformation from being a non-commercial microfinance institution to a full-fledged bank.

- How do you think this transformation has affected the outreach of KW?
- Probe om depth and breadth

(2) Who do you think benefit the most from the loans given, by the poorest of the poor, or the poor closer to the poverty line?

(3) What differ Kenya Women from other microfinance institutions?

Del 3. Investment

(1) How do investments from shareholders such as NMI affect your work?
What do you expect from them, and what do they expect from you?

(2) What has NMI contributed to KWFT by holding a 10 % share of the company? In what way to they take part of the development of the bank?

(3) Why is this sort of investment important to your work?
- What does KWFT benefit from this?
- What does the investors benefit from this?

Interview guide: KWFT clients

Part 1: The Process

1. How long have you been a member with Kenya women?
2. Why did you initially take a loan with Kenya Women?
   - How high was your initial loan, and how did you find this process?

3. Throughout your membership in KW, what has worked well for you, and what has been the biggest challenges?
   - Have you had any problems paying back the loans?

4. How do you think Kenya Women could improve further?

Part 2: Impact

1. What is your current business?
   - Is this the same business as you started with in Kenya Women?
   - How has the business evolved since you joined Kenya Women?
   - How has Kenya Women affected your business?

2. Has Kenya Women given you non-financial services, such as leadership training, financial management services and so, that has directly helped your business?
   - How did the services take place, and how did they help you?
   - How do you think your situation would be if you got microcredit, but without the non-financial services?

3. How do you feel the membership with Kenya Women has affected your social status?
   - Has your social network and mobility expanded after becoming a member of Kenya Women?

4. How do you feel the membership with Kenya Women has affected your autonomy in your household in relation to other men?

5. Have you or any of your family members gone through secondary or higher education after taking loans from KW?

6. Do you feel you have increased skills, either educational, health wise, within your business or so after joining KW?

7. [If the client has been a member for more than 10 years]
   How has Kenya Women changed within its efficiency as well as its services (both financial and non-financial) during your membership in the organization?
   Has any of the services improved, or weekend through this time?

8. Do you think that Micro finance services are a help or a hindrance to your fellow female entrepreneurs looking to overcome the challenges of setting up a business?

Interview guide: aid officials

1. Can you run me through your role in your organization?

2. How do you view the development landscape in Kenya?
- What do you think hinder development and what do you think boost it?

3. Do you think the government of Kenya's role is increasing or decreasing in development work?
    - Do you believe NGOs have taken a bigger role within development in Kenya?

4. How do you view the UN and other NGOs work on development in Kenya? What are key challenges?

4. What impression do you have on Microfinance in Kenya?

5. How important do you find financial access to the poorer individuals in Kenya?

6. How do you think financial access affects women in Kenya?

7. Do you believe microfinance benefits both the very poor and the less poor in the same way?

Interview guide professor

1. What do you think about the microfinance climate in Kenya?

2. What do you think are the main obstacles women entrepreneurs face in the economic and cultural climate in Kenya?

3. To what extent do you believe that microfinance improves peoples livelihood? And to what extent do you believe microfinance can improve women empowerment?

4. What do you think is the main challenges microfinance institutions face in Kenya?

5. Who do you think microfinance institutions should target? The poorest of the poor or the so called "productive poor", who are closer to the poverty limit?

6. What do you think are some positive and negative aspects of commercializing MFIs?

7. What do you think could be an alternative to microfinance to increase financial inclusion within the poor population in Kenya?

Interview guide: NMI

Part 1: Introduction

(1) How does NMI chose their investment projects?

- Why did NMI chose to invest in KWFT, and not any of the other microfinance institutions?

(2) In what way do you work with KWFT?

Part 1: Why invest in KWFT

(1) Why does NMI invest in microfinance at all?
What makes microfinance a lucrative investment for investment funds?
What do foreign investors gain by investing in microfinance as opposed to other investments?

(2) When investing in the company NMI holds quite a bit of the company's shares. What does NMI expect from the company, and have NMI taken part of forming their structures and policies?

(3) NMI offers different types of training to MFIs, such as technological training, have NMI contributed to any such training with the KWFT?

(4) What does KWFT expect from you as a shareholder?

(5) Why do you think foreign investment is crucial to microfinance banks to do their work?

Del 2: Impact

(1) In what way does NMI find KWFT to have an impact on women's livelihood in Kenya?

(2) KWFT states that they offer different financial services other than credit services empowering women such as leadership training. Have you seen any concrete results from this?

(3) How does NMI contribute to KWFTs outreach to empower women's livelihood in Kenya?

Map of Kenya


SUDAN
ETHIOPIA
SOMALIA
UGANDA
TANZANIA
KENYA
Lake Turkana
Lodwar
CHALBI DESERT
Marsabit
GREAT RIFT VALLEY
Wajir
Eldoret
Lake Baringo
Kisumu
Lake Bogoria
Meru
EQUATOR
Lake Victoria
Nakuru
Mount Kenya
Lake Elementeita
Garissa
Lake Naivasha
NAIROBI
Machakos
SERENGETI PLAIN
Masai Mara Nature Reserve
Lamu
Lamu Archipelago
Amboseli National Park
Mt Kilimanjaro
Tsavo National Park
Malindi
Watamu Bay
Mombasa
INDIAN OCEAN
Shimoni
100 km
100 miles
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