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THE ROLE OF MICROFINANCE INSTITUTIONS ON ECONOMIC ENHANCEMENT OF BODA BODA OPERATORS IN BUSIA TOWN(KENYA).THE CASE OF FAMILY BANK LIMITED.

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ABSTRACT

The overall research problem was that despite the presence of Family Bank and other micro-finance institutions in Busia town (Kenya), poverty level among Boda Boda operators continues to remain high. The study was guided by the following objectives; To establish the link between poverty and proliferation among boda boda operators; to determine the relationship between financial services/products offered to Boda boda operators and their economic enhancement; to determine the effect of Family bank's tariffs on the sustainability of savings accounts maintained by boda boda operators and to establish the effect of Family Bank's marketing strategies on attracting boda boda operators. Survey method of field research design was adopted for the study with a target population of two hundred and fifty boda boda operators and Family Bank staff in Busia town. The sample was 203 out of which 84% of 235 were boda boda operators and 40% of 15 were Bank staff. Data was collected using questionnaire forms, interviews and focus group discussions.

Data collected was then analyzed using percentages and chi-square technique setting four degrees of freedom at (95%) or 0.05 confidence interval. The study found that the main contributing factor to the link between poverty and proliferation of boda boda operators was lack of capital to start any other income generating business. The most important factor in determining the relationship between financial services/products offered to boda boda operators

on their economic enhancement was established to be the most important marketing strategy for attracting the operators.

The study concluded that the link between poverty and proliferation of boda boda operators was due to lack of capital to start any other income generating business. The study recommended that Family Bank and other microfinance institutions should provide working capital to the operators based on the performance of the account.

CHAPTER ONE

1.0 INTRODUCTION

The chapter describes; the Background to the study, statement of the problem, purpose of the study, research objectives and research questions/hypotheses. The chapter also covers the significance of the study, scope of the study, basic assumptions, limitations, de-limitations, definition of significant terms as used in the study and organization of the study.

1.1 Background to the Study

The purpose of Microfinance is to provide alternative source of credit for micro entrepreneurs who are who are unable to obtain loans from main stream financial market for poverty alleviation activities. The limitations of the formal financial sector in providing financial services, especially credit to the poor prompted the emergence of Microfinance Institutions Chowdhury (2006). The need for the study ahs been brought about as a result of increasing level of poverty among Boda Boda operators in Busia town despite the presence of Family Bank and other microfinance institutions which are supposed to finance institutions and Boda Boda operators in Busia town is questionable. The relationship is questionable because of the increasing level of poverty despite the existence of lending institutions in the town hence need to investigate what problems they have in order to find a solution for the institutions and business community to work together as partners so as to reduce level of poverty among Boda Boda operators.

Micro Finance Institutions (MFIs) are specialized financial institutions whose development in Kenya can be traced to the early 1970’s and 1980’s through NGOs Mathenge (2005). The term microfinance was first introduced in 1990 with specific connotation of encompassing Micro Credit (MC) and micro saving as well as other financial services Seibel (2007). It is perhaps from this young age of the industry that there are still many unresolved issues and indeed what is currently termed as Microfinance (MF). From this perspective the commonly accepted definition of microfinance as the "means of providing a variety of financial services to the poor based on market-driven and commercial approaches" does not strictly fit what has come to be commonly regarded as constituting microfinance in Kenya. The mission of these microfinance organizations was to provide financial series, namely credit to Small and Micro entrepreneurs (SMEs) with development potential that had hitherto been constrained by inaccessibility to credit form the formal banking sectors KIPPRA (2001).

The case of Family Bank which is the core of this study with poverty reduction approach nearly similar to Grameen Bank in Bangladesh has a unique background. The bank (Family Bank) was originally registered as a Building Society in 1984 under the building Societies Act Cap. 489. As a building Society, it was licensed to take savings deposits from the public and pay such deposits on demand or according to the terms of placement in cases of fixed deposits. The institution's role as a Building Society was to assist its customers to acquire and develop plots up to 75% of the total cost of the plot. The balance of 25% was to be borne by the client by way of depositing such amount to his/her account. In the year 2007, Family Building Society (FBS) converted into a fully fledged commercial bank under the Banking Act cap. 488 and acquired the name Family Bank Limited (FBL).

The Bank's Vision: "To be the financial institution that leads in the positive transformation of peoples' lives". Mission: "Positively transforming people's lives and providing micro and other financial services through efficient, equality and reputable practices". Core values: "Team work, Respect, Innovation, Integrity, Leadership by example and passion for excellence" Source-Family Bank Operation Manual (2006).

1.2 **Statement of the Problem** Poverty crushes human spirits with half of the World's population leaving on less than one dollar per day hence unable to meet their basic needs.

Poverty traps future generations in vicious cycle without hope or opportunity World Bank (2006).

Despite the presence of Family Bank and other microfinance institutions which are supposed to enhance development of boda boda operators in Busia town (Kenya), poverty level among the operators continues to remain high. A number of micro finance institutions have emerged in Kenya, some of whose branches extend to Busia town, however while these programs continue to emerge and even extend their operations, one poverty level more so, boda Boda operators in Busia town. Boda Boda operators are so poor to an extent that they can not afford to take their children to schools where learning is meaningful, whereas those who are not parents can not even raise minimal capital enough to establish a kiosk or any meager income generating project. This situation of poverty among Boda Boda operators has resulted to various problems to an extent that affect their thinking and reasoning capacity, hence no real growth in their lives. The puzzle remains on the extent to which Family Bank and other microfinance institutions operating in the town have contributed to economic enhancement of Boda Boda operators in Busia town, hence the focus of the study PEC (2006).

1.3 Purpose of the Study

The purpose of the study was to investigate the role of Microfinance Institutions on economic enhancement of boda boda operators. Specifically the study was concerned with the increasing level of poverty among Boda Boda operators in Busia town (Kenya despite the presence of various microfinance institutions operating in the town.

1.4 Research Objectives

Objectives are purposes stated in specific measurable terms which state the intentions of the study and provides opportunities for evaluating the end results Kombo and Tromp (2006): Oso and Onen (2005). The study sought to;

1. Establish the link between poverty and proliferation of Boda Boda operators.
2. Determine the relationship between financial services/products offered to Boda boda operators and their economic enhancement.

3. Identify the effect of Family Bank's tariffs on the sustainability of savings accounts maintained by Boda Boda operators.

4. Establish the effect of Family Bank's marketing strategies on attracting Boda Boda operators.

1.5 Research Questions

Research questions are objectives written in question form such that if they are answered,

The responses will help achieve objectives Oso and Onen (2005). This study was therefore guided by the following research questions:

1. What is the link between poverty and proliferation of Boda Boda operators?

2. How is the relationship between financial services/products offered to Boda Boda operators and their economic enhancement?

3. Is there any effect of Family Bank's tariffs on the sustainability of savings accounts maintained by Boda Boda operators?

4. Which is the effect of Family Bank's marketing strategies on attracting Boda Boda operators?

1.6 Significance of the Study

The findings of this study would help identify the contributing factors to the proliferation and expansion of bicycle and motorcycle taxi (Boda Boda) operators in Busia town (Kenya). The findings are expected to be useful to the Kenyan Government as it may help to implement policies that would address the challenges faced by small and micro enterprises in accessing the Youth Enterprises Development Fund (YEDF), more so Boda Boda operators and other small and micro entrepreneurs.

The socio-economic, general and industry specific characteristics would be a first step towards profiling of Boda Boda operators, hence expected to help formulate policies that would enhance the growth and expansion of the industry. The empirical evidence may help assess the contribution of the sector to alleviate poverty and improve youth unemployment hence promote economic growth through assisting Boda Boda operators to understand the culture of savings and borrowing which is a missing link in Western Kenya.

1.7 Scope of the Study

The study on the role of microfinance institutions on economic enhancement of boda boda operators in Busia town (Kenya), was conducted between march and April 2009 using descriptive survey design. The study was conducted to 203 selected respondents comprising 197 registered boda boda operators and 6 Family Bank staff. The data was collected using questionnaires, interviews and focus group discussions. The study aimed at determining the role of microfinance institutions on reduction of level of poverty among boda boda operators in the town.

1.8 Basic assumptions

The study was based on the assumptions that Family Bank and other microfinance institutions operating in Busia town (Kenya) provided micro credit facilities to small and micro entrepreneurs. The study assumed that poverty problems among Boda Boda operators and SMEs can only be solved through microfinance credit, Boda Boda operators in Busia town (Kenya) lacked the culture of savings and borrowing and the respondents to the interview were knowledgeable to access, evaluate and comment on Family Bank and other microfinance services and SMEs sector.

1.9 Limitations of the Study

The study was based in Busia town and targeted two hundred and thirty five (235) boda boda operators and Fifteen (15) Family Bank staff at Busia branch. Limitations and challenges encountered during the research study included the respondent’s inability to keep records. Out of 197 Boda boda respondents sampled, 12 (6%) were found to have kept scanty records regarding their income and expenditure. The culture of hand out (Gonywa) was an issue however, after explanation that the study was purely academic and was for the benefit of Boda boda operators in the near future the matter was resolved hence good co-operation from the respondents.

1.9.1 De-Limitations of the study

The study was conducted among 235 registered Boda boda operators and 15 Family Bank staff in Busia town (Kenya). Busia town is the origin of Boda Boda activity in Kenya, hence rich in its history with well experienced operators in their area of operation. Research assistants who wee well known residents of the town hence well trained and versed with local dialects helped in interviewing respondents who had a problem with reading and writing in English. The study was conducted in Busia town which is a cosmopolitan business centre hence the views of respondents was cross-cultural.

1.10 Definition of Significant Terms as used in the Study

Boda boda: The term is used to refer to bicycle taxi used for transporting passengers who travel short distances.

Commercial Bank: Deposit taking institutions licensed by Central bank and are to pay such deposits on demand or at an agreed period of time.

Economic enhancement: A way of improving living standards of the poor through micro saving and micro credit.

Financial services: Facilities provided by microfinance institutions such as savings, loans, micro insurance and money transfer.

Fixed deposit: Money placed with microfinance institution for a specified period of time subject to earning interest at an agreed rate hence can only be drawn upon maturity.

Loan: Credit facility to be repaid with interest through installments within agreed period of time.

Micro credit: Programs that extend informal credit or small to low-income people for micro enterprise development hence an investment not charity.

Microfinance Institutions: Specialized organizations formed to assist low income groups to save and borrow small amounts of loans to improve their living standards.

Poverty: Lack of basic needs such as food, shelter, clothing, health services, education, legal services or lack of ability to exploit the available opportunities and resources.

Savings Deposit: Money placed with a bank subject to withdrawal any time without notice.

1.11 Organization of the Study

The study is organized into five chapters comprising of chapter one which is the introductory chapter. The introductory chapter deals with introduction, flowed by background to the study, statement of the problem, purpose of the study, research objectives, research questions, hypothesis, significance of the study, scope of the study, limitations, de-limitations and definition of significant terms as used it eh study.

Chapter two comprises of Literature Review and introduction with comprehensively selected topics and sub-topics from various scholars considered to be relevant to the study, theoretical framework, model (law of demand theory), conceptual framework, knowledge gaps and summary. Chapter three is characterized with methodology that was used in answering research questions and research objectives. Chapter four consists of data analysis, presentation and interpretation of the findings while chapter five consist of summary, discussions, conclusion and recommendations for policy formulation and finally recommendations for further research.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The chapter highlights the major concepts reviewed and found to be of relevance to the study. It covers the emergence of microfinance in Kenya, explaining which institutions have contributed a credit role in boosting microfinance as an industry in the Country. In order to give an idea of the diversity of players in the area of Microfinance in Kenya, a typology of microfinance institutions and an overview of service delivery approaches are provided. The chapter presents both theoretical and conceptual framework and ends with a summary leading to reduction of poverty among boda boda operators in Busia town Kenya through microfinance institutions.

2.2 The Concept of Microfinance

Micro Finance Institutions (MFIs) and their role of economic enhancement of the poor was first promoted by Yunus, Managing Director of Grameen Bank, in 1974 at his own rural village of Jobra in Bangladesh Besley (1995). It has since spread to generate income through self-employment activities, 90% of whom are women World Bank (1999). Majority of Micro finance institutions Worldwide Kenya included, put more emphasis on women micro enterprises than those of men and youth. This confirms that women are better savers and borrowers than men who are considered to spend most of their meager income on social activities hence poverty among boda boda operators who are predominantly male African Development Bank (1996). MFIs have been considered as one of eh most important engines of Kenya’s economic development especially because of their role in generating employment and income opportunities for a majority of vulnerable people in the country Kinyanjui and Fowler (2004). They engage in various activities such as educating communities about the opportunities to improve their economic lives through small business enterprises, sanctioning small credit facilities and providing other financial services. These include savings accounts and insurance as well as assisting such clients in solving some challenges that they may face on day-to-day basis in business world (Ibid).

Microcredit through microfinance institutions has been touted as the latest panacea for poverty alleviation. The success of micro lending through microfinance in other developing nations since 1970s has promoted this sudden burst of enthusiasm for micro lending as a community and economic development strategy. The purpose of micro lending through microfinance institutions is to provide an alternative source of credit for micro entrepreneurs (boda boda included), who are unable to obtain loans from mainstream financial market for poverty alleviation activities Hunt (1998).

Collateral, credit rationing, preference for high income clients and large loans and bureaucratic and lengthy procedures of providing loan in the financial sector keep the poor off the boundary of the formal sector financial institutions in developing economies. The limitations of the formal financial sector in providing financial services especially credit, encouraged the emergence of Grameen Bank in Bangladesh and other micro finance institutions such as Family Bank in Kenya. Microfinance arouses enthusiasm among donors, researchers, practitioners and the state. This interest is based on the success of a few famous savings and distributing large amounts of credit and good outreach on a rather sustainable basis. Microfinance (MF) has allowed millions of households usually excluded from classical financial services to begin their own economic activities or to reinforce existing efforts and become entrepreneurs Lapenu (2000).

The case of Family Bank which provides the much needed capital and employment opportunities to several Kenyans in all parts of the country hence creating economic empowerment and assists the government in generating revenues through taxation. This is a major contribution which should not be ignored considering the country's economic situation in terms of development. A number of Small Micro Entrepreneurs (SMEs) and household have improved their living standards with some individuals becoming reputable businessmen/women through the bank's micro financing programs. yet, difficulties remain that must be resolved in view of the ambitious objectives attached to microfinance programs. Three main issues have to be clarified: first a large number of the poor households such as boda boda still lack access to financial services. Impact studies show that for the poorest of the poor, the necessary environment is not yet in place for microfinance to realize its full potential. Second, most of the microfinance institutions still have to demonstrate their capacity to reach a break-even point that would allow them to work without being subsidized. The trade-off between becoming financially sustainable or reaching the poor is a frequent debate, which shows that the role of microfinance as a policy instrument is not straight forward. Hence the case of microfinance institutions in Kenya whose roles on enhancement of Boda Boda operation is required especially in Busia town. In support of microfinance, government and donors are increasing the amount of funds invested in order to develop new institutions rapidly and tor ach an increasing number of clients. However, financial institutions must be built on solid foundations to avoid decreasing rate of repayment or risk of management. Time, good institutional design and favorable environment are necessary to build efficient financial institutions like Grameen Bank in Bangladesh (Ibid). In Kenya Family Bank (FB) is a near comparison to Grameen Bank in Bangladesh because of the role that it plays on poverty reduction among the vulnerable members of the society Lapeny (2000).

Failure of the specialized formal financial sector to meet the credit needs of the SMEs did underline the importance of a needs oriented financial system for purpose of uplifting the living standards of the poverty – stricken segment of the population leading to the development of MFIs. The rise of microfinance movement was part of a search for a methodology to deal with persistent poverty, empowerment of small entrepreneurs and to promote the participation of ordinary people in the national, social and economic development of activities Knyanjui and Fowler (2004). MFIs operate in the service sector where customers participate in the production process such as "Jua Kali" sectors and other small businesses Gronroos (2000). Microfinance covers a wide array of microfinance institutions (MFI), ranging from indigenous Rotating Savings and Credit Associations (RoSCAS) and Self-Help Groups (SHG) to financial Co-operatives, Village banks and Community banks as well as Non-Bank Financial Institutions (NBFI) including Credit Non-Governmental Organizations (NGO's), all the way up to development banks and Commercial banks. In contrast to micro credit, microfinance refers to a system of financial intermediation between micro savers and borrowers including micro insurance and other financial services such as money transfer Stokers (1999).

Microfinance Institutions emerged as a growing industry to provide financial services to very poor people. Until recently, microfinance have focused primarily on providing (small loans of about USD 50-500) for micro enterprises. However, there is recognition that poor people need a variety of financial services, not just credit. Current microfinance has therefore moved towards providing a range of financial services, including credit, savings and insurance for enterprises, training towards saving and borrowing culture households UNDP (1991). If this statement is true, why is the level of poverty especially in developing societies still high? What is the problem between microfinance institutions and the poor mainly boda boda operators in Busia town? This is part of what the study will find out based on what other scholars have developed.

The field of microfinance was pioneered by specialized non-governmental organizations (NGOs) and banks such as Rakyat in Indonesia, Unit Desa of Indonesia, Grameen Bank of Bangladesh, Kenya Rural Enterprises Programme (K-Rep) Kenya, Farm Building Society (now Family Bank), Equity Building Society (now Equity Bank), Fundecion para la promiciony Desarollo de la Micro entrepreneur (PRODEM) and Banco Solidavio (BancoSol) Bolivia and others (Ibid). These microfinance institutions introduced new methods of providing very small loans without collateral at full-cost interest rates that were repayable in frequent installments (Ibid). If this is so why are the poor still very poor? Do these microfinance houses practice their role of providing small credit facilities to the poor without necessarily demanding collateral? It seems they are more theoretical than practical in their role of sanctioning small loans without collateral hence poverty especially among Boda Boda operators in Busia town Wahid (1994).

2.2.1 The emergence of microfinance as an industry

As an industry, micro finance is a relatively new phenomenon in Kenya, with a few institutions starting about 20 or so years ago but the sector gaining the status of an industry only in the last 10 years RoK (2001). During 1992-1994, the GoK has been implementing a Structural Adjustment Program (SAP) which has resulted in the liberalization of the economy. To counter the possible initial negative social impacts of the liberalization process, the Government of

Kenya identified areas and projects needing external donor support, including small-scale and micro enterprises. However, boda boda operations have not been included in these programs. the international donor community responded generously hence microfinance (MF) agencies became donor darlings Otto et al (2002).

The government of Kenya (GoK) has directly provided a boost to the microfinance sector. In the year 2006, the GoK established Youth Enterprises Development Fund (YEDF) as one of the radical interventions to address youth unemployment by allocating Kenya Shilling One Billion from its National budget of June 2006. The Government of Kenya, other International donor agencies and a large number of Kenyan NGOs considered microfinance as a key instrument for micro enterprise development ad poverty alleviation. Central Bureau of Statistics (1999), estimates the total number of NGOs providing financial services to low-income people at 130. It also says that the GoK wanted to promote the small-scale and enterprises sector as a means of accelerating economic growth and generating employment opportunities. A conservative estimate is that microfinance industry has received a total of USD 80 million. It is also said that the GoK wanted to promote the small-scale and enterprise sector as a means of accelerating economic growth and generating employment opportunities. In this view the small-scale and enterprise sector is seen as a motor of economic development, rather than a social safety net for micro entrepreneurs to make a living Otto et al (2002).

2.2.2 Vicious Cycle of Poverty

Vicious cycle is state of affairs in which a cause produces an effect which itself produces the original cause, so continuing the whole process. The cause of poverty makes the poor borrow loans, the loans they borrow are subject to high interest rates leaving the poor with very little to save hence vicious cycle of poverty. In this respect situation of poverty may only be reduced when microfinance institutions lower their rates of interest. This situation requires Central Bank of Kenya (CBK) intervention rather than the present policy of interest liberalization Cowie (1989).

Over 80% of the people in developing Countries lack access to financial services from institutions either for credit or savings which further fuels the “vicious cycle of poverty” UNDP

(1999). Lack of access to financial institutions hinders the ability for entrepreneurs in Least Developed Countries (LDCs) to engage in new business ventures Dalley (2002). Microfinance institutions serve as a means to valuable tool to assist the economic enhancement process Yunus (1994). This incorporates three equally important aspects and these: raising incomes and consumptions, testing self-esteem through institutions that promote human dignity and increasing people's freedom. The criterion has distinct application in which the first thing that many families do when their incomes rise is to improve their nutrition the case of operators and send their children to meaningful schools Robinson (2002). This is fundamental to economic development because the financial services help the poor to expand their economic activities and increase their incomes, assets and their self-confidence grow simultaneously. Finally large scale sustainable microfinance helps create an enabling environment for the growth of political participation and democracy Rubinstein (1993).

Microfinance industry in Kenya took its present shape on the onset of economic liberalization between 1992 -1994. Kenya being the regional trade and financial hub for East Africa, it has developed a network of microfinance institutions that extend loans to small and micro entrepreneurs (Invest – in – Kenya.com). However despite these efforts a large number of Kenya's Micro entrepreneurs especially Boda Boda operators remain poor. The current high level of poverty combined with slow economic growth in the formal sector have thus forced many Kenyans into self-employment and informal activities, yet access to financial services remains a major challenge. Microfinance is an idea whose time has come (Kofi Annan – former United Nations Secretary – General). The limitations of the formal financial sector in providing financial services, especially credit, encouraged the emergence of micro credit programs Chowdhury (2006). International attention on micro credit has further increased since the White House International Micro credit Summit of February, 1997 attended by 137 nations and over 1500 organizations, which did issue the following communiqué:

"We believe that when we work together this campaign will become one of the great new chapters in human history and will allow tens of millions of people to free themselves and their families from the vicious cycle of poverty" (http://www.microcreditsummit.org.June 1998).

The role of economic enhancement of the poor requires community involvement which in its broadest sense includes almost anything that anyone may do to influence people's values, ideas, attitudes, relationships or behaviors for the better. In this regard microfinance institutions in Busia town and Kenya as a whole should partly play the role of community work in order to improve economic development of Boda Boda operators in the town Ayot (2002).

Freire cit. Ayot (2002), used conscientization to educate his people through literacy programs to cure the future famine situation. Freire believed that education was the only means by which people could be made aware of their problems and conscious of the need to look for solutions by themselves (Ibid). This is what Family Bank and other microfinance institutions in Busia town and other parts of the country should do in order to reduce the level of poverty among boda boda operators. Yunus (1994), founder of Grameen Bank applied the same theory hence the success of the bank in Bangladesh which has subsequently helped in reducing level of poverty among his people.

Micro credit through microfinance institutions is viewed as an investment and not charity. It is even more palatable because theoretically, programs can be financially self sufficient. In other words, the subsidies given by donors and government for community development programs on micro lending become unnecessary. Micro credit should not be treated as a panacea, but a drug that can be prescribed. He notes that if not used properly, it can harm people and have unintended negative consequences. Microfinance institutions and boda boda operators in Busia town should work together as partners rather than view each other with suspicion and mistrust. The relationship between the two should be harmonized since it is characterized with little business relationship Hunt (1998): Karlan (2005). In Philippines microfinance is the government's central strategy for poverty reduction under the social reform and poverty alleviation Act. Although the Philippines has achieved good progress in promoting microfinance, more than two-thirds of the country's poor (17 million people) still do not have access to microfinance services. Hence case in Kenya where 56% of the population is poor despite the presence of several microfinance institutions PEC (2006).

2.2.3 Family Bank

Like Grameen Bank which was started at a rural village of Jobra in Bangladesh in 1974, Family Building Society (now Family Bank) was also established at Kiambu in Kenya in the year 1984 Yunus (1976): Family Bank Manual (2006). It was registered under building Societies Act cap. 489. In the year 2007, it converted into a fully fledged commercial bank under Banking act cap. 488 and acquired the name Family Bank Limited (FBL). It took over the assets and liabilities of Family Building Society (FBS) and retained the same board of Directors. It floated its shares to the public to give the savers opportunity of share holding the same way Grameen Bank did to the people of Bangladesh Wahid (1994).

Family Building Society provided loans to its customers which was sanctioned up to a maximum period of 36 months and the title documents of the plots remained the security held by the institution until the liability was repaid in full. The title was registered in joint names after full valuation and comprehensive insurance cover with the institution's interest noted thereon. The institution grew from strength to strength under the leadership of Mr. Kiondo Muya (Founder and Chairman), hence opening branches in nearly all major commercial and agricultural towns in the country. As a Building Society, it majored in micro financing business by giving out loans to existing business communities and assisting the poor to start their own micro enterprises based on active operation of the account. Family Building Society (FBS) quickly realized the problems of the poor who could not afford the requirements of security and therefore introduced group lending where members of the same group guarantee each other based on their savings. It also extended credit facilities without necessarily demanding security but this was done and still being done after a careful assessment of the account and applying the theory of "Know Your Customer" (KYC).

Before conversion as a commercial bank, it met the required paid up capital and other statutory CBK requirements and became a signatory to the Banking Regulations Legal notice No. 77 of 1999 CBK (2000). After the conversion the bank has since emphasized on micro financing making many poor households improve their living standard especially Boda Boda operators, a number of whom have been assisted to acquire new bicycles, motor cycles and "Tuk Tuk" (a three wheeled motor cycle). The bank has assisted some boda boda operators to own shops and mini-supermarkets through its micro credit program. It acquired the name Family Bank Limited and maintained the same logo, core values and acquired the assets and liabilities of Family Building Society. It is a member of Deposit Protection Fund (DPF) an insurance scheme by CBK which covers small deposit holders in the event of liquidity problems. The bank celebrates its silver jubilee (Twenty five years) of service in empowering the people of Kenya this year 2009.

Family Bank mission is to "mobilize resources to maximize value and economically empower micro-finance clients and other stakeholders by offering customer-focused quality financial services and solutions. Family Bank's vision is "To be the leading and preferred micro-finance services provider". The bank has been successful in its efforts to provide microfinance services in Kenya CBK (2005). However despite its efforts level of poverty still remains on the increase, what is the problem?

The bank provides loans to its customers at affordable rates of interest. it maintains one of the best marketing and training facilities second to none hence its success in deposit mobilization CBK (2006). Among other products/services provided by the bank is paperless banking where a customer does not need to fill in deposit or withdrawal slips to be served, but the client gets a computerized generated receipt equivalent to the amount he/she deposits or withdraws. The institution takes credit as the first and the only micro finance institution in the Kenyan banking industry to introduce paperless banking. Paperless banking is a convenient service/product to Boda Boda operators and other members of society who may not have time to fill in deposit slips or cheque books especially those who may be unable to write (Source: FBL Brochures).

The bank has 48 branches with Automated Teller Machines (ATM) network and expects to open more branches during the year 2009 to mark its 25th anniversary. However, the bank is cautious about too much expansion taking into account the current global economic recession period especially in Kenya. In recognition of the bank's commitment towards economic enhancement of the poor, the government selected it to be among microfinance institutions entrusted with Youth Enterprises Development Fund (YEDF). The fund is to benefit the youth who are interested in starting their own income generating projects and those already n busienss and require a boost to improve their businesses. Youth Enterprises Development Fund (YEDF) program through Family Bank has made many youth especially Boda Boda operators realize their potential. It is a revolving fund which the bank manages on behalf of the Government and therefore issued for a maximum period of one year based on satisfactory operation of the account and two guarantors.

According to the bank’s audited accounts as at 31st December, 2008 its financial position stood as follows: Paid up Capital is Kshs.1,557,406.000.00/=. Customer Deposits (Kshs. 8,852,983,000/=) and Loans is Kshs.10,410,389.000/= From the security of the accounts, it is noted that the bank’s loan portfolio is high. This is a testimony that poor people are not bad debtors as may have been assumed by big banks that lend only against security Yunus (1994). However there is need for Family Bank to watch its risk management policies (Source Audited Balance sheet as at 31st December, 2008). Opening an account with Family Bank Limited has since been made easy and pocket friendly since a new customer does not need to go through a lot of scrutiny. The bank meets the cost of passport size photo through internal instant digital camera for their records and meets the cost of photocopying of document such as National Identity cards, passports and Registration Certificates. The bank’s loans are insured and have internal insurance arrangements for its customers who may wish to insure themselves and their families at minimal costs through micro credit insurance program. The bank plays a crucial role in terms of corporate social responsibility by assisting communities within the environment of their operation by organizing seminars to educate and train them on the culture of savings, borrowing, entrepreneurship and business management. The bank occasionally makes donations to Community Based Organizations (CBOs) to assist them live in a cleaner environment – the same practice like Grameen Bank Yunus (1994). The bank’s terms of borrowing are so flexible that many households find it convenient to have their business transactions channeled through it hence public demand for Family Bank products/services. Family Bank (FB) has proved to be instrumental in educating its customers and members of the public by organizing various seminars. In such seminars the Bank explains the kind of products and services it provides to the public and discusses the types of other products the clients would like the bank to provide. The bank also educates the public on the culture of savings and borrowing which is a serious missing link in Western Kenya.

2.2.4 Microfinance in Kenya

Microfinance institutions in Kenya operate in various institutional forms and currently can operate under more than eight Acts of Parliament namely the Banking Act, Building Societies Act, Societies Act, Co-operative Societies Act, Hire purchase Act, Companies Act, Trust Act and NGO Coordination Act CBK (2006).

2.2.5 The Theory of Micro financing

The Internationalization of capital has fundamentally transformed contemporary International Monetary Relations. The rise of both Multinational Corporation and, more importantly, the Euro market has dramatically increased international holdings of the dollar and international liquidity. Yet, while capital has been denationalized the state steering mechanism has not. in the absence of an international lender of the last resort, a highly unstable international financial system has emerged. This is what Jim Hawley relates with activities of private banks to changes in the international monetary system hence identifies an important contradiction underline the present international capitalist system, a contradiction that threatens a new period of economic crisis Jeffry and Lake (1987).

This is what Graham (1990), describes as the “best place to do business is USA because when any country of the world is in crisis of any kind, American dollar gains strength (appreciates) while the other currency depreciates subjecting such an economy into poverty”. This is a similar situation of boda boda operators in Kenya who are subjected to poverty because borrowing terms and interest rates of microfinance institutions are high hence they can not afford. In this respect if they have to borrow, they must adhere to the terms of the lender and this result to vicious cycle of poverty. The high cost of living and lack of employment opportunities has forced many youth especially school leavers to take to boda boda operation which is a popular mode of transport for the majority poor. The majority of the World’s population is poor, subsisting on less than USD 1 per day. Over 500 million of the World’s poor are economically active. They earn their livelihoods by being self-employed or working in micro-entrepreneurs (very small businesses). These micro entrepreneurs make a wide range of goods in small workshops, engage in small trading and retail activities, make pots, pans, furniture or sell fruits and vegetables and boda boda transport activities African Development Report (1996).

Yet these poor households often fail to secure the capital they need and miss opportunities for growth because they do not have access to financial resources – loans or safe place to hold savings. Over 80% of all households in developing economies do not have access to institutional banking services. When there are no financial institutions to serve them, poor enterprises like boda boda operators and households rely largely on informal sources such as family friends or money lenders for their financial needs. Surprisingly, in Kenya there are several microfinance institutions which should provide credit facilities to the poor yet the level of poverty especially among the very small business people counties to increase. This is what leads to the link between poverty and expansion of bicycle taxi operation especially among the youth as they have no capital to start any other businesses. Boda boda business does not require much capital one may only need to borrow a bicycle from a relative or a friend. However maintaining and improving the operation requires small capital Kisaalita and Kibalama (2007).

The post World War II period led to the transformation of international economy from one characterized by integration primarily through the market to a world system linked together by global corporation and international banks. Along with this process of internationalization of direct investment capital has become a new complex, rapidly growing systems of international finance. These developments have crated massive new problems for policy formulation and implementation among and within capitalist nations, for capital itself and traditional organization of the working class. In this respect there is need for developing nations to have proper economic planning and/or management and social policy geared towards technological innovation that will enable them remain a float or else become objects of exploitations hence poverty and culture of dependency. This situation requires good relationship based on partnership for the economic enhancement of the South. The case of financial institutions and the poor which may be harmonized through training and education rather than create products not relevant to their economic activities Jeffrey and Lake (1987).

In the fight to reduce poverty level globally, one question that keeps arising is how to avail funds to the rural and urban poor to enable them accumulate their own capital hence engage in productive economic activities. Traditionally, informal finance sources including Merry-go-rounds, village banking, family unit, Self-Help Groups (SHG) and shylocks have dominance in this regard. However, in recognition of the inadequacies of those services and vulnerability of the poor who rely on them, specialized finance houses, MFI have come up to fill the void. Studies worldwide have continued to point out the heavy impact on microfinance on poverty alleviation particularly in rural areas Betta (2001): Donaghue (2005). Similarly, the role of microfinance in empowering vulnerable members of society, particularly women have been well documented Mahmoud (2003).

In Kenya, the rural financial market is basically fragmented and unable to meet the needs of the poor rural population. This is not because of weaknesses in financial institutions, but more critically because of constraints in the rural financial environment. These include disparities in ability to access information between banks and rural households and the high risks in rural areas. They lack resources they need to mitigate risk, hence the myth by commercial banks that the rural poor are not bankable and creditworthy Adera (1995). Microfinance is often one of the most effective and flexible strategies in the fight against global poverty hence considered sustainable and implementable on a large-scale. The Grameen Foundation (2006), describes microfinance as consisting of making small loans usually less than USD 200 to individuals usually women to establish or exploit small self-sustaining businesses. Unlike other programs, microfinance does not require clients to provide collateral to qualify for loans. This enables those who would otherwise to qualify for credit facilities with traditional financial institutions to receive loans. Adera (1995), adds that this has not been the case with Kenyan microfinance institutions.

A number of institutions provide verdict to the small and micro enterprise sector in Kenya however upon collateral. These include Commercial banks, Non-Bank Financial Institutions, Non-Governmental Organizations, Multilateral Organizations, Business Associations and Rotating Savings and Credit Associations (RoSCAS). In addition, financial transactions also take place between traders, friends, relatives and landlords, as well as commercial moneylenders Kimuyu & Omiti (2000): Atieno (2001). The main commercial banks which have traditionally involved in SME lending and savings mobilization are the Kenya Commercial Bank, and Cooperative Bank of Kenya. The recent entry of Family Bank and Equity Bank into commercial bank business has sparked great interest among the microfinance players; the two banks were previously Building Societies hence have vast experience in micro-financing CBK (2006).

Other financial institutions like Fina Bank and Eco Bank (Formerly EABS Bank) is strategically poised to become one of the SME market leaders in the local banking industry, Fina is feted as "The Best Bank in customer satisfaction and the best SME Bank in Kenya Ministry of Industrialization Issue 2 (2008): Fina bank has since secured funding for fixed – rate loans to SMEs for a period of up to ten (10) years. However, the Bank funding portfolio is silent on boda boda operation and the issue of collateral, a situation which confirms that activities involving boda boda operation has been ignored by many microfinance institutions. This brings the question of relationship between financial services and economic enhancement of the poor. This means that despite the availability of various microfinance services, boda boda activities are not considered as part of SMEs. Boda boda is a giant self employment industry which should be taken seriously to improve the country's economy Howe (2003). A quick review of many financial institutions, especially commercial banks, rarely lend to small and micro enterprises (SMEs) especially boda boda, since they emphasize collateral, which most SMEs lack CBK (2004). As much as Family bank and Equity Bank have tailored their CBK requirements. Oketch et al (1995) argue that most SMEs therefore rely on their own savings and informal credit. Given that up to 78% of the SMEs are located in rural areas, this is a major limitation on the extent to which commercial banks can serve them (Ibid). Boda Boda operators have special needs because mostly theirs is a service business therefore they have a very low capital base.

Depending on the purpose, two approaches are generally used to categorize the different providers of microfinance services in Kenya. The first and most commonly used one is on the basis of formality where providers are categorized as formal or informal depending on the extent to which the provider is registered and regulated under formal law and transactions are governed under the various statutes of the law of contract or rather by self regulation or group-based rules

Otto et al (2002). Experiences from informal finance shows that the rural poor, often have grater access to informal credit facilities than to formal sources. The same case has also been reported by surveys of credit market in Kenya Aryeetey & Uly (1997): Raikes (1989): Alila (1991): Daniels et al (1995). It is argued that informal financial institutions often succeed even where formal institutions have failed Atieno (2001). The second categorization is based on the customer/provider relationship in the management and ownership of the financial service-providing entity. Under this categorization, microfinance providers could be dichotomized into client-based micro finance institutions (CMFIs) and member-based microfinance institutions (MMFIs).

Client-based microfinance institutions comprise of all microfinance providers, formal or informal where customers are not owners of the institution, have little direct involvement in the management of the institution, and do not have a share in the returns made by the institution Otto et al (2002). These include about 130 Non-Governmental Organizations, a small number of commercial banks and private companies as well as hundred thousands of informal microfinance providers, such as traders, shopkeepers, specialized money lenders, family and friends. By mid 1999, it was estimated that the formal segment of this category comprised of 86 institutions, with a total of 134,612 active clients and a loan portfolio of Kshs.2.5 billion CBS (1999).

Member-based microfinance institutions comprise of formal and informal mechanisms where resources are mobilized from members, management of the arrangement is in the hands of members and it is members who constitute the main target group for service provision. The formal segment of this largely comprise of both urban and rural Savings and Credit Cooperatives estimated to number 4,000 by mid 1999 with a combined total of 2.9 million members, an outstanding loan portfolio of Kshs.22 billion, and savings deposits standing at Kshs.29 million CBS (1999). The many rotating/accumulated savings and credit associations fall under the informal segment of this category of microfinance providers. For a long time though, the debate on microfinance in Kenya largely excluded MFIs and it is only now that some of the institutions, such as Savings and Credit Cooperatives (SACCOs), are beginning to be recognized as microfinance providers Otto et al (2002). What has been clear to many people for a long time though, is that MFIs, taken together, constitute a major source of microfinance services in

Kenya. It is perhaps for this reason that some observers consider this as the segment of the industry with the highest hope for reaching large numbers of the poor in currently under served areas of the country. Others, however, have sincere doubts about this. They argue that member-based organizations typically tend to exclude the poor and certainly the poorest. SACCOs, for instance, have so far mainly reached the not-so-poor cash-crop farmers and regular income earners Raikes (1989): Alila (1991): Oketch et al (1995: Daniels et al Atieno (1001).

Central Bank in conjunction with Kenya Bankers Association (KBA) Conducted a survey on banks' charges and lending rates and concluded that some banks' rates are too high hence the cost of getting financial services in the country is still beyond the reach of many especially the poor. The report further argues that despite the growth and the competition witnessed in the banking systems even with telecommunication companies entering the arena, many Kenyans are still in the darkness on banking issues. In this respect, there is need to educate the Kenyan society especially the poor on bank charges. There is need for such customers to shop around, visit a number of banks and talk to the staff to make sure they get the best value for money before opening an account. High charges have been a major cause why Boda Boda operators and other small traders close their accounts with microfinance institutions. This leads to frequent closure, non-account operation and probably negative attitude towards microfinance institution by the poor especially when the ledger fee is beyond their means Business Journal Africa (2008).

2.2.6 World Bank and Poverty

A former President of World Bank outlined the contribution made by the Bank to reducing poverty through promoting small enterprises and microfinance. The World Bank has been active in the Consultative Group to Assist the Poorest (CGAP), which promotes best practice in the microfinance industry and funds selected institutions to bring financial services to the poor. The new small Business Development initiative aims to benefit small and medium businesses by, among other things, supporting the market for private-sector business development services. A major role of the World Bank is to gather together and distill the knowledge of many donors and, in publishing these lessons of experience, small enterprise development plays a part. In order to succeed in its efforts of poverty reduction, World Bank should identify some serious microfinance institutions like Grameen Bank in Bangladesh and

Family Bank in Kenya through which they channel their funds for onward lending to the poor. The poor need education on the culture of saving which is the best solution to get out of economic difficulties. This approach will achieve better results and repayment than to deal with SMEs direct hence majority of the poor like Boda Boda operators will benefit from such funds Wolfensohn (2000).

2.2.7 Microfinance Services Outreach

Available data suggest that outreach to Micro and Small Enterprises (MSEs) has been likewise very limited: the national survey of SMEs in Kenya held by the Central Bureau for Statistics estimated that only 10.4% of the total number of about 1.3 million SME proprietors have ever received credit from any source CBS (1999). Though not specifying what is meant with ‘important’, the baseline survey qualifies NGOs as the most important source of credit for SMEs (Ibid). Given the outreach scores of other types of providers, this is not bad but still very low in absolute terms. The next ‘popular’ source according to the CBS baselines survey, are RoSCAs, but might be explained by the bias in service provision of cooperatives towards cash-crop farmers. Commercial banks and family friends take an in between position each having reached 1.5% of the SMEs. It is important to note that most of the studies carried out in Kenya have nto focused on service businesses like Boda Boda operators. They have mainly focused on rural areas, women and SMEs, manufacturing sector Otto et al (2002).

In order for microfinance institutions to provide financial services permanently to people, they have to be sustainable. International finance cooperation (IFC), 2004 notes that well-managed microfinance institutions have convincingly demonstrated that they can become profitable and sustainable institutions while making major contributions to poverty reduction by increasing economic opportunities and employments. Sustainable development will only be achieved by ensuring that economic, social, cultural and environmental dimensions of development be addressed in an integrated and balanced manner Littlefield (2004).

2.2.8 The State and the Policy framework

The three models defining the place of microfinance in the financial system cover a diverse and multifaceted development of rural financial services in the developing countries. As microfinance institutions grow, the question of their regulation has become an increasingly important issue. The state has in theory a major role to play in providing and instilling confidence in a regulatory framework, but governments have to know whether microfinance threaten microeconomic stability and whether regulators can have the capacities to regulate all these new mushrooming institutions Lapenu (2000).

Most of the impact analysis has shown that microfinance services do not reach or do not have a clear impact on the poorest of the poor: It is certainly an illusion to think that microfinance alone will draw this part of the population out of poverty. Extreme poverty requires complementary services such as infrastructure, education and health services that can be offered through state services. If a clear orientation is taken toward alleviation of poverty for the poorest house-holds and remote areas, the public sector must invest in these operation, since sustainable microfinance institutions will not be able to fulfill this role. Where no banking structure exists, this may mean that necessary conditions for development of rural financial system are not yet fulfilled, and in this case in Kenya where many SMEs, fishermen and market infrastructure (Ibid). The case in Kenya where many SMEs, fishermen and sugarcane farmers are unable to reach the banks unless they travel to major towns. This situation ahs contributed to expansion of boda boda to ease transport problems. Due lack of banking facilities these people are not able to develop the culture of saving therefore spend their collections on luxuries which increases their poverty level Stiglitz (1998).

The World Bank (1997) classifies the functions of the state as a means of improving equity hence protecting the poor. However most developing societies states have failed in providing the required financial services leading to continued poverty among small micro entrepreneurs boda boda included. As a minimal function for macroeconomic management, state intervention in the financial system has always been largely developed to ensure macroeconomic stability and to help the governments in the implementation of their economic policies. The state's macroeconomic role in defining the regulatory framework and fiscal and monetary policy is widely accepted as providing a public good. But questions remain about how this framework should be implemented for microfinance institutions and whether intervention using funds is justified. Moreover, as expressed by Besley (1995), the government may also be part of the enforcement problem as for example, forgiving some influent but delinquent borrowers can result in a political gain. This is the case in Kenya's microfinance institutions where credit facilities are characterized with strings attached leaving boda boda operators with no option. Proliferation and expansion of boda boda is as a result of failure by the state to provide employment opportunities. The state has failed in its role of equitable distribution of resources, control of lending rates including security of its own citizens and businesses. As a result the poor remains in vicious cycle of poverty since the interest rates and collateral are beyond their means. In view of this failure by the state many NGOs have come up as microfinance institutions some of which are brief case NGOs hence the spread of pyramid schemes whose activities are questionable Lapenu (1998).

Regulating monopoly and compensating missing markets have often justified the development of MFIs to fill the gap of the formal financial system and to oppose the monopoly of informal moneylenders. However, as expressed by Besley (1995), it is not clear that market power for example by village moneylenders, is socially inefficient even though its distributive consequences may be viewed as negative for the poor. Providing credit alternatives may be a reasonable response from the perspectives of distributional concerns but might have little to do with market failures Stiglitz & Uy (1996).

It is important to note that financial markets are subject to imperfect information due to the characteristics of exchange; money is given up today in exchange for a promise in the future. In most cases, such promises are frequently broken, and the financial institutions have to face problems of imperfect information. MFIs have to cope with risks of opportunistic behavior of clients (moral hazard), difficulty in the selection of borrowers (adverse selection), problems of lack of collateral and missing insurance markets. Governments face the same problems of imperfect information as the private sector and may have no better incentives to induce repayment on the financial market. All the more, government intervention may increase efficiency in facilitating the use of collateral through a clear definition of property rights and improving access to insurance markets and other missing markets. Central Bank of Kenya (CBK) should come up with clear policy in regard to lending to small micro entrepreneurs boda boda include instead of being too rigid on security and allowing interest rates at the discretion of microfinance institutions Besley (1995).

The activist functions underscored by World Bank (1997) and following the new analysis developed by Stiglitz (1998), it can be useful to understand how the government and the private sector act together as partners. For example government can create rents that enhance incentives for prudential behavior in the financial sector. The public policies that led to growth in East Asia sought not to replace markets and market forces, but to use and direct them; government lending programs, employing also commercial standards, complemented private lending. It has been left to MFIs to make decisions using their own policies for lending Stiglitz & Uy (1996).

SMEs lack the knowledge, time, material and human resources to identify their technological needs and articulate them to government institutions. A passive service such as exists in most African countries cannot therefore hope to reach them effectively: far more aggressive efforts are needed to “go into” the enterprises, help them to understand their own problems and then help to devise remedies African Development Deport (1996). This is the case with SMEs especially Boda boda operators in Busia town who lack knowledge and financial resources hence characterized with intensive labour for economic survival. It is therefore the responsibility of microfinance institutions to help boda boda operators to understand their own problems and then help them to get out of economic doldrums. By doing so, microfinance institutions not only in Busia town but Kenya as a whole shall have succeeded in their role of enhancing economic development of boda boda operators Amino (2001).

Kenya is portrayed as lacking economic activities in excess of social subsistence needs therefore also lacking a widespread trading culture. The same may be applied to boda boda operators and other small micro entrepreneurs in Busia town who despite the various resources available in the town, the residents still remain in poverty. The people of Busia prefer to involve more in “quick and opportunistic business than use the available resources such as banks to set up or improve existing businesses Himbara (1984): Howe (2003).

2.3 Savings services

Savings account is the most common deposit in microfinance institutions. Its function is to act as security or collateral for loans. A set sum has to be deposited at a set interval and there are penalties for failing to do so. The savings are held for a given period (or succession of periods) and cannot be drawn down until a loan is fully paid (with repayment periods varying from 16 to 52 weeks) CBK (2004).

2.3.1 Savings and Credit Co-operatives (SACCOs)

The Kenyan Savings and Credit Cooperative Societies (SACCO) sector is the largest in African and the next largest being, Uganda SACCOS constitute a critical part of the financial system in Kenya, making up about 42% of the cooperative movement. In 2005, the number of SACCOs increased by 4.6% from 4,474 in 2004 to 4,678 with only 3,767 countrywide being active. The SACCO sub-sector provides financial services to over 2 million members and mobilized over Kshs.125 billion and Kshs.103 billion in savings and loans respectively in 2004. However, it is unfortunate to observe that despite the massive potential of increasing access to financial services to the low-income households and SMEs in rural areas, the SACCOs outreach to the rural areas remains relatively low KUSCO (1999). There are hardly any saccos for boda boda operators hence need to educate and encourage them to form Saccos for their own economic enhancement. Victoria Boda boda Sacco at Manyatta in Kisumu is one but characterized with lack of policy hence inactive.

The traditional savings and credit services offered by SACCOs are the main cause of numerous problems faced by SACCOs today. Their main motive is to encourage members to save and obtain loans at three times the amount saved, and in most cases at interest rates below market rates. This has caused SACCOs to experience liquidity problems. Due to this, most SACCOs have diversified their services and products including providing near-banking services, referred to as Front Office Service Activities (FOSAs), which have led to an unprecedented growth and development of SACCOs. SACCOs have also embraced modern Information and Communication Technology (ICT) and linkage banking with commercial banks, particularly the cooperative bank of Kenya, in their operations, aiming to enhance efficiency, effectiveness and completion. In light of this, there has emerged a need to revise the existing cooperatives Act to prudently accommodate these developments CBK (2006).

Available information shows that there were about 4,000 SACCOs by the end of 1999 with a total of 2.9 million active members, a savings base of Kshs.29 billion and an outstanding loan portfolio of Kshs.22 billion. Estimates show that about 20% of the business of SACCOs is in the provision of microfinance services. With the exception of Teachers' SACCOs which are found at almost every district in Kenya, most employer-based SACCOs are largely found in urban areas. While it is known that some proportion of the services of employer based SACCOs are refereed to rural areas, it is therefore rural SACCOs that are more important in providing services in rural Kenya. By the end of 1991 it was estimated that there were 100 rural SACCOs in Kenya. These constituted former union banking units of the many crop-based cooperative unions which were spinned off into autonomous entities beginning in the early 1990s when operators t have their own SACCOs in order to ease their financial needs. The most active rural SACCOs are those found in sugar, tea, coffee, pyrethrum and dairy areas of the country, generally fairly high potential agricultural zones. Estimates put the share capital of rural SACCOs at Kshs.40 billion and an outstanding loan portfolio of Kshs.1.5 billion Oketch (1999).

While SACCOs are an important provider of financial services in rural areas, one major weakness has been their limited outreach capacity in areas without a major cash crop-the greater part of marginal areas in Kenya where the bulk of the poor live. This has particularly been the case following the collapse of cotton, sisal and cashew nut sub-sectors in Kenya since the 1970s the main cash crops that used to be cultivated in these marginal zones. A major challenge for the SACCO movement in Kenya is therefore the evolution of SACCO models that ate geographic-based rather than crop-based. This has began on a very modest scale with the organization of three trader's SACCOs in the country by the end of year 2000 Okech (1995).

2.3.2 Money Transfer Services

Money transfer refers to a service for transferring money mainly overseas to families or friends. Money transfer does not require opening of an account hence are performed by various commercial banks through international money transfer system such as Western Union, Money

Gram and Anelik. On the surface they may seem like small money transfers, but when one considers that such transactions take place millions of times around the world each day, the numbers become impressive. The annual global market remittances – money transferred home from migrant workers is around US dollar 167 billion. The estimated total is closer to US dollar 230 billion if one counts unregulated transactions. Remittances are also an important source of income for many developing countries including India, China and Mexico, all of which receive over 20 billion dollars each year in remittances from abroad. Money transfer services is instrumental in reducing poverty in developing societies especially among the poor who have friends and relatives abroad World Bank (2006).

M-pesa is safaricom innovation which handles transfer of money locally at an affordable rate hence preferred by most people because of its flexibility and efficiency, however unreliable in some cases because of network problems. M-pesa contracts known – Safaricom dealers as agents under their own terms and conditions. M-pesa is a convenient service provider to boda boda operators as it enables them to transfer money to their families and friends and also withdraw without necessarily having to open an account. “Standalone non-dealer agent” such as banks, Forex bureau, hotels, major supermarkets and saccos are in special categories hence authorized to handle local money transfer on behalf of M-pesa Guidelines for recruiting Safaricom. It helps the poor to improve their level of poverty because of its low tariffs M-pesa agents (2009).

2.3.3. Insurance Products

Micro insurance is a relatively new component of the broader microfinance sector, but one that holds great potential for helping poor people to manage risks in their daily lives. However, micro insurance presents providers with a whole new set of challenges, due to limited amount of actuarial data available on common risks within poorer market segments and the fact that insurance is a product less well understood in most poor communities and the fact that insurance is a product less well understood in most poor communities Trevor (2006). Life policy is a document containing a contract whereby the assurer, in consideration of one or more premiums, undertakes to pay to the person to whom the policy is granted a certain sum of money or sometimes an sanguinity on the death of the person whose life is assured or on his attaining a certain age Reeday (1980).

2.3.4 Service delivery approaches

Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions wit varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group based lending versus lending to individuals, village banking and linkage programs. Minimalist approaches and group based lending have been very popular and much tried by leading NGOs in the field of microfinance, like K-REP, KWFT and Faulu Kenya. Minimalist approaches basically concentrate on the provision of loans, giving no or at most some functional attention to training or technical assistance Pederson & Kiiru (1997). Group-based lending schemes have been very often based on the Grameen Bank method. This method has been designed and developed in Bangladesh with a view to deliver financial services to the poor, who have no access to formal banking services. A number of NGOs in Kenya have also promoted Self Help Groups (SHG) registered under the Department of Culture and Social Services. These groups have been formed with the objective of developing intergroup associations and linkages with banks Dondo (1994): Atieno (2001): Otto et al (2002).

2.3.5 Rotating Savings and Credit Associations (RoSCAs)

A Rotating Savings and Credit Association (RoSCA) is a group of individuals who agree to meet for a defined period of time in order to save and borrow together. “RoSCAs are the poor man’s bank, where money is not idle for long but changes hands rapidly, satisfying both consumption and production needs Greertz (1962).

2.3.6 Membership of RoSCAs

Members participating in a RoSCA are commonly selected by the organizer based on ethnic lines or geographical limitation. RoSCAs are commonly organized for members of the same ethnic background, same place of origin, same native language speaking persons or same family. In towns and cities RoSCAs take different participation in terms of membership as it is based on estate/courts Bouman (1979).

In terms of contribution, the amount to be contributed in each cycle is decided based on the number of participating members, the total winning amount that each member can get and other socio-economic factors. Contributions can also be in the form of shares; thus allowing a member to have more than one share or contribution in a particular cycle – increasing the regular contributions he has to make cycle period of RoSCAs meaning frequency with which contirubitons has to be made this can either be done daily, weekly, fortnightly or monthly depending on the amount to be contributed. RoSCAs can be seen in almost every society around the world, and have been in existence for a considerable period of time. They are flexible and adapt themselves easily to rural and urban peculiarities as well as existing community patterns of groupings. This flexibility is one reason for their worldwide popularity for improving the welfare of the poor Adams and Donald (1983).

2.3.7 Structure of RoSCAs

Meetings can be regular or tied to seasonal cash flow cycles in rural communities. Each member contributes the same amount at each meeting, and one member takes the whole sum once. This method of saving is a popular alternative to the risks of saving at home, where family and relatives may demand access at savings. Every transaction is seen by every member during the meetings. Since no money has to be retuned inside the group, no records have to be kept. These characteristics make the system a model of transparency and simplicity that is well adapted to commune its with low levels of literacy and weak systems for protecting collective property rights. The system further reduces the risk to members because it is time limited – typically lasting no more than six months. This reduces the size of the loss, should someone take funds early and to pay back Geertz (1956)P: Grant and Hugh (2002).

RoSCA are a popular savings and credit schemes among the vulnerable members of societies especially in the rural. Various small enterprises have been started through RoSCAs schemes hence the case of many Boda boda operators who have managed to own bicycles through such savings and borrowings other than through Microfinance institutions that have provided little assistance to them Geertz (1962).

2.3.8 Advantages of RoSCAs

It offers an opportunity for members to save, and the same time to keep such savings fairly liquid and maximizing return. it facilitates the availability of a lump sum of money which allows for higher investment to be made earlier than accumulation of savings, RoSCAs are organized along democratic lines, where operating procedures and other details are agreed upon by its members. Profits and other returns on accumulated contributions are equally distributed to all members. Risk of default is shared by all members and therefore sets up peer pressure to ensure that all members make their contributions on time Geertz (1962): Bouman (1979). In Kenya, (RoSCAs are popular amongst women especially the ones living in town and cities.

2.4 Accumulating Savings and Credit Association (ASCRAs)

These are informal microfinance groups which operate like informal credit unions. Unlike RoSCAs, AsCRas appoint one of their members to manage an internal fund and records are kept and surplus lent out. After a pre-agreed period of time usually between 6 – 12 months all loans are called back and the principle amount plus accumulated interest is distributed to members. AsCRas has larger group of membership ranging from several hundreds to thousands who accumulate their savings for a period of time often one year or more. After the end of the period, savings are distributed and used for a large purchase, event, investment or other purposes by an individual or group Bouman (1979).

During the savings period loans can be disbursed to participants. The process of loan in AsCras is different from that of RoSCas since they are approved on an individual basis by the group instead of being automatically granted one by one. In contrast to Saccos, RoSCas and AsCRAs are most often a female affair because the set up of these credit associations are dominated by women. this confirms World Bank report, 1999 that 90% of people who have benefited from micro credit through Grameen Bank are mainly women Wolferson (1999). This implies that women are more of micro entrepreneurs and better borrowers than men hence preferred by micro finance institutions because of their repayment records hence creditworthiness. The same case applies to Kenya Government which puts more emphasis on women microfinance through banks than the youth while men have no options open to them. These associations have not gone unnoticed to NGOs – MFIs. Quite some NGOs like Kenya

Women Finance Trust – KWFT), also following the pioneering work of K-Rep in this respect have explicitly targeted and used these groups for their financial services provision or taken their modus operandi as criteria and standards for group – based lending. While informal finance flourishes in Africa, formal finance flounders hence need for microfinance institutions to follow the foot steps of informal finance. AsCRas and Roscas have been found to reach the poor compared to formal microfinance institutions Schreiner and Geetha (1998).

2.4.1 Village Banking

Village banking provides small loans to very poor families to invest in their micro enterprise hence empowers the very poor to crate their own jobs, raise their incomes, build assets and increase their families well being the case of boda boda who many of them have acquired bicycles through village banking. Village banking is an informal microfinance in which neighbors come together in financial support groups called “village banks”, individuals borrow working capital for their micro enterprises, and because they have little to offer for collateral the group guarantee those loans. As businesses grow, such families earn more nutritious foods and parents are better able to take their children to meaningful schools. Villages banking helps invigorate entire communities World Bank (2006): Schofield (2009).

2.4.2 Social Loan Products – A missing link in MF

The growth of micro financing sector has started making waves in country’s financial sector as a whole. The micro financing has reached 1.13 million borrows by close of first quarter of 2007 and keeping in view the momentum of growth, it is expected that the target of benefiting 3.5 million poor by year 2010 will be achieved. The impact assessment studies carried out by various MFIs independently or in collaboration with foreign funding agencies reveal opportunities of employment and self-employment crated through credit disbursement program but their performance with regard to social dimension of micro financing program but their performance with regard to social dimension of micro financing program is lacking. The growth of these specialized institutions must be linked to the socio-economic warfare of their clients – the disadvantaged. Their financial up-graduation must get social back-up also for putting in place a mechanism of human capital development by making quality education accessible to their children, easy availability of proper health care, improving their housing environment and also protecting their lives and businesses against easy and affordable insurance facilities Akram (2007).

The criteria for determining whether a micro-credit programme is successful or not is basically to see whether poorest of the poor are coming to of clutches of poverty or not Yunus (1994). This means a microfinance institution whether operating as full fledged bank or MFI should strive to enhance socio-economic welfare of the clients in totality (Ibid).

In order to meet the needs of the rural poor, MFI should launch special loan products for financing the poor based on their requirements. The same should apply to boda boda operators whose population is so large that they need special microfinance services relevant to their demands. Such loan products should be low in cost and allowed against group/communal guarantee. Loan products launched by MFI facilitate income generation activities and working capital management of micro businesses of the borrowers. There is need to introduce bicycle capital products because clients to fetch orders direct for their product display centers at district levels to enable their clients to fetch orders direct for their products (Ibid). In Karachi this is happening therefore it will be appropriate for microfinance intuitions in Kenya to enter not partnership with some NGOs for expanding marketing outlet programs both in rural and urban areas Dawn – Business, (Nov. 2007).

2.4.3 Access to Micro Financial Services

Access to financial services by small holders is normally seen as one of the constraints limiting their benefits form credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one crated by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes Schmidt and Kropp (1987). For small-scale enterprises like boda boda reliable access to short term and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises Atieno (2001): Kimuyu & Omiti (2000).

2.4.4 The Role of Entrepreneurship in reducing poverty in LDCs

Entrepreneurship involves risk taking, creativity and dependence hence the active process of recognizing an economic demand in an economy and supplying the factors of production to satisfy that demand, usually to generate a profit. Entrepreneurship is a serious missing factor in Less Developed economies resulting to dependency on entrepreneurial societies. High levels of poverty combined with slow economic growth in the formal sector have forced a large part of the developing world's population into self-employment and informal activities. The case of Boda Boda people who have opted for bicycle operation as a source of income due to lack of alternative employment opportunities and lack of capital to start any other income generating business. But this is not necessarily negative, as micro enterprises contribute significantly to economic growth, social stability and equity Hisrich et al (2008).

Micro enterprise is one of the most important vehicles through which low-income people can escape poverty. Considering their limited skills and education to compete for formal sector jobs, these people find economic opportunities in micro enterprises as business owners and employees. All they need is financial support from microfinance institutions operating within their regions. The case of Boda Boda operators in Busia who should benefit form Family Bank and other MFIs operating in Busia town has been identified that entrepreneurship is a way of contributing factor to economic growth, however, entrepreneurial ability, motivation and leadership tend to be relatively lacking in most LDCs. Collier and Batty Cit. Daley and Sam (2002), identify some primary reasons for the shortage of entrepreneurs in LDCs as follows; "There is limited profit opportunities which exits in LDCs as a result of lower per capital income markets which make it difficult for potential entrepreneurs to borrow the funds needed to establish new business and take advantage of new investment opportunities". This ties in closely with the role of microfinance in empowering entrepreneurship. The third reason is that "sometimes social, cultural, religious beliefs and attitudes attach little importance to monetary gain, restrict economic and social mobility or assign very low status to entrepreneurs". The fourth reason is characterized with "unfavorable economic and political climate which might discourage the development of entrepreneurial talent and initiative". It is often argued that in the light of these barriers, governments hold the way in opening doors to aspiring entrepreneurs in LDCs Dalley and Sam (2002).

2.4.5 Government commitment to the SMEs

Kenya is one of the first independent African States to formulate special programs for supporting small business in both urban and rural areas. The small and medium scale enterprises which form part of the formal economy were characterized with some degree of specialization which most Kenyans did not have by the time of independence hence leaving many indigenous entrepreneurs to remain artisans. in the first development plan (1964 – 1970), it mentioned two programs: a training program, based on establishment of a small industry research and training centre, and a minor small industry loan program Soludo et al (2004).

The second development plan (1970-1974) paid more attention to the generation of more employment opportunities in the rural areas particularly in small-scale industries. This could be achieved by expansion of the loan scheme, industrial training and extension services that were introduced by a system of industrial estates for small industries under Kenya Industrial Estates (KIE) in 1966. In 1971, the government introduced a plan for setting up Rural Industrial Development Centres (RIDCs) in small and medium sized towns under Rural Industrial Development Centres (RICP). In the 1979-1983 development plan, the government interest to promote the SMEs was renewed and rural development emphasized. For the first time the rural SMEs was specifically identified as having a special role to play in poverty alleviation and employment generation. Bgesides this the government increased the number of industrial estates and RIDCs as direct assistance to the sector. The improved access to credit and loans together with expansion of training programs and the governments decentralized spenind were all aimed at the promotion of the rural informal sector Billetoft (1989).

The World Bank is currently involved in developing the SMEs under the Micro and Small Enterprise training and Technology project called the Voucher program. Under the project, the SMEs operators are receiving training involving the upgrading of technical, business, elementary design and marketing skills. The target population includes a firm of 1-49 employees, but most of the enterprises have an employment category of 2-5 workers. The highly qualified artisans (master craftsmen) are also being trained on the choice and use of Appropriate Technology i.e. locally suitable technology under the same project African Development Bank Report (1996).

The Kenya Rural Enterprise Program (K-REP) is one of the banks specializing in microfinance aimed at providing loans and saving services to the very small informal sector business community and low income or poor households and individual in rural areas. However several Banks have been licensed by the government of Kenya to offer microfinance services. Among them is the fast growing Family and Equity Banks. The banks use worldwide acknowledged mergering micro-finance techniques for accessing loans and saving facilities of very small transaction sizes that most mainstream commercial banks would keep away form. The banks aim at bringing micro-finance activity they have hitherto been perceived to be. They seek to demonstrate that lending and providing banking services to low income or poor people is both commercially viable and an important development intervention for poverty eradication. However, effort to eradicate poverty is a tall order hence can only be reduced. In Kenya the government formulated National Poverty Eradicatin Plan, 1999 – 2015 GoK (1999) which stipulates that by the year 2015, the number of people living below the poverty line will be reduced by half. This plan observes that people in Kenya should stir be to eradicate their own poverty rather than wait for the government to do it for them Ong'ang'a (2002).

The government mooted the idea of establishing a Youth Enterprise Development Fund (YEF) in mid 2006 as one of the bold and radical interventions to address the Youth unemployment problem. The objectives of the Youth Enterprise Development Fund is to increase young entrepreneurs' access to loans, complemented with facilitating linkages in supply chains, crating commercial infrastructure and markets. The government commitment was reflected in the National Budget of June 20-06 when Kenya shillings one billion (Kshs. 1 billion) was set aside for the Youth Emperies Fund. However, there was no operational and legal framework in place to facilitate the immediate disbursement of the allocated funds. The Fund's objectives are as follows: Provide loans to existing micro-finance institutions (MFIs), registered Non-Governmental Organizations (NGOs) involved in micro financing and Savings and Credit Co-operative organizations (SACCOs) for on-lending to youth enterprises for various purposes mainly to; facilitate marketing or products and services to youth enterprises, attract and facilitate investment in micro small and medium enterprises oriented, commercial infrastructure such as business of industrial parks, markets or business opportunities that will be beneficial to youth enterprises, support youth oriented micro small and medium enterprises to develop linkages with large enterprises, facilitate marketing of products and services of youth enterprises both in the domestic and international markets and facilitate employment of youth in the international labour market Kenya Vision 2030 (2007).

The recently released report on the status of the fund as at 31st October, 2007 indicates that a total of 24,440 groups benefited form the fund. However the ministry of Youth Affairs admits that substantial amounts of funds have not been dispersed. On Entrepreneurship training the report indicates that the number of youths who benefited from the fund's entrepreneurship program stands at 3,760. The second phase of this training is currently underway. The number of young people who have been trained by Financial Intermediaries stands at 55,750. Currently, 300 young people who succeeded in the Business Plan Competition are undergoing advanced training at the Provincial level (MGCSS/BSA/PC/2007).

2.4.6 Employment in the SMEs

Creation challenge in Kenya is enormous. Poor economic and political governance, inefficient infrastructure systems and unfavorable macroeconomic environment have constrained growth and employment creation in most sectors of the economy. The scope of formal private and public sector employment has gone down, especially since 1993 due to effects of liberalization, intends global competition and general restructuring within the public sector. The formal sector has, therefore failed to create jobs at a level that matches the country's 3.1% annual rate of growth of the labour force, making the unemployment situation in Kenya worse Omoiti and Omollo (2005).

The focus for employment creation in Kenya has shifted to the informal sector, especially in SMEs. The country's blue print on economic recovery (Economic Recovery Strategy for Wealth and Employment Creation – ERSWEC, 2003 – 2007, envisages that SEMs will generate at least 88% of the 2.6 million jobs required to stabilize employment within the economy. Despite this daunting challenge, the SMEs sector in Kenya is still under developed, suffers form high mortality rates and seems largely incapable of crating adequate, productive and sustainable employment opportunities in the country. unemployment remains a major problem in developing countries, especially sub-Saharan Africa where it averaged 11% over the period 1995 – 2003.

This was the highest unemployment rate in the world after that of Middle East Countries and North Africa with 12% each. Most African Governments have not addressed unemployment issue seriously hence the rise of SMEs some of which are unsustainable due to lack of credit facilities ILO (2004).

Employment in developed and developing countries varies significantly in terms of quality and other characteristics when compared. The vast majority of employment in developed countries is within the non-farming sector, mainly in the form of wage employment. Fore example, in the US wage and salary earners account for over 90% of the population, whilst 97% of all employment is outside farming Hisrich et al (2008). In developing countries it is to the contrary, where wage employment only accounts for approximately 39% and the share outside farming is under 40%. This implies among other things that a majority of jobs in the developing countries are in categories such as self-employment, employer and unpaid worker including apprentices Sethuraman (1998). The self-employment concept is utilized to refer to small-scale producers who operate small-scale units and product and distribute goods and services generally within their own communities. These entrepreneurs work with very little and utilize low level technology and skills Leonard (2000). The enterprises generally operate at low-level productivity and provide low and irregular incomes and employment to those who operate them. Some operate using family labour or employ a few hired workers whose labour inputs is largely informal, unregistered and unrecorded in official employment statistics. The employment statistics are incomplete, covering a major part of wage-earnings and self employed persons, male as well as female in the informal sector Meir (1976).

Employment generation is one of the major political topics in the present day Kenya and this problem has accelerated particularly since 1980's Billetoft (1989). Informal employment currently constitutes the major source of both urban and rural job opportunities. The performance of Kenya's domestic economy in the year 2000 adversely affected employment creation n all sectors of creating only 3,300 jobs representing 0.8% of additional jobs. As such most jobs were created in the expanding informal sector. The total number of persons employed outside small-scale farming and pastoralists activities rose by 7.6% from 5.5 million persons in 2000. Most of the additional were created within the informal sectors as employment in the modern sector continues to stagnate employment in the modern sector stood at 1.7 million persons in 2000, while the informal sector rose by 11.0% to 4.2 million persons, accounting for 70.4% of total employment Economic survey (2001).

2.4.7 SMEs Constraints

According to Aryeetey and Udry (1997) and Kibas (2003), the SMEs sector is largely characterized with low and often absent, entry barriers, which tend to facilitate easy business start-ups. This is also accompanied by flexibility and low capital requirements. However, managing and expanding these enterprises often call for additional resources and skills on the part of the entrepreneurs. Webser and Fidler (1996), argue that those have been broadly categorized as being related to financial as well as non-financial aspects. The former include availability and management of working capital; whereas the later comprises of all other services not directly related to funding. Both financial and non-financial constraints have been identified and noted as requiring attention for the informal and small enterprise sector to play its rightful role.

The Sessional Paper No. 2 of 1996 noted that despite the Kenya government effort aided by donor agencies and NGOs, access to training and technical support, access to credit for working capital, access to land and infrastructure, and access to technology and information were major constraints to growth and expansion of the informal sector. Therefore it is equally important to examine constraints in SMEs offering service businesses like Boda Boda whose constraints may not be captured in the previous surveys RoK (1996): DBS (1999).

2.4.8 Features of rural informal sector activities

Informal sector activities are characterized by technologically simple operations, which demand limited skills and low capital, predominantly rural in location, reliance on the entrepreneur and his other family for much of the labour input with rarely an average of 2-3 employees and are always very small. According to Strehlke (1987) the working conditions of the labour force moved are normally poor, characterized by poor pay, lack of social security, higher accident hazards, heavy physical and long irregular working ours the case of boda boda. They operate very closely with Agricultural incomes to generate demand for their products. The educational level of the persons employed in the informal sector is usually low, and most training takes place on the job. In most enterprises, the percentage of young workers is high and many of them are recognized as apprentices and the labour turn over is high due to widespread employment. Often people fail to realize the extent of economically efficient production in the informal sector because of the low incomes received by most works in the sector Mier (1976). The Boda Boda micro enterprises sector as a whole is a major source of rural livelihood in developing countries, especially in Western Kenya often next only to agriculture in terms of employment for observers, it requires a reap of imagination and considerable openness of mind to perceive the informal sector as a sector of thriving economic activity and a source of Kenya's future wealth Lay et al (2007).

In most developing countries women are the most active players in the informal sector. However in Boda boda business, women entrepreneurs are not common. Women's participation in the informal sector has grown over the years, apparently because of the growing incidence of female headed households but also in response to increased pressure placed on family by economic recession and Structural Adjustment Programs World Bank (2006). According to Carr (1984), increasing landlessness in combination with other economic and demographic forces has created a compelling need, in most developing countries for the expansion of the informal sector in the rural areas. The CBS estimates that the 1.3 million SMEs employ some 2.4 million people, which means that the average number of works of SMEs is less than 2, including the owner. The study shows hat about 265 of the total numbers of households in Kenya are involved n some kind of non-primary activity, that is, SMEs activities that do not involve in farming, fishing and other primary production CBS (1999).

2.5 Brief History of Boda Boda

According to Pankaj (1991), one of the puzzles in the transport sector is that African in general surfers from what has been called the "missing middle". Movement of people; and goods goes form walking and head loading to the truck and bus in one technological leap. The transport sector lacks flexibility in service provision. This has been equally true in urban and rural areas, although the situation is starting to change with the development of passenger carrying motorcycle services in West Africa Howe & Iyiola (1996): Onon (1997). Based o this it is important that bicycle and motorcycle transport activities should be recognized by microfinance institutions in Kenya hence provide financial services to the operators for improvement of their activities.

Boda boda transport services are a Ugandan innovation that has grown from small beginning in the 1960's in the border region with Kenya. Boda boda services originated from Tororo in Eastern Uganda in 1960s Malmberg (1994). Confusingly both bicycle and motorcycle services are often known by the same name "boda boda". although ("Machala" in Western Uganda or "Zabala" in Mukono District) are preferred in some areas for the motorcycle services, while in Nyanza among the Luo community it is known as "Ngware" and in some parts of Tanzania it is known as "Dala dala". Boda Boda fulfils important economic and social functions, yet littlel is known about their operations by microfinance institutions. Hardly a day passes without Kenya's local newspapers and media having a story or letters related to boda boda industry. They deserve the appellation industry because of their scale and the backward and forward linkages they have with other sectors of Kenya's economy Leyland (1999).

Boda Boda operators face a number of problems including high cost of entry to the industry, traffic harassment, lack of credit facilities, difficulties in bargaining spares and poor maintenance facilities and skills outside of the main cities, however Kenya government in its budget of June 2001, then Minister of Finance Chris Okemo excepted the purchase of bicycle from being added, a gesture that received an overwhelmingly positive reception by boda boda operators. Since then, the government does not seem to take a serious role in the development of boda boda operators. This is clearly demonstrated in its strategic plan-vision 2030 where her is no mention of empowerment of boda boda industry. It is my hope that in this year's budget the government may consider giving boda boda industry the recognition it deserves by exempting boda boda products – bicycles and motorcycles from value added tax (VAT) and addressing their difficulties in accessing credit Amimo (2001).

Bicycles and motorcycles are not regarded by banks as suitable for hire purchase because few would be owners can provide any collateral or a secure address. The major retailers have in the past offered a limited credit of about 5% of the purchase price and retained the registration papers until the debt has been cleared. Another frequent complaint is harassment by law enforcement officials and other transport operators, especially motor vehicle taxis. To combat this, association based in the Kenyan border town of Busia has hired its own Lawyers to protet its members from abuse of their rights Howe (2003).

In Kenya Boda Bodas have been around since 1992, when young people in Buisa, a town that shares a border with Uganda, used to transport goods across the border. The concept Boda boda originates from the English word ‘border’. These youth quickly realized that the same bicycles they used to carry goods from Kenya to Uganda and back could also ferry people in the poor villages of Western Kenya. The mania spread its wings to neglected rural villages in the west and beyond, with an estimated 90% of Kenyan roads not being paved, according to the 2001 budget report on rural development, and many roads being impassable by vehicles, the Boda Boda has become a versatile, quick and reliable form of transport News from Africa Amimo (2001): Malmberg (1994).

Boda boda is now a household name and has become like school vans for transporting pupils and teachers. Employees of various sectors and business people use boda boda to and from offices denying ‘matatu’ vehicle (taxi) operators the monopoly hence ‘tug of war” between the two transport operators. In the rural villages boda boda play the role of “ambulance” to transport the sick to nearby clinics. The bicycle taxis are now a part of life and taking into account the government’s failure to create jobs, no doubt bicycle taxi is here to stay and will continue to bloom to a giant indigenous industry employing millions. In this respect microfinance institutions should prepare for business from the industry hence finance them to improve their earnings Amimo (2001).

2.5.1 Boda boda and the Law

In the process of their business Boda Boda operators themselves and their clients are subjected to various risks such as comfort, accidents and loss of bicycles in the event of robberies or thefts. It ahs been toed that Boda Boda operators are a major cause of accident in Busia, Kisumu, Kakamega, Bondo, Wang-Arot, Siaya, Ugunja, Homa – Bay, Katito, Oyugis, Kombewa, Mumias, Bungoma, Kitale, Ahero and other major towns where the transport system is popular (Local Newspaper reports). they have no insurance policy to cover accident risks therefore stand to lose n the event of accidents save for motorist owners whose vehicles are comprehensively insured.

Majority of bicycle and “tuk tuk” operators have no side mirrors to help them notice other motorists coming from behind. The bicycles in particular have o reliable braking system, audible horns and signs to alert other road users. They stop anywhere with no regard for traffic rules hence frequent accidents (personal observation). This is an area which requires education and training of boda boda operators. Credit facility alone by microfinance is to enough, life is more important hence should to be lost through ignorance (Personal observation).

In the event of an accident, Boda Boda operators do not reason, instead they are arrogant and gang up to frustrate other road users especially women motorists and pedestrians and get away with it. In some cases they resort to roughing up motorists and stoning their vehicles. This is an uncivilized act which must cease and can only be reduced/ stopped through deduction and when an insurance policy boda boda is put in place in this respect insurance services are essential (observation).

Apart from accidents, Boda boda operators and their passengers are exposed to health risks in the course of travelling. Dr. Alfred Baraza, a clinical practitioner at Western Maternity and Nursing Home, Mutunda in Bungoma explained to the study that “Operating Boda bod has its medical drawbacks”. He says that “The people do not get proper diet, thus their health deteriorates acutely”. Due to dusty roads and could weather, “they contact pneumonia bronchitis and acute flue”. “Some develop kidney stones as a result of the body emptying a lot of acid hence need for the operators to wear warm clothing during cool weather and wear masks when the road is dusty”.

Dr. Baraza a medical practitioner further explained that, bicycle operators in particular expose themselves to biological risks which in the long run make many of them failing their reproductive responsibilities. This study therefore, in collaboration with various stakeholders such as Family Ban k and other MFIs, insurance companies, traffic police department and medical practitioners will recommend ways of making Boda Boda a safe and healthy mode of transport for both the cyclist and passengers. All that is needed is to educate these hard working members of the society not only to reduce their level of poverty but also to have a healthy disciplined nation adds Dr. Baraza.

Dr. Odero Nyimbi (ICIPE Research Scientist), told the researcher that boda boda operators are “intelligent citizens who only need to be educated on the role of self discipline, elementary book keeping and training on bicycle riding in order to observe traffic rules. If left without education and control they will remain in-disciplined and poor finance managers like the fishermen group hence continuous poverty. He recommends modern technology for boda boda operators for a future healthy nation. He appreciates boda boda transport as free form environmental pollution”.

2.5.2 Theoretical Framework

A theory is a series of concepts organized into assumptions and generalizations that tuned to hypothesize about a phenomenon Glatthorn (1999). The theoretical framework adopted for this study is derived form poverty alleviation theory developed by Professor Muhammad Yunus (Founder and Managing Director) of Grameen Bank-Bangladesh in 1976. The primary objective of Yunus theory of poverty alleviation through Grameen Bank is to uplift the socio-economic conditions of the rural poor. This theory is considered suitable to the study because the role of microfinance institutions in Kenya and other parts of the World is to reduce level of poverty among the poor by encouraging them to save either as groups or individuals in order to get access to loans for micro entrepreneurship. The theory has made remarkable achievements hence revolutionized the rural people’s attitude towards women and work. The same should be applied to boda boda operators who feel they have been neglected in economic activities by society. Microfinance insinuations have reduced level of poverty by enabling those who save with them realize their worth through micro credit facilities hence become micro entrepreneurs in various sectors Wahid (1994).

Grameen Bank remains a unique financial institution in Bangladesh as it originated to provide small loans exclusively to the poor who possess not more than half acre of land. It provides comprehensive investment, counseling and close supervision over borrowers' entrepreneurial activities so that they can make the most productive use of the loans and succeed in their business ventures. It encourages its borrowers to generate savings and advice them to get rid of century-old social vices and to live in a cleaner and better environment. The theory is applicable to the study because microfinance institutions like Family Bank encourages its customers to save and borrow loans based on performance of the account and contributes to the government through activate participation of community projects as and when called upon. Theory of poverty alleviation educates the poor on the culture of savings, borrow wisely and pay promptly. The model – poverty alleviation theory was introduced by Yunus in 1976 with an aim of creating jobs for a larger number of unemployed and under-employed labour. However Yunus theory of alleviation through Grameen Bank originally required the poor borrowers to provide collateral which many of them could not afford. On realization of this difficulty after Baker-Hopkin model (1994), it changed its credit policy to be based on group lending.

The model – The theory promoted self-employment non-firm activities. The theory was modified by Baker-Hopkin credit model in 1994 and stats that if a credit program can be designed and instituted in such a way that the loan and the interest are revered in small installments stretched over a larger period of time, the loan may eventually make the borrowers save small amounts on a regular bass of what would otherwise be consumed due to pressure of poverty.

Based on this theoretical framework and the reality of the contemporary credit market in Bangladesh, Grameen project devised alternative credit system of collateral through lending subject to total recovery in 50 weekly installments. Baker-Hopkin model gives the theoretical underpinnings as to how credit causes capital accumulation but there is also a need for a mechanism to ensure credit repayments. In order to generate the timely recovery of credits, Grameen Bank introduced peer monitoring system to eh Baker-Hopkin credit equation. Under this system, if the recipients take loans in groups and agree to monitor the activities of one another, then the recovery rate may improve substantially.

Hickson (2001), suggests that most microfinance (MFIs) have far to go in finding ways of reaching extremely poor households because they lack understanding of the dynamics of poverty and opportunity that exists for provision of financial services to the extremely poor. Moduch in his theory of prices argues that “a golden mile of economic development is that for a nation as for a family, rising a value product lower than the cost of production is immerserizing producer subsidies hence way of accepting lower value production than its cost. Poverty alleviation holds that regular savings provision of loans with flexible terms, low interest rates of loans, good management and training of consumers will lead to improved investments which results to poverty reduction.

In Bangladesh, where about one third of the world’s estimated 30-40 million micro borrowers reside, the growth has come from specialized microfinance NGO’s and Grameen Bank. What began with small grants and loans from international donors, has now provided over 100 million dollars in loans. The most distinctive feature of the credit delivery system is the absence of middle men between the credit supplier and end user. The bank’s cumulative recovery rate is an astounding 98 percent. Grameen Bank has its own special legal structure, and does not fall under regulatory oversight of the Central Bank. The bank also aims to raise health and environmental consciousness. Each of its members must plant at least one sapling a year as part f an afforestation program. Grameen is perhaps the only bank in the world that encourages birch to control, sanitation and a clean enviroenmtn as part of its lending policy Yunus (2004).

In India, despite the large size and depth of its financial system, the majority of the rural poor do not have access to formal finance and financial services. For this reason, in natives microfinance initiatives pioneered by Non-Governmental Organizations strove to crate links between commercial banks, NGOs, and informal local groups to crate the “SHG Bank Linkage”. The success of SHG Bank Linkage has been largely attributed to good and strong leadership, in conjunction with facilitating government policy and legal framework. India’s approach to microfinance-making it profitable and so widely available – helped the country reduce the incidence of poverty from about 40 percent to the population in the mid – 1970’s to labour 11 percent in 1996 Robinson (2002). Members of SHG recognize that “several challenges lie ahead", but still believe it has "the right ingredients to be scaled-up into offering mass access to finance for the rural poor while improving sustainability" World Bank (2003).

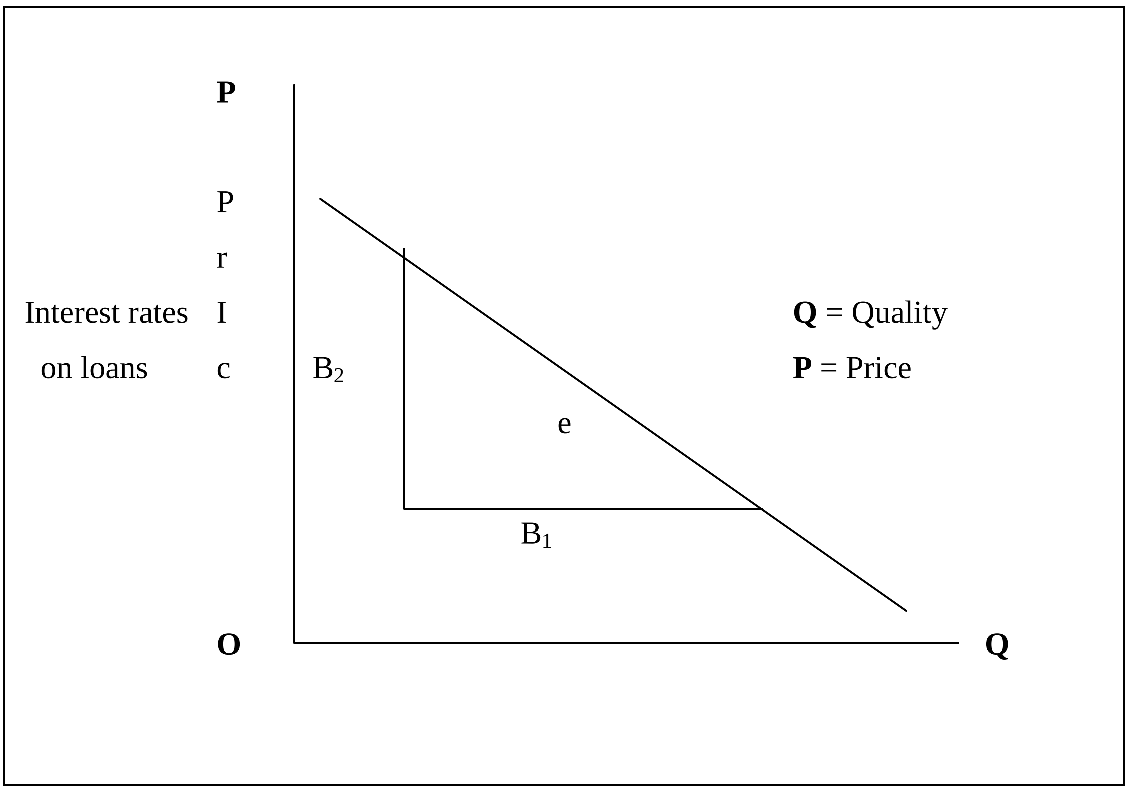
The economic benefits of sustainable micro entrepreneurship in LDCs are compelling, and its potential effects on the development process re equally promising. In terms of development and social impact, the microfinance industry allows significant improvements in quality of life for the micro entrepreneurs of LDCs around the world. They can now stabilize the cash flow of their economic activity, bring security to the enterprise. This allows them to better manage spending, which often generates savings; and thus provide better standard of living other family, and dependents in terms of housing, nutrition, health and education. Finally, an access to banking and increase security promotes a sense of entrepreneurship, and thus their self-esteem and reputation increase. The initial small loan of usually less than $100 can eventually reintegrate these entrepreneurs into formal networks of the economy and foster the structural and sustainable development of local communities. Furthermore, estimates indicate that today only 55 of the micro-credit demand is fulfilled, thus, the microfinance industry is expected to grow significantly in coming years. Despite several challenges ahead, this emerging industry, and the process of sustainable micro entrepreneurship combine to offer a potential alleviation solution to the poverty crisis of the 21st century, and into a sustainable future World Bank (2003).

2.5.3 Model: Law of Demand Theory

A model is an explanatory device characterized by the use of analogies to give a more graphic representation of a given phenomenon hence a representation of a reality Smith (1973). the law of demand stats that, when the price of a commodity is raised, buyers end to buy less of the commodity. Hence the case of boda boda operators and microfinance institutions in which when interest rats on loans are high, boda boda operators will not take loans. Similarly, when interest rates are lowered, the demand for loans will increase Samuelsson and Norhans (1989). In the case of boda boda operators, microfinance institutions may also their interests rates but conditions of accessing such loans may be too rigid therefore he demand by the operators will not increase hence continues to remain in poverty. In this respect in order for microfinance intuitions to succeed in their role of economic enhancement on boda boda operators', microfinance institutions should lower their interest rates at the same time make their terms of borrowing affordable.

This is an economic theory which explains the effects of interest rates on the quantity of loan demanded. In this respect there is an inverse relationship between financial services/ products offered to boda boda operators and their economic enhancement meaning there is relationship between the price of loans and quantity of it demanded. This is to say the demand curve is downward sloping. However, this only holds true provided all other things such as tastes of customers, their income and prices of other goods are held constant.

Specification of Graphic and Mathematical Model of the Law of demand



Quantity

Source: Mutai (2000)

Figure: 2.1: Law of demand model

Mathematically this can be expressed as:

$\mathbf{Q - B_1 + B_2P}$

B1 and B_2 are parameters of the function

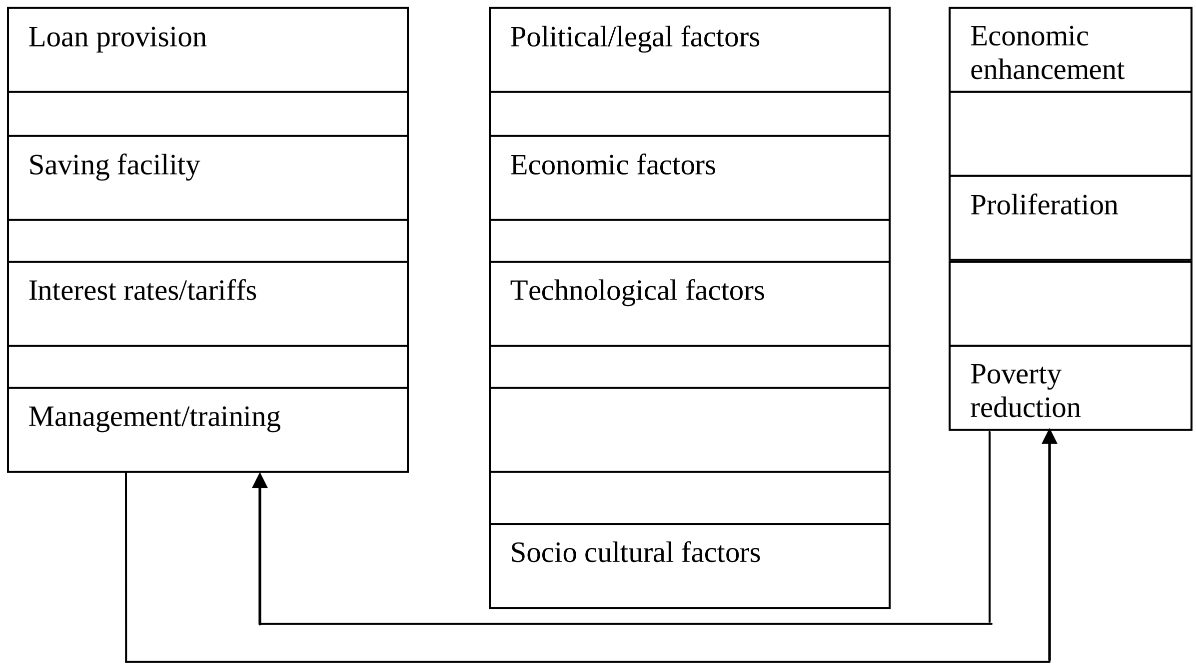
B_1 is also known as the intercept and gives the value of Q when P is O and B_2 known as the slope. The slope measures the rate of change in Q for a unit (Say, a shilling) change in P as shown I the figure above.

The above equation is an example of a mathematical model of the relationship between P and Q. In this model the variable appearing on the left hand side of the equality sign is dependent variable and the variable on the right hand side is independent or explanatory variable Mutai (2000).

Conclusion: When interest rats on loans, borrowing terms and other tariffs are high, boda boda operators may not take loans therefore close their accounts. In this regard microfinance institutions should consider reducing their terms and conditions of loan facilities in rode rot succeed in their role of economic enhancement of SMEs sector. Based on the above theory, there is relationship between interest rates on loans and economic enhancement of boda boda operators'. Boda boda operators and other SMEs in Busia town (Kenya) have low income levels which may not enable them maintain their accounts with microfinance institutions whose tariffs and interest on loans are high. High bank charges subject such operators to vicious cycle of poverty hence seem of them prefer keeping their collections in the o pockets or with shopkeepers the care of Uganda boda boda operators. So log as Boda boda industry remains in existence due to lack of employments microfinance institutions will have no choice but to consider reducing their rates of interest, terms of borrowing and other tariffs in rode rot attract the operators to do business with them. The demand for credit facility by operators is high but harsh terms and conditions of borrowing by some microfinance institutions keep them off Stokes (1999).

2.5.4 Conceptual Framework

A conceptual framework is diagrammatic explanation of the research problem hence an explanation of the relationships among several factors that have been identified as important to the problem Ngechu (2006). The study was therefore guided by the following conceptual framework; Independent variable, Dependent variable and intervening variable (moderating).



Source: self conceptualization:

Figure 2.2: showing conceptual framework:

In this study loan provision, savings facility, low interest rates and management/training were considered independent variables which influence economic enhancement and proliferation of boa boda operation hence poverty reduction. The above variables influence dependent variable positively or negatively depending on the situation. The study considered economic enhancement, proliferation of boda boda and poverty reduction as dependent variables which are the response to be observed in the process of treatment if change has occurred. Intervening variables were considered to be political/legal, economic, technological and socio-cultural factors as they influence the relationship between independent and dependent variables positively or negatively.

Political/Legal factors influence economic enhancement, proliferation and poverty positively or negatively depending on the policy/legal framework of governance. In Kenya, election violence resulted to destruction of human life and property hence poverty. This was a negative influence for development. Economic factors influence economic enhancement, proliferation of boda boda and poverty positively when here are good monetary policies which control prices of commodities, interest rats and equitable distribution of resources. in the event of recession economic factors influence development negatively because microfinance institutions may not avail loan facilities because savings are down and if they do avail the loans, the rates of interest and other tariffs may be too high for the affordability of the poor hence increase in level of poverty.

Technological factors impact on loan, savings and management/training positively when services are efficient. More people will increase their savings and this provides microfinance institutions with excess liquidity to lend at affordable rate of interest. Technological factors improve management and training of staff. However in the absence of information technology economic enhancement may not be achieved hence poverty. Socio-cultural factors impact on economic enhancement, proliferation and poverty negatively when people are not interested in saving their money in banks and taking loans for fear of having their property auctioned. it also impacts on savings, loans, interest rats and training because microfinance institutions will not generate enough deposits and come to meet the liquidity ratio. Boda boda operators in Uganda is an example of those operators who prefer to keep their money with shopkeepers because they lack information, training and education on the culture of saving Kisaalita and Kibalama (2007). Instead they should deposit such collections in their bank accounts so as to ear interest and qualify for loans to improve their loans and level of poverty. This signifies how lack of training may impact on economic enhancement negatively.

2.5.5 Operational Definition of Variables

Operational definition is a set of procedures that describes the activities to be performed in order to establish degree of existence of a concept Mutai (2000). a variable is anything that can take on differing. The conceptual framework figure (2.2.) illustrates factors that influence either increase or reduction of poverty. In this study the following variables were used as defined below;

Economic Enhancement: A way of improving living standards of the poor through micro saving and micro credit hence a variable that improves the living standards of the poor provided there is availability of microfinance services.

Economic factors: These are variables that affect economic enhancement positively or negatively depending on the political/legal framework.

Interest rates: Amount charged by microfinance institutions on loans sanctioned to the borrowers. The term also refers to interest paid on deposits received from clients.

Loan: Credit facility to the poor repayable with interest by installments within agreed period of time.

Management/training: Training services provided to microfinance staff to improve their efficiency in service provision.

Poverty reduction: Dependent variable that relies on financial services available to the poor by microfinance institutions.

Proliferation: Ability to exploit the available opportunity and resources, increased expansion in boda boda business as a result of lack of capital to start any other income generating businesses.

Savings facility: Banking services provided by microfinance institutions for the poor to save and borrow small amounts for micro enterprise activities to improve their living standards.

Social cultural factors: Variables that influence economic enhancement positively or negatively depending on the policy framework of governance.

Tariffs: Microfinance institution charges on services provided to customers.

Technological factors: Variables that impact on service provision to determine efficiency of microfinance institutions.

2.5.6 Gaps in Knowledge

Everyone concerned with Affair's development would be interested in understanding and characterizing the policy process in Africa. But very little investment has gone into this area of inquiry in spite of the immense benefits such exercises could potentially yield Soludo et al (2004). The case of boda boda operators in Busia town (Kenya) who have immense potentials in terms of reducing level of poverty, but policy makers are not somewhat keen to understand their financial problems so as to improve their businesses despite the presence of microfinance institution in the town.

From the above review of selected literature on microfinance and SMEs, it is clear that there is need to carry out a study to examine the reo of microfinance on enhancement of service businesses with a focus on Boda Boda operators. Most of the previous studies have mainly focused on boda boda as a means of transport and SMEs manufacturing domain Strehlke (1987): Oketch (1995): Nyang'au (2002). Also, access and impact of micro credit in Kenya has been widely researched Raikes (1989): Aryeetey and Udry (1997): Kimuyu and Omiti (2000): Atieno (2001): Kibas (2001): Kuzilwa (2005): Seibel (2007), while other microfinance services like savings, insurance and money transfers have been left out. There is need for a study that will focus on microfinance as a whole so as to find out the role it plays on SMEs. As much as several studies have been carried out documenting the emergence and socio-economic characteristics of Boda Boda operators in East Africa region Meier (1976): Strehlke (1987): Howe (2003): Kisaalita and Kibalama (2007), most studies have focused on Uganda while few studies exist in Kenya. Furthermore constraints facing boda boda operators have not been examined. Therefore this study concentrates on the above mentioned areas as mirrored in the study objectives.

2.5.7 Summary of Literature review

Microfinance institutions are specialized financial institutions whose role is to provide a variety of financial services such as savings and micro credit to the poor. From the summary of literature reviewed, microfinance institutions in Kenya have not performed well in their role of economic enhancement of the poor because of tariffs and lending policies which insist on collateral. In this respect their role of reducing poverty among the poor remains a tall order to achieve unless they adjust their conditions of credit facilities the case of Grameen Bank in Bangladesh. The few poor who may have received micro credit facilities have been subjected to vicious cycle of poverty because of high interest rates on loans. Economic enhancement process for the poor is not a one- time credit but requires continual supply of finance to meet a person's needs in the form of secure and accessible loans from institutions and environmental sustainability to preserve environmental resources for use by future generations.

Boda Boda operators prefer keeping their collections in the pockets rather than channel such collections to the bank where they have opportunities for credit facilities based on active operation of the account Kibalama (2007). This culture may only be reduced through education and training of the operators on the role and benefits of savings in microfinance institutions. Bicycle and motorcycle taxi operators have immense potentials which may only be fully exploited when policy makers take keen interest in understanding their financial problems with microfinance institutions Soludo et al (2004).

Poverty reduction among the poor may only be achieved when microfinance institutions reduce their rates of interest on loans and apply flexibility in their borrowing conditions. Otherwise the poor will still continue to remain vulnerable hence vicious cycle of poverty. Economic enhancement among SMEs (boda boda operators included) may be achieved when the small entrepreneurs and microfinance institutions work as partners and introduce products suitable to the operators at affordable rates that meet the operators' economic income. Micro credit alone without education and training the poor on the culture of savings and borrowing is not enough. There is need for Kenyan microfinance institutions to emulate the practice of Grameen Bank in Bangladesh which provides training programs on the culture of savings and encourages its customers to plant trees for a better environment as well as observation of Family Planning Yunus (2004).

The government should come up with policies to control lending rates of MFIs or else such lending institutions will control the exploiting the poor resulting to vicious cycle of poverty. Good microfinance policies, efficiency and infrastructure are necessary to bring financial services nearer to the people. MFIs should provide products/services suitable to customers depending on the nature of their economic environment. Fishermen along the beaches of Lake Victoria and sugarcane farmers are examples of those who are unable to save their daily income because of inaccessibility of MFIs. Microfinance institutions should move their offices nearer to the people in the villages in order to provide the required financial services the case of Grameen Bank whose financial services are available in the villages of Bangladesh hence economic enhancement among its people. The poor, particularly boda boda operators can be god borrows when provided with efficient and responsive loan services at commercial rates so long as they are trained on the culture of savings and borrowing hence microfinance loans is not a charity but a revolving fund which should be repaid in order to benefit others. Micro-finance lending, savings and other financial services to poor people is an effective way to help poor people move out of their economic quagmire hence build income and assets, manage risk and work their way out of poverty.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed research design, area of the study and target population, sample selecting and sample size, research instruments, validity of the instruments, reliability of the instrument, data collection procedure, data analysis techniques and summary.

3.2 Research Design

The study adopted descriptive survey method to collect information by administering questionnaire to individuals. It is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals hence suitable for excessive research and maintains high level of confidentiality Orodho (2003): Peil (1995).

The method was considered suitable because it was convenient and enabled data to be collected faster, enabled questions to be asked personally in an interview or impersonal through a questionnaire about things which could not easily be observed and gave the study opportunity to get accurate view of response to issues as well as test theories on social relationships at both the individual and group level.

Descriptive survey method was considered most appropriate design for the study because it enabled the study to collect information about the opinion and attitude of boda boda operators towards the role of microfinance institutions in the town. The study used qualitative and quantitative method because it required analysis on the method of MFIs on economic enhancement of Boda Boda operators.

3.3 Area of study and target population

The study was conducted in Busia town (Kenya) among the registered boda boda operators and Family Bank staff in the town. Busia town is situated at the border of Kenyan and

Uganda in the Western Region of Kenya. The town occupies an area of $22.2km^2$ and has a population of 34,170 people comprising of 16,666 male and 17,504 female (CB/BSA/PC/2004). Busia town was selected to be the study area because boda boda transportation in Kenya originated form there hence had experienced people in boa boda history which spanned from Tororo in Uganda Howe (2003).

The target population was 250 comprising of 235 boda boda operators who were then registered with their associations and 15 Family Bank staff at Busia branch (MCGS/BSA/PC/2008): (FBL/BSA/2009).

3.4 Sample selection and sample size

The sample size of the study was 250 comprising of 235 Boda Boda operators and 15 Family staff in Busia town (Kenya). According to Kothari (2006), he states that when the universe is small the whole population is sampled, hence the case of this study in which the entire population was sampled because the sample size was small.

The study adopted stratified sampling techniques which identified sub-groups of boda boda operators and Family bank staff in the population and their proportions which was selected from each sub-group to form a sample. Sampling is the selection of a part to represents the whole and process of selecting a number of individuals for the study in such a way that individuals selected represent the large group from which they were selected Peil (1995): Orodho and Kombo (2002): Mugenda and Mugenda (2003).

3.5 Research Instruments

The study used the following research instruments.

3.5.1 (i) Questionnaire

Questionnaire is a research instrument that gathers data over a large sample Kombo and Tromp (2006). It allowed information to be collected from a large sample, saved time, was free from bias and ensured level of confidentiality. This method was considered suitable for the study because majority of boda boda operators in Busia town were literate and able to read and write in

English Howe (2003). However for the few who had problem with reading and writing, interview and focus group discussion was conducted with the help of research assistants who were trained ad fluent in local dialects.

3.5.2 (ii) Interview

Interview is an oral administration of a questionnaire using face-to-face encounters hence involves a set of assumptions and understanding about a situation which is not normally associated with a casual conversation Denscombe (1983): Mugenda and Mugenda (2003). The unstructured interview was conducted using face-to-face conversation with 18 boda boda leaders. They were divided into 3 groups of 6 each and interviews conducted at different venues. This helped in collecting in-depth information that may not have been collected through questionnaire forms. It made the study units interviewed feel part of the study since there was no rigidity displayed hence freely participated in the study. The method enabled the study to gather more information about the attitude of boda boda operators and bank staff towards each other as well as their views on what type of services/products they considered suitable for the operators.

3.5.3 (iii) Focus Group Discussion (FGD)

Focus Group Discussion (FGD) was conducted to two groups of boda boda operators of different age groups drawn from each of the 18 registered boda boda associations. The method used unstructured observation which enabled the study to gather more information on the financial difficulties the operators face with microfinance institutions such as lack of trust in their creditworthiness.

3.6 Reliability and Validity of Research Instruments

According to Nachmias and Nachmias (1996), reliability and validity are tools that ensure scientific usefulness of findings arising there from. Reliability is a measure of the degree to which a research instrument yields consistent results of data after repeated trials while validity is the degree to which results obtained from the analysis of the data actually represented the phenomenon under study Mugenda and Mugenda (2003).

In this study the reliability of instrument was tested by using questionnaire on to 26 boda Boda operators and they were able to give a measure of consistency in producing similar results on different but comparable occasions meaning there was level of consistency.

Validity is the degree to which results obtained from analysis of data represent the phenomenon under study hence characterized with accuracy of data obtained Mugenda and Mugenda (2003). Pilot-testing was used to measure the validity of the study so as to elicit a more candid and explicit response.

3.6.1 Pilot-testing

The method helps to refine research instruments in order to capture the intended information Mugenda and Mugenda (1999). The study pre-tested the instruments on 26 operators at Korinda and Bumala boda boda stage centers to confirm if it accurately measured the variables it was intended to measure. The participants used in pre-test were excluded from the study units. The participants were given 10 days to work on the questionnaires, thereafter data collected was analyzed and results were used for amendments. The purpose of pilot-testing was to validate research tools and confirm their validity and reliability. The process of pilot-testing helped to refine the questionnaire design and identified errors which could have been apparent to the population concerned such as meaning of words used.

3.7 Data Collection procedure

Authority to collect data was granted by the University of Nairobi and then obtained permission from Ministry of Education thereafter obtained a verbal permission from Boda Boda Association offices in Busia town (Kenya). While in the field, appointments were made with relevant boda boda groups who gave their own time for availability.

The questionnaires were then administered and each respondent was required to independently answer socio-demographic section and select one of the options in section C by ticking (see appendix II section C.). Where necessary the research assistants could help together with the researcher who ensured that there was consistency in filling in the forms and collected the completed questionnaire forms.

3.7.1 Primary Data collection

Questionnaire forms, interviews and focus group discussions were used to collect data from boda boda operators and bank staff.

3.7.2 Secondary Data collection

Secondary data were obtained from Central Bank of Kenya (Kisumu Branch), Publications, Internet, Journals, Financial/Business Magazines, Dissertations and Thesis references and literature research reports which the study selected and took relevant information to the research topic.

3.8 Data Analysis Techniques

After completion of data collection, data collected was computerized and analyzed using Statistical Package for Social Science (SPPSS) Nie et al (2000). The questionnaires were scored and data edited, coded and entered into the computer for analysis. A code sheet was used for synthesizing of data which was analyzed quantitatively because all the data involved in the study could be reduced to Numerical values. Quantitative analysis involved getting the total scores of each subject on the study and the presentation of statistical data in the form of frequency distribution tables and graphs using descriptive and inferential statistics.

Chi-square (x^2) was then used to analyze data from the field at 95% (0.05) level of confidence at 4 degrees of freedom to determine the relationships between the study variables. A tabulation for each questionnaire depending on the responses of the study units was made. The results were discussed and recommendations and conclusions were made based on the study findings.

3.8.1 Ethical consideration

The ethical issues in regard to the research were taken into account and the study takes responsibility to protect the study units in the event of any consequences in line with the study. The research purpose was fully explained to the participants and high level of confidentiality shall be maintained at al times. The participants mainly Boda Boda operators are expected to benefit from the findings of the study when an opportune time shall arise.

Summary

This chapter described the research methodology and design as used in the study. The chapter included research design, area of the study and target population, sample selection and sample size, research instruments, reliability and validity of research instruments, data collection procedure, data analysis techniques, ethical considerations and summary.

The study was conducted in Busia town (Kenya) among boda boda operators and Family Bank staff who were pre-dominantly male. The study was conducted through administering of questionnaires, interviews and focus group discussions. Data was analyzed through Chi-square which required the use of tables and percentages for interpreting. Validity and reliability of research instruments were found through pilot testing.

CHAPTER FOUR

4.0 DATA ANALYSIS, PRESENTATION AND INTEPRETATION

4.1 Introduction

This chapter presents the research findings which have been discussed under thematic sub-sections in line with the study objectives. Thematic include; socio-demographic, characteristics of study units, the link between poverty and proliferation of boda boda operators, the relationship between financial services/products offered to boda boda operators and their economic enhancement, the effect of Family Bank's tariffs on the sustainability of savings accounts maintained by boda boda operators and effect of Family Bank's marketing strategies on attracting boda boda operators.

4.2 Demographic information

The study found it necessary to know the socio-demographic characteristics of the study units that would be useful in the study. This was illustrated in table 4.1 as follows;

Table 4.1: Distribution of respondents by socio-demographic characteristics

	Frequency	Percentage (%)	Cumulative percent (%)
Sex (n = 197)			
Male	197	100	100

Female	0	0	0
Age (n = 197)			
below 18	16	8	8
18-25	95	48	56
26 – 35	57	29	85
36 – 45	22	11	96
50 and above	7	4	100
Education (n = 197)			
Primary	117	59	59
Secondary	62	32	91
College/Tertiary	14	7	98
Others (no education)	4	2	100

Source: Survey data, 2009

In order to determine the characteristics of the respondents, the study units were asked to state their gender as illustrated in table 4.1. Out of 197 (100%) boda boda operators, all were male meaning boda boda operation in Busia town was male dominated. This confirmed assertion by Kisaalita and Kibalama (2007) that boda boda activity was dominated by young and middle age male. The respondents were also requested to state their age and they responded as follows; Out of the total 197 (100%) boda boda operators, 16 (8%) were below the age of 18 years, 95 (48%) were between 18 – 25 years, 57 (29%) were between 26 – 35 years, 22 (11%) were between 36 – 45 years and 7 (4%) were above the age of 50 years. It is important to note that those below the age of 18 years constituted of 16 (8%) of the respondents which is an indication that the minors were in school taking into account free primary education in Kenya. the study was in agreement with Kisaalita (2007) when he asserted that majority of boda boda operators were above 18 years therefore were energetic enough to ride bicycles for long hours.

The study sought to know the education level of the operators and responses were as follows; Out of 197 (100%) study units, 117 (59%) had primary level of education, 62 (32%) had secondary level, 14 (7%) had college/tertiary level of education while those with no education were 4 (2%). From the results most of boda boda operators had primary and secondary levels of education accounting for 117 (59%) and 62 (32%) respectively totaling 179 (91%) of the total boda boda study units. This was in line with Howe (2003) that boda boda operators in Busia town had primary and secondary level of education hence were able to read and write in English.

4.3 Link between Poverty and Proliferation

In order to establish the link between poverty and proliferation of boda boda operators, the respondents were asked to identify which of the factors they considered contributed to the link between poverty and proliferation of boda boda operators (see appendix II section C). The respondents were given as illustrated in table 4.2 as follows;

Table 4.2: Link between poverty and proliferation

Variables	Lack of capital	Lack of employment	Poor savings	Lack of education system	Unfavorable borrowing conditions	Total
Respondents opinion	159	14	11	4	15	203
Percentages	78%	7%	6%	2%	7%	100%

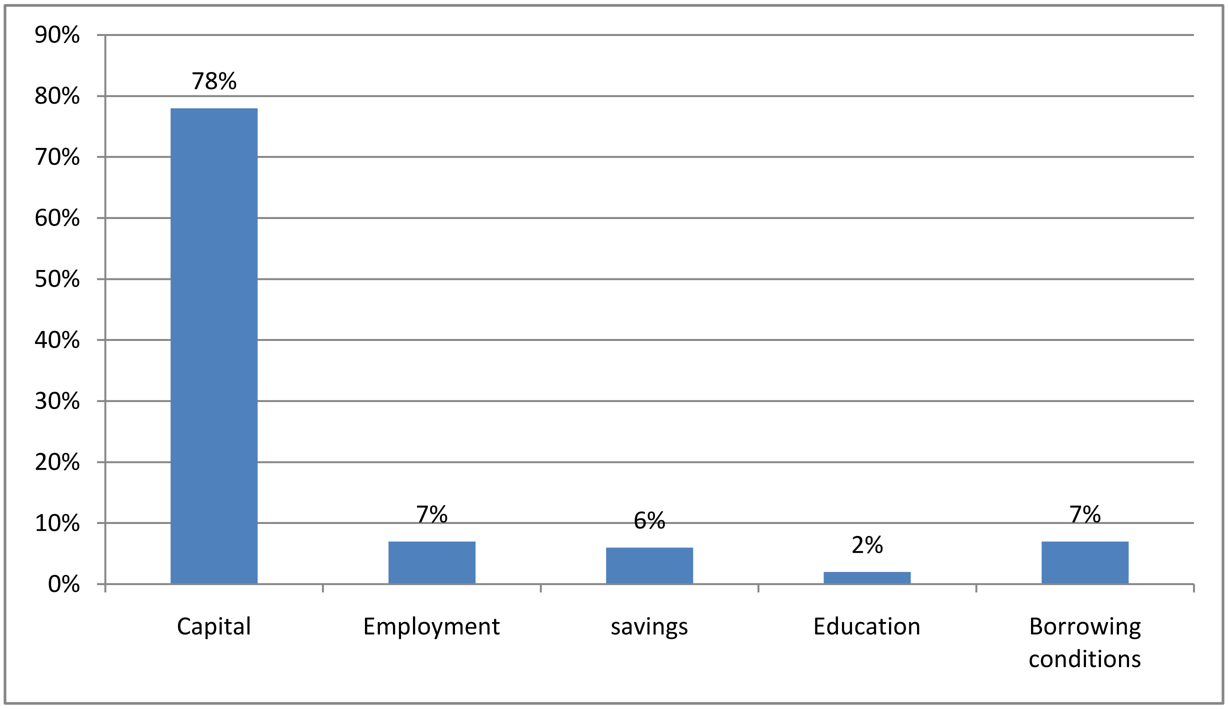
Source: survey data, 2009

The results of the respondents opinion on factors considered contributed to the link between poverty and proliferation of boda boda operators in Busia town were as follows;

Out of 203 (100%) study units, 159 (68%) agreed that lack of capital to start any other income generating business was the main contributing factor to the link between poverty and proliferation of boda boda operators, 14 (7%) of the study units agreed that lack of employment opportunities was the contributing factor to the link between poverty and proliferation of boda boda, 11 (6%) were of the opinion that poor savings culture among the operators was the contributing factor to the link between poverty and proliferation, 4 (2%) were in agreement that lack of education system geared towards technology was the contributing factor to the link between poverty and proliferation of boda boda and 15 (7%) agreed that unfavorable borrowing conditions and high interest charged by microfinance institutions was the contributing factor to the link between poverty and proliferation of boda boda operators. From the findings of the study, it was established that lack of capital was the cause of poverty and proliferation of boda boda.

The results of the study units can be shown in a bar-chart as illustrated in figure 4.1

Figure 4.1: Respondents opinion on the link between poverty and proliferation



Source: survey data, 2009

From the results of the study, it was found that out of the 203 (100%) study units (boda boda operators and Family Bank staff), 159 (78%) agreed that lack of capital to start any other income generating business was the main contributing factor to the link between poverty and proliferation of boda boda operators. This confirmed assertion by Hisrich (2008) that high levels of poverty combined with slow economic growth in the formal sector have forced a large part in developing societies into self employment and informal activities. Out of 203 (100%) respondents, 14 (7%) agreed that lack of employment opportunities was the contributing factor to the link between poverty and proliferation of boda boda operators. This was in line with Kinyanjui and Fowler (2004) in their statement that microfinance institutions have been considered as one of the most important engines of Kenya's economic development because of their role in generating employment and income opportunities as well as providing other financial services to the poor. Out of 203 (1000%) study units, 11 (6%) agreed that poor savings culture among the operators was another contributing factor to the link between poverty and proliferation of boda boda operators. This supported Kibalama (2007), who stated that boda boda operators preferred keeping their collections in the pockets or with shopkeepers. out of 203 (100%) respondents, 4 (2%) agreed that lack of education system geared towards technology was the contributing factor to the link between poverty and proliferation of boda boda operators. Freire cit. Ayot (2002) used concretization to educate his people through literacy programs to cure the future famine situation and believed that education was the only means by which people could be made aware of their problems and conscious of the need to look for solution by themselves to reduce poverty. Out of 203 (100%) study units, 15 (7%) agreed that unfavorable borrowing conditions and high interest rates charged by microfinance institutions was also a contributing factor to the link between poverty and proliferation of boda boda operators. This was in line with Adera (1995), who agued that microfinance institutions regard the poor as people whoa re un-creditworthy and therefore lending to them required full protection of bank's interest in terms of security.

According to the findings on the link between poverty and proliferation of boda boda, it was clear that microfinance institutions have not performed well in their role of economic enhancement of boda boda operations. It was also evident that boda boda operators have no access to credit facilities from microfinance intuitions unless they provided collateral. The significance of the results in that microfinance institutions are not assisting the poor to reduce their level of poverty. Thee is need for microfinance institutions to change their lending policies and borrow from Grameen Bank practices of lending to the poor in order to enable them succeed in their perceived role of economic enhancement of the poor.

Table 4.3: Computation of Link between poverty and proliferation

Observed	**Frequency (O)**	**Expected outcome (E)**	**Observed-Expected (O-E)**	**$\sum (O-E)^2$ E**
	159	142	+17	2.1

	14	31	-17	9.4
	11	20	-9	4.1
	4	6	-2	0.7
	15	4	+11	30.3
X^2	**203**	**203**		**46.6**

Source: Survey Data, 2009

In order to compute Chi-square values on the link between poverty and proliferation of boda boda operators, 100% was apportioned as shown in table 4.3 to get the expected outcome. The observed frequency was reduced from the expected outcome and the figure arrived at was 46.6 of the Chi-square value. This was found to be greater than 9.488 implying that alternative hypothesis (H_0) thee is no relationship between poverty and proliferation of boda boda operators was adopted.

Table 4.4: Chi-square analysis – Link between poverty and proliferation

Variables	**N**	**X^2**	**df**	**X^2**	**P = 0.05**
Respondents	203	9.488	4	46.6	P<0.05

Source: Survey Data, 2009

The results show significant difference between poverty and proliferation of boda boda operators as the computed Chi-square (X^2) value 46.6 is greater than 9.488 at 4 degrees of freedom when data was analyzed at 95% (0.05) level of significance. The Alternative hypothesis (H_1) was stated as; there is a link between poverty and proliferation of boda boda operators. This was stated at 95% (0.05) level of interval at 4 degrees level of freedom. Decision rule states that: If the computed Chi-square (X^2) value is greater than the table value 9.488 then the Alternative hypothesis (H_1) would be rejected. Based on Chi-square statistics, it was established that there was no relationship between poverty and proliferation of boda boda operators P<0.05. The findings show that the role of microfinance institutions to provide capital based on active operation of the account rather than collateral. In this respect the study adapted the Null hypothesis (H_0) that there is no significant relationship between the link of poverty and proliferation of boda boda operators.

4.4 Relationship between financial services/products

In this study one of the objectives was to determine relationship between financial services/products offered to boda boda operators and their economic enhancement. The respondents were requested to choose which of the factors they considered was most important (see appendix II section C). The responses were given as illustrated in table 4.5 as follows;

Table 4.5: Relationship between Financial services/products

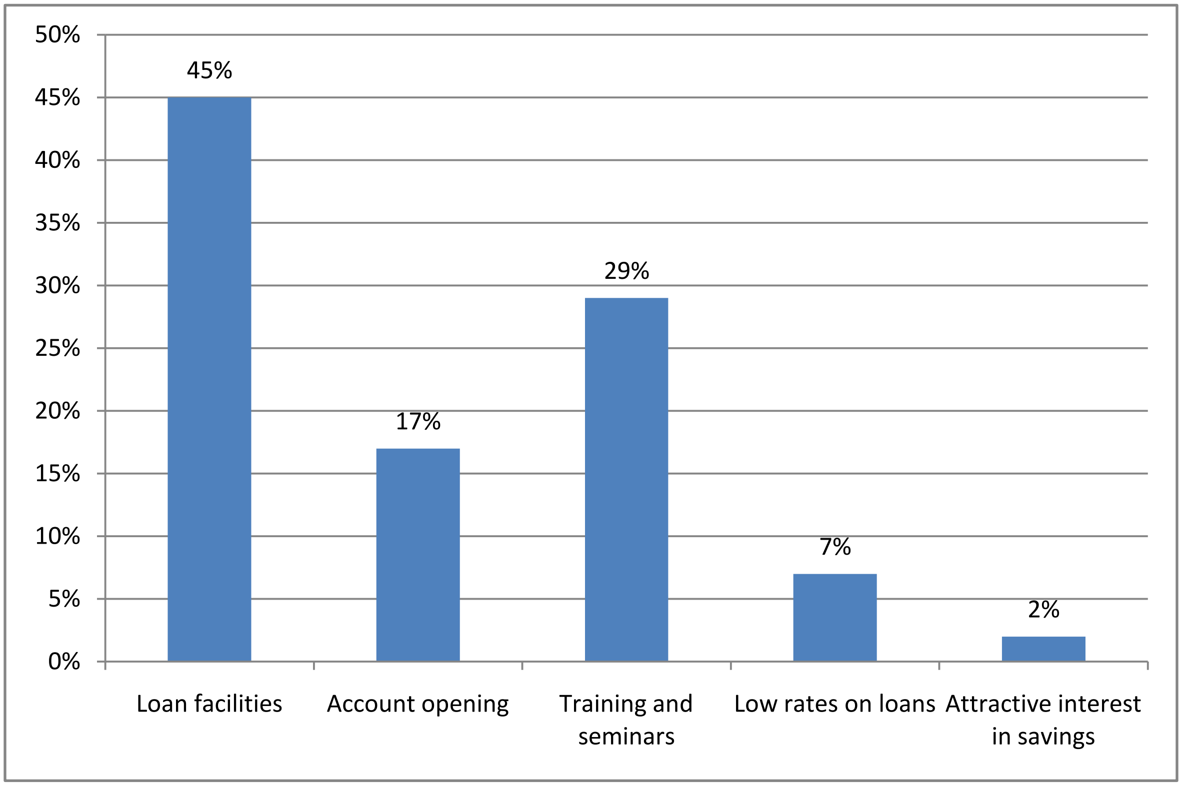
Variables	Flexible loan facilities	Flexible account opening	Training on savings/borrowing	Low interest on loans	Attractive interest on savings	Total
Respondents opinion	92	35	58	15	3	**203**
Percentages	45%	17%	29%	7%	2%	**100%**

Source: Survey data, 2009

The results of the respondents were as follows; Out of 203 (100%) study units, 92 (45%) agreed that flexibility in providing loan facilities to boda boda operators was most important in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement, 35 (17%) agreed that flexible account opening requirements such as no introduction, free photographs and no account maintenance fee was important in determining relationship between financial services/products offered to boda boda operators and their economic enhancement, 58 (19%) agreed that training and seminars on savings and borrowing culture was important, 15 (7%) considered that low interest rates on loans and personal accident benefits was important and 3 (2%) considered attractive interest paid on savings balances as important in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement.

The results of the study can be shown in a bar-chart as illustrated in figure 4.2

Figure 4.2: Relationship between financial services/products



Source: survey data, 2009

Out of 203 (100%) respondents, 92 (45%) agreed that flexibility in providing loan facilities to boda boda operators was most important. This was in agreement with Grameen Bank practice in providing flexible facilities to the poor in Bangladesh Yunus (1994). Out of 203 (100%) study units, 35 (17%) were of the opinion that flexible account opening requirements such as no introduction, free photos and no account maintenance fee was most important in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement. This was found to be in with Family Bank practice of free accountant opening, no introduction and free photographs. Out of 203 (100%) study units, 58 (29%) agreed that training and seminars on savings and borrowing culture was important. This was found to be in line with World Bank assertion that training of the poor on the culture of saving was necessary Wolfensohn (2000). Out of 203 (1000%) study units, 15 (7%) were of the opinion that low interest rates on loans and personal accident benefit was important in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement. This was found to be in agreement with Grameen Bank theory of low interest rates on loans and provision of insurance policy for their customers in the event of tragedy Yunus (2004). Out of 203 (100%) respondents, 3 (2%) agreed that attractive interest paid on savings balances was important in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement. Microfinance institutions pay low interest, a situation which has made them take advantage of customer deposits yet they only play the role of custodians.

Table 4.6: Computation of financial products

Observed frequency (O)		**Expected outcome (E)**	**Observe – expected (O-E)**	$\sum \frac{(O-E)^2}{E}$
	92	91	+1	0.1
	35	51	-16	5.1
	58	31	+27	23.6
	15	20	-5	1.3
	3	10	-7	4.9
X^2	**203**	**203**		**35**

Source: Survey Data, 2009

Chi-square values on the relationship between financial series/products offered to boda boda operators and their economic enhancement was apportioned at 100% as shown in table 4.6 to arrive at the expected outcome. The observed frequency was reduced from the expected outcome and the figure arrived at was 35 of X^2 of X^2 value P ($P<0.05$) which is greater than 9.488 at 4 degrees of freedom when data was analyzed at 95% (0.05) level of significance. Alternative hypothesis offered to boda boda operators and their economic enhancement. The computed result X^2 35 implied that financial services/products offered to boda boda operators and their economic enhancement is not adequate. The Alternative hypothesis (H_1) was then rejected and Null hypothesis (H_0) was accepted that there is no relationship between financial services/products offered to boda boda operators on their economic enhancement. The findings of the results show that banks borrowing terms are not favorable hence need to adjust their lending policies.

Table 4.7: Chi-square analysis – Financial services/products

Variables	**N**	$\mathbf{X^2}$	**df**	$\mathbf{X^2}$	**P = 0.05**
Respondents	203	9.488		4	P<0.05

Source: Survey data, 2009

The Chi-square X2 value 35 was greater than 9.488 at 4 degrees level of freedom when data was analyzed at 955 (0.05) level of significance. Based on the respondents opinion, it was found that flexible terms of loan facilities to boda boda operators would enhance their economic status. it was hypothesized that there was relationship between financial services/products offered to boda boda operators and their economic enhancement. Decision rule: If the compound X^2 value is greater than the table value 9.488 then the Alternative hypothesis (H_1) would be rejected and the Null hypothesis adapted that there is no relationship between financial services/products offered to boda boda operators and their economic enhancement.

4.5 Bank's tariffs on savings sustainability

In this study the third objective was to identify the effect of Family Bank's tariffs on the sustainability of savings accounts maintained by Boda boda operators. The respondents were asked to select which of the factors they considered determined the effect of bank's tariffs on sustainability of savings accounts maintained by Boda boda operators (see appendix II section C). The responses were given as illustrated in table 4.8 as follows;

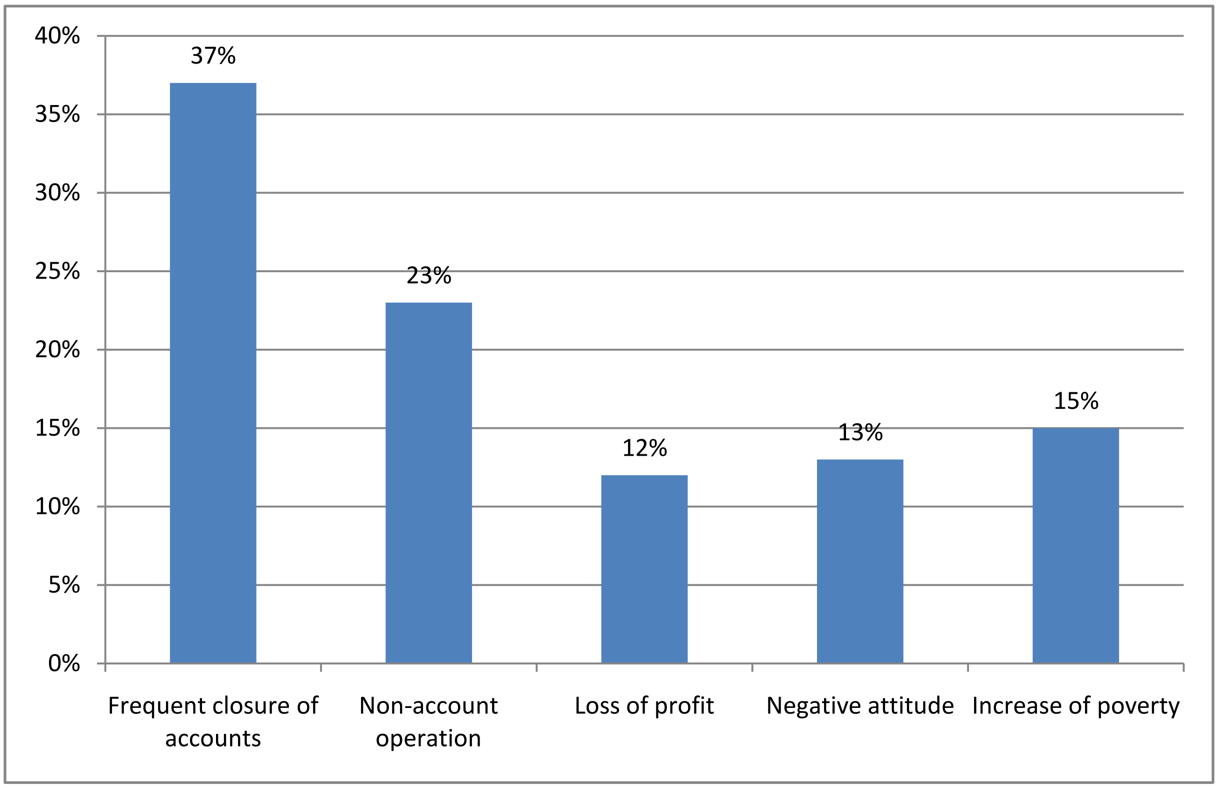
Table 4.8: Bank's tariffs on savings sustainability

Variables	**Frequent closure of accounts**	**Non-account operation**	**Loss of profit**	**Negative attitude**	**Increase of poverty**	**Total**
Respondents	74	47	24	27	31	**204**
Percentages	37%	23%	12%	13%	15%	**100%**

Source: Survey data, 2009

The results of the respondents opinion on factors considered identified the effect of Family bank's tariffs was as a result of bank tariffs, 47 (23%) were of the opinion that non-operation accounts by operators was contributed by bank tariffs, 24 (12%) agreed that high bank tariffs led to the loss of profit by bank, 27 (13%) was in agreement that bank tariffs resulted to negative attitude towards bank's services and 31 (15%) agreed that bank tariffs contributed to increase of poverty among the operators. From the findings fo the study, it was established that majority of the respondents 74 (37%) agreed that bank tariffs led to frequent closure of accounts by boda boda operators.

The results of the study can be shown in a bar-chart as illustrated in figure 4.3



Source: Survey data, 2009

Figure 4.3: Bank's tariffs on sustainability

Out of the 203 (100%) respondents, 74 (37%) agreed that frequent closure of accounts by boda boda operators was as a result of bank tariffs. High bank tariffs prevent operators from servicing their accounts regularly. This was found to be in line with assertion by Lapenu (2000) that when bank service charges are high the poor prefer to keep their collections away from the bank. Out of 203 (100%) respondents, 47 (23%) agreed that high bank tariffs led to non-operation of accounts by boda boda operators. This was in agreement with RoK (1996): CBS (1999) which stated that access to credit were major constraints to expansion of the informal sector because of bank service charges. Out of the total 203 (100%) respondents, 24 (12%) were of the opinion that ban tariffs led to loss of profit by bank's because operators accounts remained dormant. This contradicts banking Act Cap 489 which allows banks to charge commission on services provided to customers. Out of 203 (100%) respondents, 27 (13%) confirmed that bank tariffs led to negative attitude towards bank's services. This was in line with Baker – Hopkin Model (1994) on their advice to Grameen Bank to change their credit policy and tariffs to save its reputation Yunus (1994). Out of 203 (100%) respondents, 31 (15%) supported that increase in poverty among the operators was as a result of bank's tariffs. This confirmed argument by Cowie (1989) that loans borrowed by the poor were subject to high interest rates leaving them with little to save hence vicious cycle of poverty. The findings of the study revealed that bank tariff was the cause fo frequent closure of the accounts by operators. This was found to be in line with mass closure of accounts witnessed by Kenyan big banks when Family and Equity Banks entered microfinance market.

Table 4.9: Computation of Bank's tariffs

Observed frequency (O)		**Expected outcome (E)**	**Observed – Expected (O-E)**	$\sum \frac{(O-E)^2}{E}$
	74	101	-27	7.3
	47	41	+6	0.9
	24	31	-7	1.6
	27	20	+7	2.5
	31	10	+21	56.4
X^2	**203**	**203**		**56.4**

Source: Survey Data, 2009

In order to arrive at the expected outcome, Chi-square values on the bank's tariffs on sustainability of savings accounts maintained by Boda Boda operators, was apportioned at 100% as shown in table 4.8. The observed frequency was reduced from the expected outcome and the figure arrived at was 56.4 of the Chi-square value (P<0.05) which is greater than 9.488 at 4 degrees of freedom when data was analyzed at 95% (0.05) level fo significance. This implied that there was no relationship between bank's tariffs and sustainability of savings accounts. This implied that the bank will loose more customers unless they reduce their tariffs.

Table 5.0: Chi-square analysis – Bank's tariffs on sustainability

Variables	**N**	**X^2**	**df**	**X^2**	**P = 0.05**
Respondents	203	9.488	4	56.4	$P<0.05$

Source: Survey Data, 2009

The results show significant difference as computed X^2 56.4 was greater than 9.488 at 4 degrees of freedom when data was analyzed at 95% level of significance. The Null hypothesis (H_0) was adapted as: there is no relationship between bank tariffs and sustainability of savings accounts maintained by boda boda operators. The computed Chi-square value 56.4 was found to be grater than 9.488 at 4 degrees level of freedom when data was analyzed at 95% level of significance. The Null hypothesis (H_0) was therefore accepted.

4.6 Bank's Marketing strategies

The study was to establish Family bank's marketing strategies on attracting Boda Boda operators. The respondents were to select which of the factors they considered determined the effect of Family Bank's marketing strategies on attracting Boda Boda operators (see appendix II section C). The opinion of the study units were given as illustrated in table 5.1 as follows;

Table 5.1: Bank's Marketing strategies

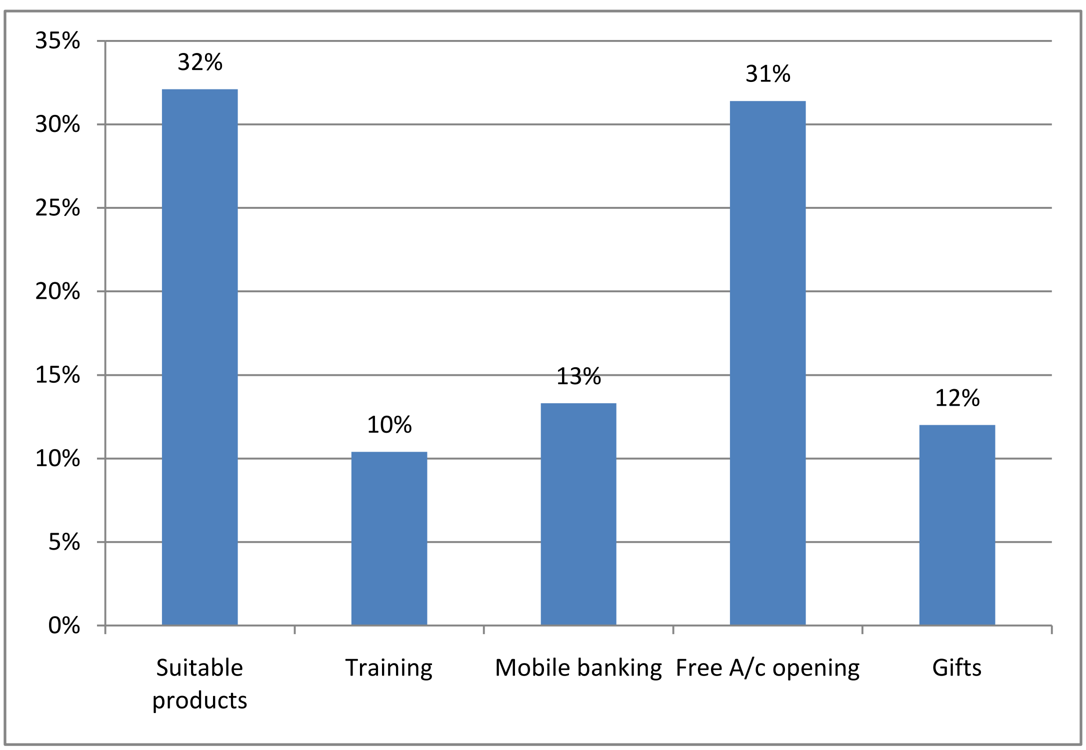
Variables	**Suitable products**	**Training facilities**	**Mobile banking**	**Free A/c Opening**	**Gifts**	**Total**
Respondents	65	21	27	64	203	**203**
Percentage	32.1%	10.45	13.3%	31.45	12.8%	**100%**

Source: Survey Data, 2009

The results of the respondents opinion on the effect of Family bank's marketing strategies on attracting Boda boda operators were as follows:

Out of the 203 (100%) respondents, 65 (32.1%) agreed that introduction of service/products suitable to boda boda operators was a marketing strategy on attracting boda boda operators. This was found to be in line with Family bank's marketing strategy trough which they involve consumers in designing products. out of 203 (100%) study units, 21 (10.4%) were of the opinion that training facilities and seminars addressing socio-economic problems conduced in local languages other than English would be a marketing strategy for attracting operators. Out of 203 (100%) respondents, 27 (13.3%) agreed that mobile banking services to Boda boda operators was a way of attracting the operators, 64 (31.4%) agreed that free account opening and loan facilities based on active operation of account was a marketing strategy for attracting operators and 26 (12.8%) were of the opinion that bicycle and corporate t-shirt gifts to each Boda boda group that opens an account with the bank would be a marketing strategy to attract the operators.

The results of the study can be shown in a bar-graph as illustrated in figure 4.4



Source: Survey Data, 2009

Figure 4.4: Bank's marketing strategies

Out of the 203 (100%) respondents, 65 (32.1%) were of the opinion that introduction of services/products suitable to boda boda operators was a marketing strategy in attracting boda boda operators. Microfinance institutions have the habit of introducing products of their choice with less regard to customers demand and economic environment. However boda boda operators choice was found to be in line with Total Quality management policy that consumer/customer is King hence be provided with products of own choice. Out of 203 (100%) study units, 21 (10.4%) agreed that training and seminars addressing socio-economic problems conducted in local languages other than English was a marketing strategy. This was found to support Howe (2003) argument that boda boda operators in Uganda were not comfortable with banks because of the dressing code and use of English hence kept their collections with shopkeepers. Out of 203 (100%) respondents, 64 (31.4%) recommended that free account opening and loan facilities based on active operation of account was another marketing strategy for attracting operators. this was in line with practice of Family and Equity Banks hence their high level of customer base. Grameen Bank practices the policy of free account opening for the poor of Bangladesh hence their rapid expansion. Out of 203 (100%) respondents, 26 (12.8%) were of the opinion that bicycle and corporate T-shirt gifts to each Boda boda group that opens an account with the bank was a marketing strategy to attract the operators. This was in support of practice in Uganda where boda boda operators were encouraged to open accounts with microfinance institutions and were subject to incentives Kuzilwa (2005).

Table 5.2: Computation of Bank's marketing strategy

Observed frequency (O)		**Expected outcome (E)**	**Observed – Expected (O-E)**	**∑ (O-E)2 E**
	65	85	-20	4.7
	21	40	-19	9.1
	27	31	-4	0.6
	64	29	+35	42.3
	26	18	+8	3.6
X^2	**203**	**203**		**60.3**

Source: Survey Data, 2009

In order to arrive at the expected outcome, Chi-square values on the Bank's tariffs on sustainability f savings accounts maintained by Boda boda operators was apportioned at 100% as shown in table 5.2. The observed frequency was reduced from the expected outcome and the figure arrived at was 60.3 Chi-square value ($P<0.05$) which is greater than 9.488 at 4 degrees of freedom when data was analyzed at 95% (0.05) level of significance. This implied that marketing strategies applied by bank to attract the operators does not meet the consumers demand. It is therefore recommended that bank should involve the operators in designing the products.

Table 5.3: Chi-square analysis – Bank's marketing strategies

Variables	N	X^2	df	X^2	P =0.05
Respondents	203	9.488	4	60.3	P=0.05

Source: Survey Data, 2009

The results show significant difference as the computed Chi-square value 60.3 was greater than 9.488 at 4 degrees level of freedom when data was analyzed at 95% (0.05) level of significance. The Null hypothesis (H_0) was stated as: there is no relationship between Bank's marketing strategies and attracting boda boda operators.

When data was analyzed at 95% (0.05) level of significance, it was found that X^2 which was 60.3 was greater than 9.488 at 4 degrees of freedom. The null hypothesis (H_0) was accepted that there was no relationship in the bank's marketing strategies and attracting Boda boda operators. This implied that the bank should come up with products suitable to the economic activities of the operators and involve them in designing such products so that they feel part and parcel of the product design.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter present summary of findings, conclusions and recommendations for the study.

5.2 Summary of the findings

The first aim of this study was to establish the relationship of selected socio-demographic characteristics of Boda Boda operators. In terms of gender, it was found that out of 197 boda boda respondents, all were male accounting for 100% meaning that boda boda operation is a male dominated activity. Age group of boda boda operators was found to be as follows; Out of 197 respondents 16 (18%) were below the age of 18 years, 94 (48%) were between the age of 18 – 25, 57 (29%) were between 26 – 35, 22 (11%) were between 36 – 45 and 7 (4%) were above 50 years. The study found out that Boda boda activity is dominated by those who were between the age of 18 – 25 accounting for 95 (48%) followed by those between 26 – 35 years account for 57 (29%). This indicated that boda boda activity required young people who are energetic. it si important to note that those below the age of 18 years constituted 8% meaning that majority were in school taking into account free Primary education system in the country. Those who were above 50 years accounting for 7 (4%) formed minority of the study units. in terms of education it was found that out of 197 study units, 117 (59%) had primary education, 62 (32%) secondary level, 13 (7%) college/tertiary and those with no education 4 (2%). According to the findings, level of education for he study units was between primary and secondary levels constituting of 117 (59%) and 62 (32%) respectively. This was in line with Kisaalita (2007) that Boda boda operators in Busia town have primary and secondary level of education hence can speak and write in English.

The first objective of this study was to establish the link between poverty and proliferation of Boda boda operators in Busia town. World Bank (2006), states that poverty crushes human spirits and traps human generation in vicious cycle without hope or opportunity therefore involves in any kind of business activity in order to survive. However this study showed that 159 (78%) of the study units were of the opinion that lack of capital to start any other income generating business was the main contributing factor to the link between poverty and proliferation of boda boda operators in Busia town, 14 (7%) of the respondents were of the opinion that lack of employment opportunities was the contributing factor to the link between poverty and proliferation of boda boda operators, 11 (6%) agreed that poor savings culture among boda boda operators was the contributing factor to the link between poverty and proliferation of boda boda operators, 4 (2%) were of the opinion that lack of education system geared towards technology was the contributing factor to the link between poverty and proliferation of boda boda operators and 15 (7%) agreed that unfavorable borrowing conditions and high interest rates charged by Microfinance institutions was the contributing factor between poverty and proliferation of boda boda operators.

Chi-square analysis show significant difference in the opinion of study units regarding the link between poverty and proliferation of the operators. The computed Chi-square value 46.6 was greater than 0.9488 at 4 degrees fo freedom when data was analyzed at 95% level of significance. It was concluded that the link between poverty and proliferation of boda boda operators was as a result of lack fo capital to start any other income generating business. This implied that there was no relationship between poverty and proliferation of boda boda operators.

The second objective was to determine the relationship between financial services/products offered to boda boda operators and their economic enhancement. The study showed that out of the 203 study units, 92 (45%) agreed that flexibility in providing loan facilities to operators was important, 35 (17%) were of the opinion that flexible account opening requirements was important in determining the relationship, 58 (29%) agreed that training and seminars on savings and borrowing culture was important in determining the relationship, 15 (7%) were of the opinion that low interest rates on loans and personal accident benefits was important and 3 (2%) considered that attractive interest paid on savings balances was essential in determining the relationship between financial services/products offered to boda boda operators and their economic enhancement. Data was analyzed at 95% level of significance and the computed Chi-square value 35 was greater than 9.488 at 4 degrees of freedom. It was concluded that there was no relationship between financial services/products offered to Boda Boda operators and their enhancement.

The third objective was to determine the effect of Family Bank's tariffs on the sustainability of savings accounts maintained by Boda Boda operators. The study showed that 74

(37%) agreed that frequent closure of accounts by boda boda operators was as a result of bank tariffs, 47 (23%) were of the opinion that non-operation of accounts by operators was contributed by bank tariffs, 24 (12%) agreed that high bank tariffs resulted to negative attitude towards bank's services and 31 (15%) agreed that bank tariffs contributed to increase of poverty among operators. When data was analyzed using Chi-square, it was established that computed Chi-square value 56.4 was greater than 9.488 at 4 degrees of freedom. It was concluded that there was no relationship between financial services/products offered to boda boda operators on their economic enhancement.

The fourth objective was to establish the effect of Family bank's marketing strategies on attracting boda boda operators. The results were; 65 (32.1%) were of the opinion that introduction of services/products suitable to the operators would attract them, 21 (10.4%) agreed that training facilities and seminars addressing socio-economic problems conducted in local languages other than English would attract the operators, 27 (13.3%) recommended introduction of mobile banking services to operators, 64 (31.4%) agreed that free account opening and loan facilities based on active operation determined attraction of operators and 26 (12.8%) supported that bicycle and corporate T-shirt gifts to each boda boda group that open account with the bank would be a marketing strategy to attract operators. Data was then analyzed using Chi-square and it was confined that computed Chi-square value 60.3 was greater than 9.488 at 4 degrees of freedom. It was therefore concluded that there was no relationship between financial services/products offered to boda boda operators and their economic enhancement.

5.3 Conclusion

This study investigated the role of microfinance institutions on economic enhancement in regard to increasing level of poverty among Boda Boda operators in Busia town (Kenya). It was found necessary to establish socio-demographic characteristics such as gender, age and education of the operators.

The study established the link between poverty and proliferation of boda boda operators and found that lack of capital to start any other income generating business was the main contributing factor to proliferation of Boda Boda operation. Lack of capital subjects operators to poverty leading to expansion of bicycle taxi operation. The other research area was to determine the relationship between financial services/products offered to Boda boda operators and their economic enhancement and it was established that flexibility in providing loan facilities to the operators was an important factor in determining the relationship and economic enhancement.

The study also sought to determine the effect of Family bank's tariffs on sustainability of savings accounts maintained by Boda Boda operators and established that high tariffs led to frequent closure of accounts. High tariffs have eh implication of viscous cycle of poverty. It was also established that introduction of services/products suitable to boda boda operators would determine the effect of Family bank's marketing strategies on attracting the operators. From the findings of the study it is clear that microfinance institutions have not financially supported boda boda operators to enhance their economic situations.

5.4 Recommendations

Policy recommendations can be drawn from the study results. Given that microfinance institutions have a significant role to play in generating employment ad income opportunities for the majority of vulnerable people, there is need for policy makers to institute measures that would facilitate and encourage – development of boda boda operators Kinyanjui of data, the following recommendations are offered;

The link between poverty and proliferation of boda boda operators established that lack of capital to start any other income generating business was the main contributing factor to the proliferation of boda boda operation. It is recommended that the government should provide more funds and look into the possibility of setting up a microfinance institution specifically for Boda Boda operators the case of Kenya Women Finance Trust. In order to prevent frequent closure of accounts as a result of bank tariffs, microfinance institutions should reduce their tariffs on services provided to the operators. For Microfinance institution to succeed in their effort to attract boda boda operators, they should introduce service/products suitable to the operators and conduct marketing research to identify the needs of Boda Boda operators and then design products suitable to the operators.

5.5 Recommendations for Research

The study is by no means exhaustive as it only covered few aspects on the role of microfinance institutions on economic enhancement of boda boda operators in Busia town. In this respect the gaps which the study would recommend for further research are; a more detailed country wide study to be carried out on socio-economic difficulties boda boda operators encounter. There is need for an in-depth study of microfinance institutions to find out if their micro credit programs really reach the poor. It is also recommended that a research be conducted on marketing strategies of microfinance institutions to determine their affectivity.

5.6 Contribution to the body of knowledge

5.7 Introduction

This chapter presents contributions to the body of knowledge based on the findings of research objectives.

Table 5.4: Contribution to knowledge

No.	Objectives	Contribution to knowledge
1.	Establish the link between poverty and proliferation of Boda Boda operators.	To help the government come up with policy plan for Boda Boda.
2.	Determine the relationship between financial services/products offered to Boda boda operators and their economic enhancement	Microfinance institutions to relax their lending polices to be base don active operation of accounts rather than collateral.
3.	Identify the effect of Family bank's tariffs on sustainability of savings accounts maintained by Boda Boda operators.	Family bank and other Microfinance institutions to reduce their tariffs to prevent frequent closure of accounts by operators hence attract more customers in the boda boda industry.

4.	Establish the effect of Family Bank's Marketing strategies on attracting Boda boda operators.	Family bank and other Microfinance Institutions to introduce services/products suitable and relevant to the operators

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