UNIVERSITY OF RWANDA

College of Business and Economics

MSc. ECONOMICS

Microfinance institution and its impact in Poverty Reduction in Rwanda (2009-2012)

Case Study: COPEDU LTD

Thesis submitted for partial fulfillment of the requirements for the award of Masters of Science in Economics (MSc Economics)

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Kigali, June, 2014

DECLARATION

I, Enatha KANGABE, do hereby declare that the thesis herein entitled: **Microfinance Institutions and its impact in Poverty Reduction** is my original work and has never been presented elsewhere for any other academic qualification.

Signed: Enatha KANGABE

Date: June, 2014.

DEDICATION

*To my **God** almighty,*
*To my **Parents**,*
*To my **Friends**, **Brothers,***
***Sisters** and **family**,*
*To late Father **Celestin***
NIWENSHUTI

This work is dedicated.

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Enatha KANGABE

ABSTRACT

The general objective of the present study was to explore how microfinance institutions help in reducing poverty among people who have access to microfinance institutions by borrowing loans from those microfinance institutions. Specifically to assess the contribution of COPEDU Ltd as a microfinance institution to the socio economic development of beneficiaries, to investigate the perceptions of micro finance beneficiaries on the poverty reduction strategies put in place by COPEDU Ltd and to determine the impact of COPEDU Ltd as microfinance institutions to poverty reduction. Sample of 56 respondents from 317 clients of COPEDU Ltd was taken and SPSS 18.0 was used for data entry and analysis. The results have shown that on whether in COPEDU Ltd as a microfinance institution, the loans given are for fighting poverty among beneficiaries and the results are showing that 23 respondents representing 41.1% have strongly agreed to the assertion, 13 respondents representing 23.2% have agreed and eight respondents representing 14.3% have kept neutral to the affirmation while other eight respondents representing 14.3% similarly have disagreed and only four respondents representing 7.1% have strongly disagreed to the assertion.

The income levels before and after the joining COPEDU shows that the number of beneficiaries having less than 5000Rwfs of income reduced from 10.3% before working with COPEDU up to 0% after working with COPEDU Ltd and those having above 30000 increased from 4.4% up to 32.4%. Before the intervention of COPEDU Ltd the great percentage of 36.8% had no income and only 2.9% had above 20000. After the intervention the income of beneficiaries is distributed as follows: none has less than 5000, only 7.4% have between 5000-10000, 47.1% have between 10000-20000 and 46.6% have above 20000. To evaluate the contribution of the intervention of COPEDU Ltd on the increase in income of their beneficiaries, the multiple linear regression analysis has been used. The R-square of the model is ***0.87***. This is to mean that the **87%** of variation in income of beneficiaries after the intervention of COPEDU Ltd can be explained by the regression model provided. The adjusted R-squared is often used to summarize the fit as it takes into account the the number of variables in the model. For the above model,it is ***0.860*** and it shows how the income of beneficiaries is explained by variable such as age, intervention, saving, income before the intervention and the duration of intervention at **86%.** Conclusively, COPEDU Ltd plays a big role on poverty reduction as indicated by increased incomes which in turn are used for basic needs satisfaction and future economic development prospects and the inference is made to generally micro finance institutions, in their activities they reduce poverty levels among beneficiaries in Rwanda.

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LIST OF ACRONYMS AND ABBREVIATIONS

COPEDU :Cooperative d'Epargne et Credit Dutermimbere

EDPRS : Economic Development and Poverty Reduction Strategy

GDP : Growth Domestic Product

GoR : Government of Rwanda

MDGs : Millennium Development Goals

MFIs : Microfinance Institutions

MINECOFIN **:** Ministry of Finance and Economic Planning

NGOs : Non Governmental Organizations

NISR : National Institute of Statistics of Rwanda

PRS **:** Poverty Reduction Strategy

RIM **:** Reseau InterDiocesain de Microfinance

ROSCAs : Rotating Savings and Credit Associations

UCT **:** Union des Caisses des Travailleurs

UN **:** United Nations

WB **:** World Bank

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

This chapter gives the introduction to this study by describing the background information, statement of the problem, objectives of the study with both general and specific objectives as well as research questions. It further describes the justification and rationale of the study, scope and limitations of the study.

1.1 Background of the study

Poverty is a problem for all the countries irrespective of their level of development. It can be observed in many forms since it has both income and non-income dimensions. In consideration of poverty line, people in each country can broadly be divided into two categories namely poor and non-poor. The non-poor are living above and the poor are living below the poverty line. According to Balkenhol (2007), in the recent days, microfinance schemes have been proliferating in all parts of the world. Although the impact of those schemes on the borrowers‘ businesses and household welfare is widely contested, the number of borrowers has been on sharp increase (Salia, 2014).

The access and efficient provision of microfinance can enable the poor to smooth their consumption, better manage their risks, gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Brigg (2006), conducted a study in Turkey and mentioned that micro finance especially micro credit is a powerful tool to reduce poverty. The author has mentioned that one fifth of the population of Turkey was at risk due to the poverty even then it is not a poor country according to global standards.

Most African countries are faced with serious and worsening poverty. Given the magnitude of the problem, it is unrealistic for Governments in the region to be left alone to tackle this daunting task in light of the financial and institutional crises that is facing most of the countries in Sub-Saharan Africa. Therefore, to achieve sustainable development there is need for a holistic approaches to dealing with the concerns of the poor in the region. There is a range of MFIs whose participation is essential to address appropriately the challenge of poverty reduction (Salia, 2014).

Furthermore, Morduch and Haley (2002) notes that there is evidence to support the premise that it is possible for a microfinance institution to serve the poorest and also achieve financial sustainability. However, Swain (2004) states that microfinance is better used as an instrument along with other policies for poverty alleviation rather than poverty reduction strategy in isolation. The reality on the ground indicates that the increase on the number of poor people both in rural and urban Kenya is worrying. Therefore, if poverty levels are not reduced in Kenya, then the MDG goal number 1 on the eradication of poverty to less than 30% of the Kenyans by 2015 and as envisioned in the Kenya Vision 2030 will not be achieved. This creates a need to intensify poverty reduction efforts through MFIs in planning and outreach. (Okibo & Makanga, 2014).

Rwanda being one of Africa's smallest, poorest and most densely populated countries; with a population of around 11 million. Although the country has made significant progress from the devastated nation that emerged from the 1994 genocide, it still remains a severely underdeveloped country with around 44.9% of the population living under the poverty line (NISR, 2012). Rwanda as one of the least developed country has taken the issue of poverty as a serious problem, hence devised means of overcoming it. To reduce the poverty, the government of Rwanda has some actions related to the priority of poverty reduction; those actions include the enforcement of microfinance institution. Microfinance plays a crucial role in the Rwandan economy, and more broadly in society as a whole. Government of Rwanda in implementing microfinance as one of the tools to be used in facing the poverty problem believed that it would help to generate employment and to diversify sources of income, thereby contributing to the improvement of the Rwandan economy and the sustainable reduction of poverty.

1.2. Statement of the problem

Globally, poverty has been seen as one of the major problem affecting the community in least developed countries, particularly in Africa. As a result, the UN supreme world body has expressed serious concern over the more 1.3 billion people in the world being poor (Keating *et al.*, 2010). Poverty has been as one of the major problem affecting the community in all developing countries in general and Rwanda in particular.

Microfinance is seen as an important instrument in the implementation of the Government program to reduce the number of the people below the poverty line from 60% in 2000 to 30% in 2015 (MINECOFIN,2007). It’s argued that microfinance can build the capacity of the poor population to create employment and generate wealth in a sustainable manner.
Study of Khandker, (2005), revealed that selected microfinance variables such as volume of loan last taken, cumulative loan, loan cycle, experience with the microfinance institution and education had positive significant impact on client poverty status. Irobi (2008), mentioned that without any doubt it is obvious that microfinance plays an important role in poverty alleviation but the party of microfinance alleviation is like a drop of water in a sea. Leach & Sitaram (2002), on their study recommend although microfinance is a good tool for poverty reduction but microfinance institutions can arrange mechanism to improve technical and business skills of poorest through training and loan utilization also should put in place micro – insurance schemes which could help clients to pool risk or share losses.

Despite that very few studies could have been done on microfinance and poverty reduction in Rwanda, literature and researches from elsewhere indicate inconclusive results on the effectiveness of microfinance as a tool of Economic Development and poverty reduction. Precisely, Microfinance Institutions (MFIs) have been seen by aid practitioners and governments as a manifestly effective means of improving the position of the poor.

The National microfinance policy emphasizes that when the right instruments are used in an appropriate legal context, microfinance can build the capacity of the poor population to create employment and generate wealth in a sustainable manner. The Government also aims to create an enabling environment for sustainable MFIs so that they will be capable of fully playing their role as partners in delivering development objectives. This is to be achieved through financial and non financial services extended to rural and urban, economically active, poor and low income people (MINECOFIN, 2007). It was in this regard that the researcher comes up with an idea of conducting a research on examining the microfinance institutions and its impact in poverty reduction. The research takes a case study of COPEDU, one of the poverty reduction oriented Microfinance Institutions with wide outreach in Rwanda.

1.3. Objectives of the study

The study has two kinds of objectives: general objective and specific objectives.

1.3.1 General Objective

The broad objective of the study is to assess the contribution of microfinance institutions to poverty reduction in Rwanda. The general objective intends to see how microfinance institutions help in reducing poverty among people who have access to microfinance institutions by borrowing loans from those microfinance institutions.

1.3.2 Specific objectives

In order to achieve the above general objective, the following specific objectives have been set:

(i) To assess the contribution of COPEDU Ltd as a microfinance institution to the socio economic development of beneficiaries.

(ii) To investigate the perceptions of micro finance beneficiaries on the poverty reduction strategies put in place by COPEDU Ltd.

(iii) To determine the impact of COPEDU Ltd as microfinance institutions to poverty reduction.

1.4. Research questions

To achieve both general and specific objectives of the study, the following research questions are formulated:

(i) What is the contribution of COPEDU Ltd as a microfinance institution to the social development of beneficiaries?

(ii) What are the perceptions of micro finance beneficiaries on the poverty reduction strategies put in place by COPEDU Ltd?

(iii) What is the impact of COPEDU Ltd services as a microfinance institution to poverty reduction?

1.5. Research hypotheses

The research hypothesis is the anticipation of results. In this study, we anticipate the following results:

i. COPEDU Ltd as a microfinance institution contributes to the socio-economic development of beneficiaries through loans, saving, financial advise, standard of living improvement, access to education, improved basic needs achievement and business development.

ii. Micro finance beneficiaries perceive COPEDU Ltd as a strong strategic agent in the poverty reduction.

iii. There is a high impact of COPEDU Ltd to poverty reduction as its services as a microfinance institution reduce sharply the rate of poverty by increased incomes, increased savings and improved access to social services.

1.6. Significance of the study

This study tries to establish how microfinance contributes to reduce poverty in Rwanda as it is defined in Vision 2020 of Rwanda; this will help the decision makers to know how benefit is the MFI to reach the target of vision 2020 and know the level of improving this sector. The study will provide the information valuable for the government of Rwanda and the development stakeholders in the use of microfinance as a poverty reduction tool.

The research recommendations and suggestion will help COPEDU to improve its activities in order to satisfy its customers and to provide a greater contribution in economic development of Rwanda. The study results will also contribute to the academic literature on the links between microfinance and poverty reduction. And to the researcher, this study is essentially carried out for academic reasons as a partial fulfillment for the award of Master's degree in Economics.

1.7. Scope of the study

The scope of the study is limited to the role of microfinance in poverty reduction with respect to COPEDU. Particular aspects of the study will be the nature of products and services and impact on clients. By Geographical coverage, the study will cover COPEDU Ltd. Because of the limited time and funds, the study will be focused on the period from 2009 to 20112.

1.8. Research methodology

For this study, on the perspective of objectives, the researcher has chosen to go through analytical, historical, statistical and comparative research by using survey as method of accessing the data. Historical method is used to outline the evaluation of the facts on the subjects over the period studied, statistical method is sorted while analyzing the data collected through questionnaires, as well as making some comparative enhanced the drawing of some figures and tables that illustrate realities discussed in the dissertation. A quantitative element like graphs, table and charts will be used to give more meaning to data analysis and interpretation.

1.9. Organization of the study

The study is divided into five chapters where the first chapter is made up of introduction, background of the study, statement of the problem, research questions, and objectives of the study, hypothesis, methodology, and significance of the study, scope of the study and organization of the study. Second chapter is the literature review with the definition of research concepts, theoretical framework and review of past studies. The third chapter identifies methodology used while conducting this research. The fourth chapter focuses on the results discussion and interpretation. The fifth chapter presents conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter consists of different information about the topic from different authors identified and looks the global view on the theories in relation with the topic of study. In the part of literature review, the researcher has reviewed the available theoretical literature and previous empirical research on matters concerning the microfinance and its impact on economic development.

2.1. Definitions of key concepts

This is about the definition of main terms of our research topic namely microfinance, micro finance institution, poverty and poverty reduction according to different authors. Its main purpose is to help the reader to easily have the general understanding of used concepts.

2.1.1. Microfinance

Leach & Sitaram (2002), state that microfinance, is about banking the un-bankables, bringing credit, savings and other essential financial services within the reach of tens-or rather hundreds of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. Microfinance can embrace a range of financial services that seek to meet the needs of poor people, both protecting them from fluctuating incomes and other shocks and helping to promote their incomes and livelihoods.

2.1.2. Microfinance institution

Microfinance Institutions refer to financial institutions which provide financial services to the poor who are typically excluded from the formal banking system for lack of collateral (Matovu, 2006). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions coupled with the various complexities and high costs involved in dealing with large numbers of small, often illiterate barriers through innovative measures such as group lending and regular savings schemes.

2.1.3. Poverty

Poverty is defined by several authors as it is the situation of having not enough money to meet the basic needs of human beings (Morduch, 1998). Poverty is defined to include income and non-income human development attributes (PRSP,2000). Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life (URT, 1999). This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication (URT, 1999).

2.1.4. Poverty reduction

Nalunkuuma (2006) argues that poverty reduction is a process of increasing income and economic stability, which will lead to improved fulfillment of basic needs and services and developing a range of assets that will reduce household vulnerability to physical, social and economic shock. Johnson and Rogaly (1997) emphasize that poverty can also be understood as vulnerability to downward fluctuations in income.

2.2. Theoretical framework

Mosley *et al.* (2004), described theoretical framework as a collection of interrelated concepts such as in a theory to guide a research work as it determines the items for measurement and the statistical relationships being studied. A theory is a reasoned statement or group of statements, which are supported evidence meant to explain some phenomena. The following part is giving the theories related to micro finance institutions and their relationship with poverty reduction.

2.2.1. Theories on Microfinance institutions

Microfinance emerged in the 1980s in response to the poor results achieved through state delivered subsidized credit to poor farmers. Evidence began to show that low-income people could be credit-worthy and save money, if enabled to access tailored financial services. This shift in development thinking presented low income people not as a focus for charity but rather as partners in development. Throughout the 1980s and 1990s the microfinance movement continued to grow as market-based approaches were required (Marguerite, 2002). The following theories on microfinance institutions served as pillars n this research:

2.2.1.1. Transaction Cost Theory

The theoretical literature review for this study based on transaction cost theory.

Transaction cost approach to the theory of the firm was created by Ronald (1960), his theory states that: “In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on”.

The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts.

On the other hand, the borrowers that is MSEs for this case may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc. (Bhatt, *et al.*, 1998). The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across.

2.2.1.2.Economic Modernity Theory

Focusing on economic development, the classical modernization perspective considers increases in democracy and human choice as a direct outcome of economic development (Hulme & Mosley, 2000). In relation to gender equality, this approach holds that economic development is central to increasing the pool of women eligible for positions of social power. Hulme and Mosley (2000), established that increased economic development associates with a more broad based distribution of educational and occupational resources. Greater access to educational and occupational resources increases women chances of professional development, creating a larger pool of women eligible for power positions such as political offices.

Rankin & Katherine (2002) noted that higher levels of economic development bring more social services to societies. Through their alleviation of the costs in labor and time of everyday responsibilities associated with care giving (e.g., child-rearing, domestic work), increases in these services free up time for social pursuits in women‘s lives. Several studies confirm these hypotheses, demonstrating that developmental measures such as countries‘ levels of non-agricultural development, per capita gross domestic product, women in the workforce and women college graduates positively influence the percentage of women in their parliaments (Cheston *et al*, 2002).

2.2.1.3.Cultural Modernity Theory

A more recent theory emphasizes the conversion of economic development into a cultural process of human development that gives rise to an emancipative worldview, reflected in self-expression values that emphasize human choice and autonomy, including the choices and autonomy of women (TGNP, 2000). This rise in emancipative orientations develops mass expectations targeted at making elites responsive and inclusive. In this way, rising emancipative values lead to increases in women empowerment throughout the society (Montgomery *et al*, 2001) and in parliament.

At its core, human development perspective links social modernization to emancipative values through changes in constraints. The theory highlights changes in modern societies particularly conducive to women empowerment and therefore establishes a link between cultural modernity and public that value greater equality between genders. Ultimately, Montgomery et al, (2001) ties the modern human resources crucial to the human development sequence to economic development but in this view the effect of economic development is more indirect.

2.2.1.4. Microfinance Institutions Services Boost Theory

As formulated by Vonderlack (2001), the theory suggests that microfinance institutions provide a range of facilities including savings, credits, insurance, payment and money transfer.

Savings Facilities: With more financial savings, capital is accumulated and greater capacity for self-investment is enhanced. In addition, the need to borrow at high interest rates from private money lenders is reduced and the ability to purchase more productive assets improved. Most of the other advantages and impacts of Savings facilities, mentioned under credit facilities (below) in terms of investment opportunities apply to savings facilities. Shreiner (2001) state that the recent shift in terms from micro-credit to microfinance reflects that savings services – and not just loans – may help to improve the well-being of the poor in general and women in particular and that borrowing is riskier than saving.

Credit Facilities: the micro-credit component of microfinance services. It involves giving small loans to poor rural people for relatively short periods and regular and frequent repayment. Small amounts of loan is however a relative term and varies from institution to institution and from time to time.

As a result of better credit facilities, technologies can be adopted by farmers and small- and micro-industry entrepreneurs. This will invariably lead to the diversification of economic activities and economic growth at local, regional and even national levels. At household level, access to credit facilities enables rural households to smoothen their consumption over the year, especially for low income seasons. In addition, micro credit reduces reliance on expensive personal and informal exploitative sources. It enhances the ability of the poor to face external shocks and reduce the distress selling of their assets. Ultimately, the impact on the household will include higher income, more diversified sources of income, increased household consumption and better education for the children. Furthermore, by reducing the severity of poverty, the rural poor are empowered and their social exclusion is reduced. It must be noted that the overall impact of credit facilities on the regional and national economy will depend on other factors like good roads, market facilities and so on, as earlier mentioned in this study.

Insurance Services: this encourages more saving in financial assets and reduces the risk and potential losses in times of unforeseen circumstance. Particularly insurance services reduce the impact of external shocks. As a result of the above, it leads to an increased desire among the rural poor to invest. The ultimate impacts are greater income, less volatility in consumption and greater security.

Payments and Money Transfer Services: this service facilities the free flow of money and subsequently trade and investments. The easy transfer of money from one place to another and from person to person is a very effective instrument in facilitating business between people and places near and far. Thus with banking services that enhance investors and even individual to easily access money, greater income is available among people in the rural area and their consumption level increases.

Other services that are offered by MFIs include provision of:- Financial Literature by training people to develop basic financial competencies which can be used to guard their assets from being eroded by misusing the already available resources. Counselling and Financial Management which help people develop debt management skills to avoid loan defaulting which can lead to loss of the securing assets or collateral security.

2.2.2. Theories on poverty reduction

Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation. It is pronounced as deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life (Jonathan & Shadidur, 2009).

2.2.2.1. Poverty concern theory

Developed by Sen (1984), the poverty concern theory highlights different types of poverty. Lack of money or limited income (**income poverty**) is common to any definition of poverty. When we think of poverty we may think of starving people, living without proper housing, clothing or medical care – people who struggle to stay alive (Sen, 1984). This is known as **absolute poverty**. Most people in the developing nations, especially Sub-Saharan Africa and South Asia, experience this type of poverty.

Unlike developing countries, the type of poverty experienced in developed countries, is more usually called **relative poverty**. In this case, people are considered to be living in poverty if their standard of living is substantially less than the general standard of living in society. The national anti-poverty strategies of governments must reflect this: that people are living in poverty if their income and resources (material, cultural and social) are inadequate to preclude them from having a standard of living that is regarded as acceptable by the society generally. As a result of inadequate income and resources, people may be excluded and marginalized from participating in activities that are considered the norm for other people (Sen, 1984).

Relative poverty is made up of two key elements: income poverty and deprivation. The combination of these two elements is called **consistent poverty**. The focus of this paper is on both income poverty and absolute poverty explained above. These two types of poverty remain to be the main type of poverty in most developing countries, especially South Asia and Sub-Saharan Africa

2.2.2.2. Nature and Incidence of Poverty theory

Poverty has no precise definition. It is a multi-dimensional phenomenon related to the inadequacy or lack of social, economic, cultural, and political entitlements. Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job, is fear for the future and living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom (World Bank, 2000).

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action – for the poor and the wealthy alike – a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities (World Bank, 2000). It adds that globally, 1.2 billion people are living in extreme poverty. Nearly two thirds of them live in Asia; South Asia accounts for half of them. About one fourth of the extremely poor people live in Sub-Saharan Africa (IFAD, 2001).

2.2.3. Microfinance as a Poverty Reduction Mechanism

The poor and poverty reduction has become the object of unparalleled concentration now days both at national and international levels. As one of the MDGs, elimination of poverty has become a key issue for all those interested in development of the developing countries (Nalunkuuma, 2006), with microfinance as one of the predominant methodologies for making finance accessible to the poor especially among the donor community. Many donor agencies and governments in developing countries are now funding a growing number of microfinance organizations (Lont & Hospes, 2004).

Microfinance is considered to be a solution for overcoming poverty. Lack of savings and capital make it difficult for many poor people who want jobs in the farm and non-farm sectors to become self employed and to undertake productive employment-generating activities. Providing credit seems to be a way to generate self employment opportunities for the poor. But because the poor lack physical collateral, they have almost no access to institutional credit. At the same time, informal lenders in many developing countries often charge high interest rates, inhibiting poor households from investing in productive income-increasing activities (Khandker, 2001).

The primary objective of microfinance is the provision of financial aid on a small scale to those who are on the fringes of society, too overwhelmed by the formal restrictions and procedures of the organised sector, too vulnerable to help them and left out of the mainstream. Microfinance provided to the vulnerable has to be synonymous with empowerment of the beneficiary groups in order to sustain their income flow and make them economically independent (Guerin & Palier, 2005).

Microfinance institutions are therefore intended to provide reliable and affordable financial services to the poor by providing cheap credit with minimum requirements for example they demand for securities which are affordable by the poor clients. These schemes also cut on the bureaucratic tendencies which make it easier for the poor people to access micro credit. It is argued these microfinance institutions (MFIs) are in position to enhance the ability of the poor to move out of poverty as well as to prevent those above the poverty line from sliding into poverty (QoriniIwan, 2005).

Montgomery and Weiss point out that the case for microfinance as a mechanism for poverty reduction is simple. If access to credit is improved, it is argued, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints (Montgomery & Weiss, 2005).This is a route out of poverty for the non-destitute chronic poor. For the transitory poor who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on. The avoidance of sharp declines in family expenditures by drawing on such credit or savings allows consumption smoothing (Montgomery & Weiss, 2005).

However, there are inconclusive arguments on the impact and the role of microfinance and micro credit programs in poverty reduction. Proponents of microfinance consider that poor's access to credit boosts income levels, increases employment at the household level and thereby alleviates poverty. Also that, credit enables poor people to overcome their liquidity constraints and undertake some investments. Furthermore that credit helps poor people to smooth out their consumption patterns during the lean periods of the Zeller & Sharma (1998) cited by Okurut *et al* (2004) argued that microfinance can help to establish or expand family enterprises, potentially making the difference between grinding poverty and economically secure life.

Fisher & Sriram (2002) stress that access to microfinance services protects the poor against the often severe consequences of fluctuating incomes, ill health, death and other emergency expenditures.

For the commercial reasons, financial services have historically targeted the richer proportion of society who have a greater capacity to service and repay loans and maintain savings. The poor remain typically either un-served or offered inappropriate financial services. Poor farmers and landless labourers have extreme difficulty accessing financial services from conventional financial institutions such as commercial banks. Realistically however many credit and saving programmes do not in fact reach the poorest, although they can benefit the slightly less poor. For MFIs seeking to sustain their business, the poorest of the poor do not represent attractive clients. Meanwhile self-selected solidarity groups exclude the most vulnerable, as members are selected on basis of who is believed to be able to repay and can offer their small collateral within the group (Jonathan & Barbara, 2001).

It is assumed that microfinance enables the poorest people to earn more, build their assets and invest in better health, education, nutrition and housing. Yet conversely the better of the borrower, the greater the increase in income from the loan - borrowers with assets and skills can make better use of loan than the poorest who are less likely to take risks or use the credit to increase their income. When vulnerable people are exposed to high risk, they may even become poorer, especially when credit is not accompanied by capacity building.

Many experts maintain that it is only when people have a minimal level of economic security that credit can improve security. Destitute people with no income or means of repayment need other kinds of support before they can make good use of loans. To this end the target audience for microfinance is sometimes described as ‘the economically active poor’ meaning ‘those who are not destitute (Marguerite, 2002). Microfinance should be considered as only one element in an approach to alleviate poverty. It is a highly useful tool that provides access to financial and non financial services to low income entrepreneurs but not by itself a ‘magic recipe’ for poverty reduction.

2.3. Empirical literature review

This part consists of empirical literature review on how some authors internationally, regionally and locally have come up with robust research findings on the link between microfinance institutions and poverty reduction.

2.3.1 Experience in Africa

Irobi (2008) investigated microfinance and poverty alleviation in Nigeria, the study employed questionnaire in data collection and found that microfinance intervention has a positive impact on alleviation of poverty among the women of this association.

Interestingly, this study found that most women in this association experienced increased income and therefore, improved their economic status, political and social conditions after receiving the loans. While James (2005), examined impact of microfinance on poverty alleviation in Nigeria: The paper used chi-square test, F-test and T-test. The findings revealed that there is a significant difference between those people who used microfinance institutions and those who do not use them.

There is a significant effect of microfinance institutions in alleviating poverty by increasing income and changing economic status of those who patronize them. Their study concludes that microfinance institution is indeed a potent strategy of poverty reduction and a viable tool for providing credit to the poor.

In the contrast, according to Provident & Zacharia (2008), investigated critical look at the role of microfinance banks in poverty reduction in Tanzania, the study based on questionnaires, semi structured interviews, observations and documentary reviews. The main findings of their study showed that majority of the poor do not access microfinance services loans because they lack guarantors, assets, businesses, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on Special Savings Account which are required as collaterals.

According to Muhammad (2010), focus on the challenges and opportunities face microfinance sector in Pakistan, his study resulted that numerous challenges are ahead of microfinance sector like improper regulations, increasing competition, innovative and diversified products, profitability, stability, limited management capacity of micro finance institutions (MFIs) etc. On the other hand, the rapid increase in poverty in Pakistan, along with other opportunities, is paving way for the growth of this sector and offering a huge market potential for microfinance. On this basis the sector presents a lot of opportunities such as: stimulating growth of economy, women empowerment, increasing volume, accessibility and outreach, economics of scope.

2.3.2 Experience in the region

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalization of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT‘s role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign.

Despite of the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMEs‘ capital enhancement and growth (BOT, (2006). However the evidence showed the formal financial institutions find it difficult to deal with SMEs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Kashulizaet al., 1998). Due to this, small businesses face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

However, information asymmetries associated with lending to small scale borrowers have still restricted SMEs to access financial loans. For creating conducive business environment, the Government of the United Republic of Tanzania took initiatives to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing the National Bank of Commerce and the recapitalization of the Cooperative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services they are offering.

The government has also established the National Microfinance Policy of 2000, the Cooperative Societies Act of 2003 and its regulations of 2004 and the National Economic Empowerment Policy and ACTof 2004. All these initiatives were meant to accelerate economic growth and assist the private sector to become key player in nurturing the entrepreneurship and enterprise development.

Kuzilwa (2005), combining case studies with a sample survey of businesses that gained access to credit from Tanzanian government financial sources. A substantially increased output is observed following access to credit. The findings reveal that the enterprises whose owners received business training and extension advice perform better than those that did not. The study further shows that many of the problems faced by the entrepreneurs are not related to capital, but rather arise as a result of macroeconomic and institutional constraints. Studies like one by Wangwe (1999), Lund *et al.* (2005), and Kimuyu (2002) have investigated the role of the institutions in promoting SMEs, but do not explain why the institutional framework for the promotion of SMEs is poorly integrated or what constraints the SMEs support institutions themselves face. The quality of the institutional framework depends on the capacity of the players within it. It turns out therefore to be important to conduct a critical assessment of the capacity of the existing SMEs support institutions so as to understand the factors underlying the dismalperformance of the institutional framework for SMEs development. Though the study focuses on the assessment of the MFIs framework.

2.4 Research gap

This study was conducted to assess the contribution of microfinance institution on poverty reduction when intervened by clients‘ education level and entrepreneurship skills in Tanzania using the case study of Kinondoni Municipal. Despite the fact that similar studies have been conducted globally as well as Tanzanian context, there is a need to continue studying the concept of microfinance in relation to poverty reduction especially when subjected with other factors such as education level and entrepreneurship skills since microfinance has become an increasingly common method for alleviating poverty. As far as this study is concerned, education level of microfinance clients has an impact on the relationship between microfinance and poverty. Apart from that, entrepreneurship skills are also assumed to be attributes of clients‘ performance on the usage of microfinance products hence bringing out impact on poverty reduction. Conclusively, Liheta & Mosha (2014) revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure as a result a there is a clear need for understanding of the MFIs impact on poverty reduction when intervened by clients‘ education level and entrepreneurship skills.

2.5 Conceptual framework

Kombo & Tromp (2006) defined a conceptual framework as a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate this. From the discussion provided above, microfinance will be used as an independent variable and poverty reduction as a dependent variable. When microfinance services increases, then poverty level/status decrease therefore poverty reduction dependents on micro credit where by the effect may change when intervened with education level and entrepreneurship skills.

Conceptual model is a physical object with composition of concepts or variables used to help people to understand the subject the model represents. In order to uncover the contribution of microfinance institutions on poverty reduction, the study shows key variables which are presented by the model below which are independent variables and dependent variables which are intervened by intervening variable.

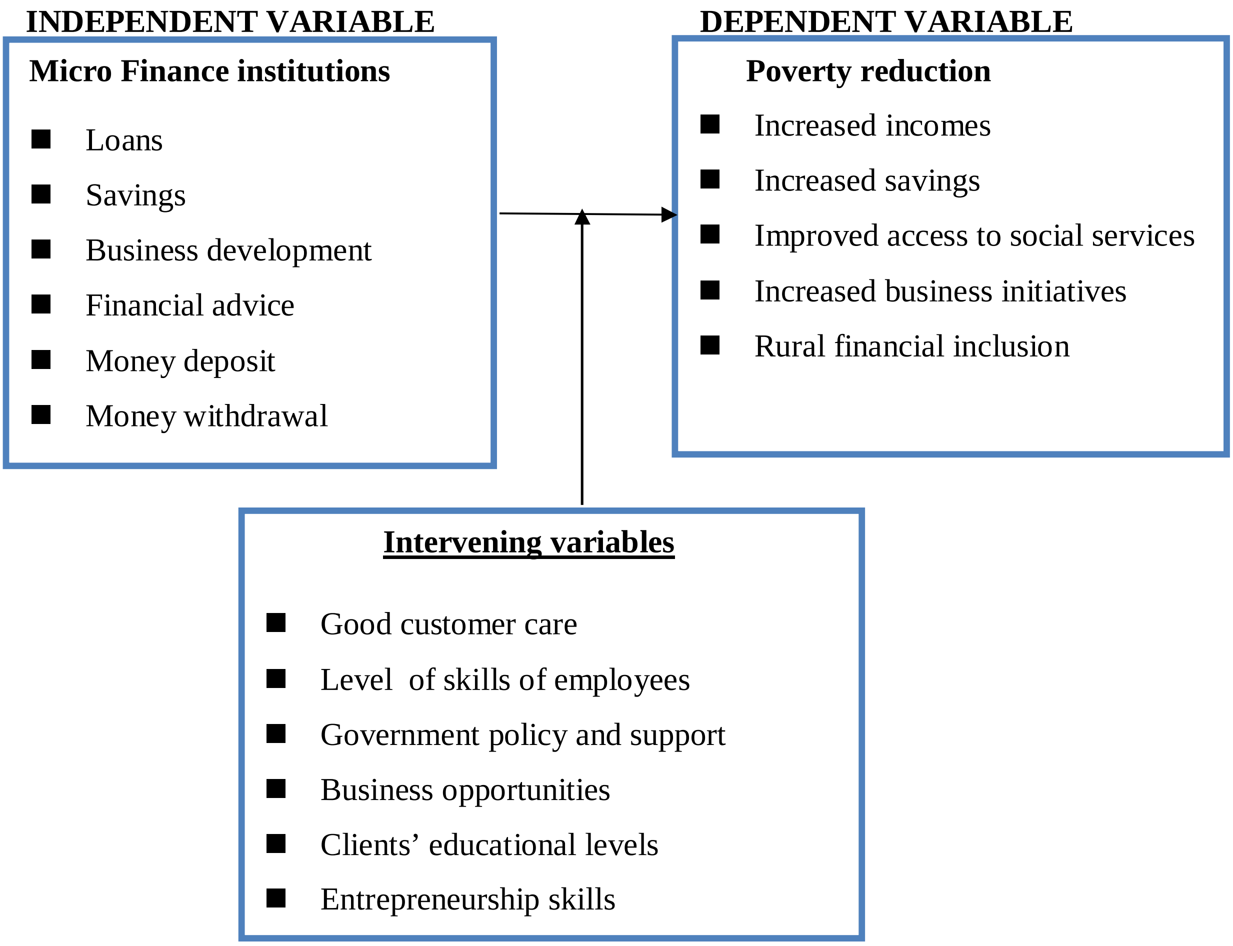


Figure 1: Conceptual framework of the study

<u>Source:</u> Researcher, 2017

2.6 Research variables and measurement

Kothari (2004), defined a variable as a concept which can take on different quantitative value. Variables of this study include dependent variable, independent variable and intervening variable. Msabila & Nalaila (2013), defined measurement as the process of observing and recording the observations that are as part of a research effort. The section that follows provide description of the study variables and their measurement.

2.6.1 Independent Variable

If one variable depends upon or is a consequence of the other variable, it is termed as a dependent variable (Kathari, 2004). That is to say, when the independent variable is present the dependent variable is also present, and with each unit of increase in the independent variable, there is an increase or decrease in the dependent variable too. Independent variables are the predictors of an outcome.This study contains microfinance as an independent variable composed of loans, savings services and policies governing the operations of MFIs. This variable was measured by amounts of loans provided by MFIs, savings made by clients and business development services like business advises.

2.6.2 Dependent Variables

Msabila and Nalaila (2013), defined dependent variable as the variable that is being measured throughout the experiment or the variable which appear or disappear or vary as a result of the variations in the independent variables. The researcher‘s goal is to understand and describe the dependent variable, or to explain its variability, or predict it. In this study, therefore the dependent variable is poverty reduction. It can be measured through increase income, ability to start business venture, ability of making savings, improved living standard which provides access to food services, health services, clothing and shelter.

2.6.3 Intervening Variable

The intervening variable is the one that has a contingent effect on the independent and dependent variables relationship. That is, the presence of an intervening variable modifies the original relationship between independent and the dependent variables.

According to this model the intervening variables are clients‘ education level and entrepreneurship skills. Education level under this discussion is the formal education and entrepreneurship skills involve creativity, innovation, risk taking etc. It has put in an assumption that if microfinance loan are offered to educated clients with entrepreneurship skill it will lead positive impact on poverty reduction. And if these microfinance loans are provided to clients who are not educated may significantly lead to positive result but with lesser extent to that of the educated clients.

CHAPTER THREE: METHODOLOGY

This chapter describes the presentation of a case study. It also discusses some statistical techniques used by for data analysis. Furthermore, this chapter discussed the research design of the study, the population, sampling techniques, instrumentation, data gathering procedures and limitation of study.

3.1. Presentation of area of study-COPEDU Ltd

COPEDU LTD is a limited liability company. It is a Microfinance institution that offers savings and credits services for its shareholders and customers. It is registered as a company in Rwanda development Board (RDB) and licensed by the central bank (National Bank of Rwanda). Capital social Frw 789 913 600 in 2012.

It was initially called COOPEDU - Kigali because its activities were only limited to the City of Kigali and the former Province of Kigali Rural. COOPEDU - Kigali was initiated by a non profit-making organization known as DUTERIMBERE a.s.b.l on June 15th, 1997. Initially, DUTERIMEBERE a.s.b.l had a small savings and credit program and after its rating, it was the creation of a Cooperative COOPEDU where the assessment of this program showed that the savings and credit services which were initially offered by the non-profit making organization DUTERIMBERE would have been more effective and efficient if they had been offered within an independent cooperative institution and within a savings and credit program owned by a non-profit making organization like DUTERIMBERE a.s.b.l

3.1.1 Mission of COPEDU Ltd

COPEDU LTD is the Microfinance Institution whose mission is to provide inclusive financial services for Socio-Economic Development of its customers

3.1.2 Vision of COPEDU Ltd

The vision of COPEDU Ltd is to be the reference bank for women in Africa

3.1.3 Values of COPEDU Ltd

As is defined by his name, COPEDU has value of Cooperation, Organization, Professional, Efficiency, Dignity and Unique.

3.1.4 Localization

COPEDU Ltd currently operates within the geographical area of the City of Kigali. The headquarter of COPEDU Ltd is located in Kicukiro district.

COPEDU Ltd currently has eight (8) branches which were opened on the following dates.

- Headquarters and main branch operating from June 15, 1997 now located at African Union Road, RWANDEX- SONATUBE Road
- Nyabugogo Branch open from July 1, 2002 located at Center of Nyabugogo town CHEZ MANU
- Remera Branch operate since December 1, 2003 located at AIRPORT ROAD, PRINCE HOUSE
- City Center Branch since March 1, 2006 located at Commercial Quarter, Etablissement NDAMAGE Building
- Gisozi Branch from August 10, 2009 located at Gakinjiro Gisozi, CHEZ VITA
- Kimironko Branch started 10 August 2009 located at Close to Kimironko Bus Station
- Kigali City market branch: 02 February 2011 located at Nyarugenge modern market
- Rwamagana Branch: 05 September 2012. Located at near Rwamagana Market on the road from Hospital to the Market.

3.1.5 Organization Structure

The company COPEDU LTD is composed by the following organs:

General assembly: A properly constituted general meeting shall include all shareholders or their representatives and shall have the widest to exercise or endorse any actions in the interest of the company.

Board of directors: The Board of Directors of a company may delegate to a committee of directors, a director or employee of the company, or any other person, any one or more of its powers other than its powers. The Board of Directors that delegate power shall be responsible for the exercise of the power by the delegate as if the power had been exercised by the Board of Directors itself.

Board committees: the Board committee is working closely with the senior executives for the daily management of the institution.

3.2. Research methodology

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted in studying his research problem along with the logic behind them (Kothari, 2008). It is here a detailed explanation of the procedures and techniques that have been used while collecting, processing and analyzing data. This section of the study therefore describes the research design, target population and area, sample and sampling technique, data collection instruments, procedures, analysis management and the ethical considerations that the study used.

3.2.1. Research design.

A research design is a plan and strategy of investigation conceived in order to obtain answers to research questions or problems. It is the complete scheme or program of the research (Kothari, 2004). For the present study, the research design was a qualitative case study but supplemented with quantitative methods. Again, the design of the study is analytic in nature; the analytic research design is continuation of the descriptive research.

3.2.2. Sources of data.

The data collection format depends on the kind of data to be collected. However, in this particular study both primary and secondary data were used. The methods of data collection were questionnaires and documentary evidence. In this research, the sources of data will be mainly primary and secondary data. Primary data are those collected at first hand, where a researcher will go on the field and collect raw data from the clients and staff of COPEDU Ltd. However, secondary data also will be used. Those data will be collected from sources that have been previously published.

3.2.2.1. Primary data.

These data are the first hand data collected as a result of investigation. They sprightly come from the population of interest. The various tools used in collecting the primary data were questionnaire. The survey was basically conducted using questionnaire. The questionnaire contained open and closed- ended questions.

3.2.2.2. Secondary data.

Secondary data refers to the information obtained from research findings, articles, books, etc. They have been obtained from documentation of different categories. This includes textbooks, journals, government reports and other reports, newspapers, websites and other publications. The sources of the secondary data were from the records of COPEDU Ltd financial reports relevant to the research, textbooks and articles. Due acknowledgment has been made to the sources where information were collected at the reference section.

3.2.3. Data collection techniques

Grawitz (1979), explained that "In terms of scientific research, the word "technique" means the entire process used to collect data for this subject. These techniques are selected according to the field of research". In this research we have used the following techniques: documentation technique and questionnaire as tools for data collection.

Primary data will be collected using questionnaires. The questionnaires will be used as a technique of data collection in order to complete and increase the reliability of data collected, the questionnaires will be administrated to the selected client of COPEDU Ltd. Secondary data sources are the foundation for which the theoretical and conceptual framework of the research is built. Relevant literature from existing empirical studies and reports from the different libraries, websites, Government of Rwanda (relevant ministries) were contacted for reports, papers on microfinance, poverty, and reports from of COPEDU Ltd.

3.2.3.1. Observation

This method will help us to have a general overview of Microfinance in Rwanda. It will be useful while visiting places of operation of this company concerned by our study to observe and see by ourselves what the actual state of the concerned is, and therefore understand better what we will be told.

3.2.3.2. Documentation

The documentation is always necessary for everyone who wants to realize a research (Grawitz, 1987); it is a systematic search of any written document in relation with the domain of the research. This technique helped us to elaborate an appropriate literature review using documents, reports, working documents and books of different kinds written on poverty reduction and on Microfinance, historical background of Microfinance and all of related information; the internet was also one useful source of information for our study.

3.2.3.3. Questionnaire

According to Javeau (1985), the questionnaire is presented as document on which are noted answers and reactions of a subject. This means that the questionnaire is one of materials that will be used for the collection of needed data. The questionnaire was useful in collecting information from heads of COPEDU Ltd's clients, on how this branch has contributed on their poverty reduction. The questionnaire was divided into three categories of questions such as opened questions, closed questions and half-opened questions.

3.2.3.4. Interview

The interview of persons working in COPEDU in charge of credit management and customer service provide is one of the techniques that will be used to collect information for this study. The persons that will be interviewed are those staff employees in COPEDU Ltd.

3.2.4. Validity and reliability of data collection tools

To ensure accuracy and consistency of data, the researcher will make sure that the questionnaire is clear and in the same way understandable by the researcher himself and the respondents. In this perspective, ahead of designing the final questionnaire, the researcher will conduct a pilot test to predict accurately the effectiveness of survey instruments. He will plan for distribution of targeted sample that will participate in the main survey and the time necessary to complete the survey. Data from the pilot survey will be analyzed, just as the main survey, but with the purpose of determining what must be changed and what can remain as planned. The combined research instruments and methods that the researcher intends to use grant the reliability of the data to be collected. The fact that the population is from the recent years; meaning 2009-2012 testifies the validity of data to be collected because the clients still remember the changes in their day to day life caused by the services provides by of COPEDU Ltd.

3.2.5. Research population

According to Mouton (1996), a population is a collection of objects, events or individuals having same common characteristics that is interested in studying. The population for a study is that group about whom we want to draw conclusions. In this study, the population refers to all clients who received loans in this institution for the period between the year 2009 and 2012. The population equals to 317 people received loans in COPEDU Ltd.

3.2.5. Sample size and sampling technique.

This part concerns the sample size and sampling procedures to be used to come up with the sample size. In practice, the sample size is determined based on the expense of data collection, and the need to have sufficient statistical power. Therefore sampling is the process of selecting elements from the total population. A sample size is respondents defined part of statistical population whose properties are studied to gain information about the case of study.

3.2.5.1. Sample Size

From the total target population which is 317 individuals, it was not possible to afford them all, the sample to represent the whole population was deemed necessary and different formula adopted arrived at the sample size of 56 respondents. There are several approaches to determining the sample size. Within this study it was used the strategy of calculating the sample size for proportions. For populations that are large, Cochran (1963) developed the formula to yield a representative sample for proportions.

Where $\mathbf{n_0}$: is the sample size, **Z**: is the abscissa of the normal curve that cuts off an area at the tails (1 - equals the desired confidence level, e.g., 90%), **e**: is the desired level of precision (error term), p**:** is the estimated proportion of an attribute that is present in the population, and q is 1-p.

The value for Z is found in statistical tables which contain the area under the normal curve.

P=0.5, N=317, e=10% or 0.1, Z=1.65

$$n_0 = \frac{z^2PQ}{e^2} = \frac{(1.65)^2*(0.5)*(0.5)}{(0.1)^2} = 68.06$$

According to Bouchard (1983), the sample size is calculated as follows:

$$n = \frac{n_0}{1+\frac{(n_0-1)}{N}}$$

Where:

n: is the sample size, **N**: is the population size, $\mathbf{n_0}$:is the sample size of the define population

d: is the error term estimated at 10%, **P**: is the estimated frequency of the sample with size, while, **Z**: is the figure obtained from the standard-normal distribution's table of the student table

$$n = \frac{n_0}{1+\frac{(n_0-1)}{N}}$$ **=68/(1+[(68-1)/317])=56**

So, the sample size was fixed at **56** respondents.

3.2.5.2. Sampling Technique

Nachmias **(**1976), has indicated that to ensure the sample is a representative as possible, random sampling in the only available technique that should be used. The researcher will use a sampling technique namely the simple random sampling in order to get the sample representing all the population. Simple random sample of a given size are given an equal probability. Each element of the frame thus has an equal probability of selection. The frame is not subdivided or partitioned. Furthermore, any given pair of elements has the same chance of selection as any other such pair. This minimizes bias and simplifies analysis of results. In particular, the variance between individual results within the sample is a good indicator of variance in the overall population, which makes it relatively easy to estimate the accuracy of results (Margaret, 2004).

3. 2.6. Data processing and analysis

This means the classification of answers into meaningful categories in order to bring out their main patterns. It has been useful to show various tools to process data in more meaningful styles and those are here under described. Questionnaires were constructed on the computer then quantitative data to be collected by the questionnaire were summarized, edited, coded, tabulated and analyzed. Editing was done to improve the quality of data for coding. In the coding process, a coding sheet has to be constructed. Descriptive statistics were used where distribution frequencies and percentages. Econometric model also provided the impact of micro finance institutions on poverty reduction. Data were analyzed using a statistical package for social sciences (SPSS, 18.0). Editing involved going through the questionnaires to see if respondents responded to questions and see if there are blank responses.

A statistical hypothesis test is a method of making decisions using data, whether from a controlled experiment or an observational study. A result was called statistically significant if it is unlikely to have occurred by chance alone, according to a pre-determined threshold probability. The following tests statistic have been performed:

— **Chi-square test**

It is used to determine whether there is a significant relationship or difference between two variables that are categorical in nature. In fact the cross-tabulation or the contingency tables were created among variable and the following tests were performed to know:

- If there any dependence between the kind of assistance and the poverty related problems faced by COPEDU Ltd beneficiaries before the intervention.
- If the poverty reduction (change) is likely related to the kind of support provided from COPEDU Ltd.

— **Multiple regression analysis**

It is used to test if two or many continuous independent variable are or can be the predictors of another continuous variable. The general model for multiple linear regressions is given by the following formula: $Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \ldots + \beta_p X_{ip} + \varepsilon_i.$

Where, we consider *n* observations of one dependent variable and *p* independent variables. Thus, Y_i is the i^{th} observation of the dependent variable, X_{ij} is i^{th} observation of the j^{th} independent variable, $j = 1, 2, ..., p$. The values β_j represent parameters to be estimated, and ε_i is the i^{th} independent identically distributed normal error term. It was used to test if the income of beneficiaries is depending on the value of intervention in existence of other variables like age, income before intervention, duration of intervention and the saving. The model is: Y (Income) $=\beta_0+\beta_1$*(value of intervention) $+\beta_2$*(Age)$+\beta_3$*(Saving)+ β_4*(income before the intervention)+ β_5 (duration of intervention).

— **Analysis of Variance**

The ANOVA is used to determine whether a single or multiple categorical variables significantly explain the variation in continuous dependent variable. It was used for the test of the dependence between income and kind of support COPEDU Ltd beneficiaries are provided.The following is the ANOVA table adapted in this study.

Table 1: ANOVA Model for data analysis

Source of variance	Sum of squares	DF	Mean square	F test
Explained	SS Between	J-1	SS Between/(J-1)	$\frac{MSBetweengroups}{MSwithingroups}$
Error(Residual)	SS Within	N-J	SS Within/(N-J)	
Total	SS Total	N-1	SS Total/(N-1)	

Source: Adapted from Montgomery (2004)

Where: N: Sample size, J: Number of categories, DF: Degrees of freedom.

The analysis of variance tests the difference between means but it doesn't specify which mean is greater than others. The researcher used the post-Hoc tukey's test to know which kind of support whose beneficiaries have the high mean of income than others or which of the kind of support is contributing more on the change of income of beneficiaries than others.

The following is the formula of tukey' test post-Hoc:

$$\frac{M_1 - M_2}{\sqrt{MS_w\left(\frac{1}{n}\right)}}$$

Where: M_1 and M_2 are the respective means of 1^{st} and 2^{nd} category , MSw : Mean squares within groups (within categories) and n is the sample size. The calculated Tukey's test for each mean comparison is compared to the critical value table taking into account appropriate df_{within} and number of treatments. The researcher used the SPSS to get the differences of means and the p-value, this last one compared to the level of significance of 5% for Checking if Tukey's score is statistically significant with Tukey's probability/critical value table.

3.2.6.1. Data Editing

The activity aimed at detecting and correcting errors (logical inconsistencies) in data in order to improve the quality of information from respondents.

3.2.6.2. Data Coding

It is a systematic way in which to condense extensive data sets into smaller analyzable units through the creation of categories and concepts derived from the data. This process reflects the way by which verbal data are converted into variables and categories of variables using numbers, so that the data can be entered into computers for analysis.

3.2.6.3. Tabulation

Data tabulation compiles the data collected from a study and presents it in terms of statistics, which provide model tables that set forth the major findings of a study in a manner that was useful to policy makers and program managers. The tabulation also helps provide guidance concerning the most important indicators that should be presented in the research dissertation, the level of analysis expected, and ensures timely dissemination of research results.

3.2.7. Limitations of the Study

For this research, the following challenges were met as respondents were mistrustful of seeking information for other purposes under the cover of academic research and might therefore doubt the purpose thinking that it is not academic. However, the explanation and academic documents were provided and then respondents convinced beyond doubt that the research is purely academic until they gave the required data. Also, the study met a situation where some respondents were busy, there was no need to rush, simply to wait until they are ready to respond.

CHAPTER FOUR

DATA PRESENTATION AND RESUTS INTERPRETATION

This chapter shows the findings of this research by presenting it from analysis. Where this is required, the interpretations are provided after each table, always taking into consideration the initial research questions and hypotheses. This chapter thus examines the empirical evidence and establishes the ground up on the research questions were answered before drawing conclusion. The analysis was made on the responses obtained from 56 respondents from COPEDU Ltd and it is all about the impact of micro finance institutions on poverty reduction.

4.1. Identification of respondents

The study to achieve its objectives has addressed questionnaire to 56 respondents who are clients of COPEDU Ltd. They are classified according to various categories including age intervals, gender, education level, marital statuses and the number of years of experience for the researcher to arrive at realistic results.

Table 4. 1: Classification of respondents according to their age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 21	3	5.4	5.4	5.4
	Between 21 and 30	3	5.4	5.4	10.7
	Between 31 and 40	6	10.7	10.7	21.4
	Between 41 and 50	34	60.7	60.7	82.1
	Above 50	10	17.9	17.9	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.1 indicates the distribution of respondents according to their age intervals and the results are showing that the majority of them is composed of mature people where 34 respondents representing 60.7% are in the age interval of 41 and 50 years followed by 10 people representing 17.9% who are above 50 years followed by six respondents representing 10.7% who are in age interval of 31 to 40 years and only three respondents are having both below 21 years and in the 21 and 30 age interval representing 5.4% equally. The implication of the findings is that the research was conducted on generally mature people who are likely to provide relevant information as they may judge effectively the impact of micro finance institutions on poverty reduction.

Table 4. 2: Classification of respondents according to their gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	37	66.1	66.1	66.1
	Female	19	33.9	33.9	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.2 shows the classification of respondents according to their gender distribution and the results indicate that despite the unequal distribution there are both males and females in respondents set as 37 of them representing 66.1% are male and 19 respondents representing 33.9% were female. The results imply that COPEDU Ltd employs both male and female and this is good indicator of fairness that can predict more effort on poverty reduction once backed with other relevant aspects resulted from micro finance institutions.

Table 4. 3: Classification of respondents according to their marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	14	25.0	25.0	25.0
	Married	32	57.1	57.1	82.1
	Divorced	7	12.5	12.5	94.6
	Widow	3	5.4	5.4	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.3 indicates the classification of respondents according to their marital status and it is shown by the findings that the highest proportion of respondents is composed of married people as they are 32 representing 57.1% of the total, followed by 14 single people representing 25.0%, followed by seven divorced people representing 12.5% and three widow people who represent 5.4% of the total. The results imply that respondents are in various categories and this is good for the provision of variant and relevant information on the concerned topic.

Table 4. 4: Classification of respondents according to their level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary	2	3.6	3.6	3.6
	Primary	50	89.3	89.3	92.9
	University	4	7.1	7.1	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.4 depicts the classification of respondents according to their level of education and the results show that the majority of them attended the university studies as 50 respondents representing 89.3% have said that they did primary, this percentage is followed by four respondents representing 7.1% who are qualified with university mainly as they added on the information provided and only two respondents representing 3.6% did secondary schools and they obtained the employment position very early but they mentioned their progress towards more qualifications. This implies that the clients of COPEDU Ltd are enhanced by skills as estimated by level of education toward poverty reduction.

Table 4. 5: Classification of respondents according to their length of service in COPEDU Ltd

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under one year	4	7.1	7.1	7.1
	Between 1 and 3	9	16.1	16.1	23.2
	Between 3 and 6	12	21.4	21.4	44.6
	Above 6	31	55.4	55.4	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

Identification of respondents calls for knowledge on the length of service for our respondents in COPEDU and the table 4.5 is giving the distribution which reveal that 31 respondents representing 55.4% have experience of more than six years in COPEDU, followed by 12 respondents representing 21.4% who have between three and six years of experience, followed by nine people representing 16.1% who have between one and three years of experience while only four respondents representing 7.1% are having less than one year of experience as they have newly joined. The implication of the results is that the respondents to the study are good people to respond as their experience can predict their knowledge on the impact on poverty reduction based generally on the performance of COPEDU Ltd.

4.2. The contribution of COPEDU Ltd as a microfinance institution to the socio-economic development of beneficiaries

In order to arrive at the first specific objective and respond to its corresponding research question at the same time verifying the first hypothesis, the researcher has explored the contribution of COPEDU Ltd as a microfinance institution to the social development of beneficiaries and the findings revealed that COPEDU Ltd as a microfinance institution contributes to the socio-economic development of beneficiaries through loans, saving, financial advise, standard of living improvement, access to education, improved basic needs achievement and business development.

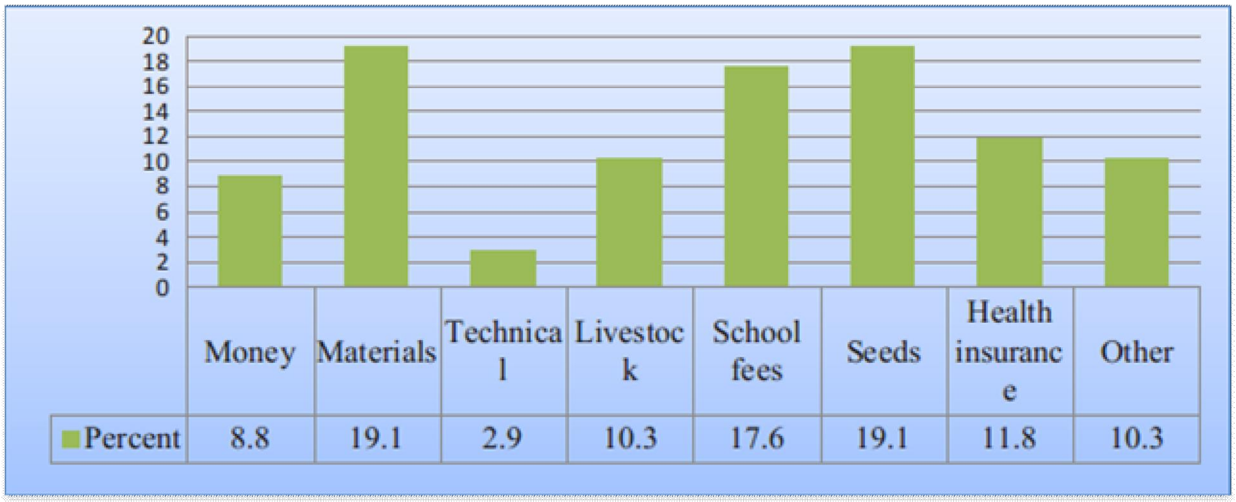
Table 4. 6: The respondents view on whether loans are given to fight poverty

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	23	41.1	41.1	41.1
	Agree	13	23.2	23.2	64.3
	Neutral	8	14.3	14.3	78.6
	Disagree	8	14.3	14.3	92.9
	Strongly disagree	4	7.1	7.1	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.6 is giving the respondents views on whether in COPEDU Ltd as a microfinance institution, the loans given are for fighting poverty among beneficiaries and the results are showing that 23 respondents representing 41.1% have strongly agreed to the assertion, 13 respondents representing 23.2% have agreed and eight respondents representing 14.3% have kept neutral to the affirmation while other eight respondents representing 14.3% similarly have disagreed and only four respondents representing 7.1% have strongly disagreed to the assertion. Generally the results imply that despite these particular cases, the loans given by COPEDU Ltd have the purpose of fighting the poverty level among beneficiaries who use them for economic activities generating more incomes and better standard of living.

Figure 2: Distribution of kind of assistance the beneficiaries are given



Source: Primary data, 2014

As the great number of our respondents is living from agriculture activities, the kind of support or assistance for many beneficiaries is seeds (19.1%) and materials (19.1%). The other big number of respondents (17.6%) was given school fees. Others have been given health insurance at 11.8%, money at 8.8%, technical support at 2.9% and those who have given other assistance are 10.3%, those includes food, clothes, transport to school, etc.

Table 4. 7: The respondents view on whether savings in COPEDU Ltd increase

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	36	64.3	64.3	64.3
	Agree	6	10.7	10.7	75.0
	Neutral	6	10.7	10.7	85.7
	Disagree	8	14.3	14.3	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.7 gives the respondents views on whether respondents view on whether savings in COPEDU Ltd increase and the results show that the majority is agreeing the affirmation as

36 respondents representing 64.3% have strongly agreed to it followed by six respondents representing 10.7% who have agreed and other six representing the same percent of 10.7% who have kept neutral while only eight respondents 14.3% who disagreed. The implication is that savings in COPEDU Ltd increase overtime and this indicates the chance for poverty reduction among beneficiaries whose marginal propensity to save increase constantly overtime.

Table 4. 8: The respondents view on whether financial advises are provided

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	42	75.0	75.0	75.0
	Agree	14	25.0	25.0	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The distribution of respondents views on whether financial advises are provided to beneficiaries in COPEDU Ltd is indicated by the table 4.8 and the results show that all respondents have agreed the assertion where 42 respondents representing 75% have strongly agreed and other remaining 14 respondents representing 25% have agreed the affirmation and these results imply that in COPEDU Ltd, the financial advises are provided to clients in order to use the finance effectively.

Table 4. 9: The respondents view on whether COPEDU Ltd promotes business development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	20	35.7	35.7	35.7
	Agree	24	42.9	42.9	78.6
	Neutral	6	10.7	10.7	89.3
	Disagree	5	8.9	8.9	98.2
	Strongly disagree	1	1.8	1.8	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.9 indicates the respondents views on whether COPEDU Ltd promotes business development and the results are showing that 20 respondents representing 35.7% have strongly agreed to the affirmation followed by 24 respondents representing 42.9% who have agreed and six respondents representing 10.7% who kept neutral while on other hand there are five respondents representing 8.9% who disagreed and one respondent representing 1.8% who has strongly disagreed. The implication of the findings is that it is true that COPEDU Ltd promotes business development among beneficiaries who have initiatives for poverty reduction.

Table 4. 10: The respondents view on whether COPEDU Ltd improves standard of living of beneficiaries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	37	66.1	66.1	66.1
	Agree	19	33.9	33.9	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.10 shows the distribution of respondents according to their views on whether COPEDU Ltd improves standard of living of beneficiaries and the results indicate that all the respondents are in agreement with the assertion as 37 respondents representing 66.1% have strongly agreed and the remaining 19 respondents representing 33.9% have agreed. The implication of the findings is that COPEDU Ltd improves standard of living of beneficiaries through ease access to finance which in turn is used for households development and access to basic satisfaction toward better living conditions.

4.3. The perceptions of micro finance beneficiaries on the poverty reduction strategies put in place by COPEDU Ltd

In order to arrive at second research specific objective and respond to the corresponding question and verifying the second hypothesis, the researcher explored the perceptions of micro finance beneficiaries on the poverty reduction strategies put in place by COPEDU Ltd and the major ones are support to small business, follow up financial uses, increase beneficiaries incomes , improves access to education improves access to medical facilities and promotes financial inclusion.

Table 4. 11: The respondents view on whether COPEDU Ltd support small businesses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	12	21.4	21.4	21.4
	Agree	34	60.7	60.7	82.1
	Neutral	10	17.9	17.9	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.11 indicates the distribution of respondents according to their view on whether COPEDU Ltd support small businesses and the results are indicating that 34 respondents representing 60.7% have agreed and 12 respondents representing 21.4% have strongly agreed while other 10 respondents representing 17.9% have kept neutral. The implication of the findings is that COPEDU Ltd support small businesses hence poverty reduction is achieved.

Table 4. 12: The respondents view on whether COPEDU Ltd follows up financial use

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	23	41.1	41.1	41.1
	Agree	25	44.6	44.6	85.7
	Neutral	8	14.3	14.3	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.12 shows the distribution of respondents according to their views on whether COPEDU Ltd follows up financial use and the results indicates that 23 respondents representing 41.1% have strongly agreed and the highest proportion of 25 respondents representing 44.6% have agreed the assertion while eight respondents representing 13.3% have kept neutral to affirmation. This implies that COPEDU Ltd follows up financial use for the funds they extend to beneficiaries for better management toward poverty reduction.

Table 4. 13: The respondents view on whether COPEDU Ltd increases beneficiaries incomes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	62.5	62.5	62.5
	Agree	21	37.5	37.5	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2016

The table 4.13 shows the distribution of respondents according to their views on whether COPEDU Ltd increases beneficiaries incomes and the results indicate that all respondents are in agreement with the assertion where 35 respondents representing 62.5% have strongly agreed and 21 respondents representing 37.5% have agreed. The implication of the findings is that COPEDU Ltd increases beneficiaries incomes through various initiatives.

Table 4. 14: The respondents view on whether COPEDU Ltd improves access to education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	12	21.4	21.4	21.4
	Agree	26	46.4	46.4	67.9
	Neutral	9	16.1	16.1	83.9
	Disagree	6	10.7	10.7	94.6
	Strongly disagree	3	5.4	5.4	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.14 depicts the distribution of respondents according to their views on whether COPEDU Ltd improves access to education and the results show that the highest 26 respondents representing 46.4% have agreed the assertion and 12 respondents representing 21.4% have strongly agreed to it while nine respondents representing 16.1% have kept neutral, six respondents representing 10.7% have disagreed while three respondents representing 5.4% have strongly disagreed. Despite the disagreement from some respondents who might need to get more knowledge on activities connectivity in COPEDU Ltd the results imply that COPEDU Ltd improves access to education as beneficiaries get easily financial means to pay for education and other needs.

Table 4. 15: The respondents view on whether COPEDU Ltd improves access to medical facilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	42	75.0	75.0	75.0
	Agree	14	25.0	25.0	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2016

The table 4.15 indicates the distribution of respondents according to their views on whether COPEDU Ltd improves access to medical facilities and the results show that all respondents are in agreement with the assertion as 42 respondents representing 75% have strongly agreed and 14 respondents representing 25.0% have agreed and this implies that for sure COPEDU Ltd improves access to medical facilities for beneficiaries.

Table 4. 16: The respondents view on whether COPEDU Ltd promotes financial inclusion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	45	80.4	80.4	80.4
	Agree	11	19.6	19.6	100.0
	Total	56	100.0	100.0	

Source: Primary data, 2014

The table 4.16 shows the distribution of respondents according to their views on whether COPEDU Ltd promotes financial inclusion and the results are indicating that all respondents are in agreement with the assertion as 45 respondents representing 80.4% have strongly agreed and the remaining 11 respondents representing 19.6% have agreed to it and this implies that COPEDU Ltd promotes financial inclusion as various people benefit from its activities towards financial access irrespective of categories or economic status.

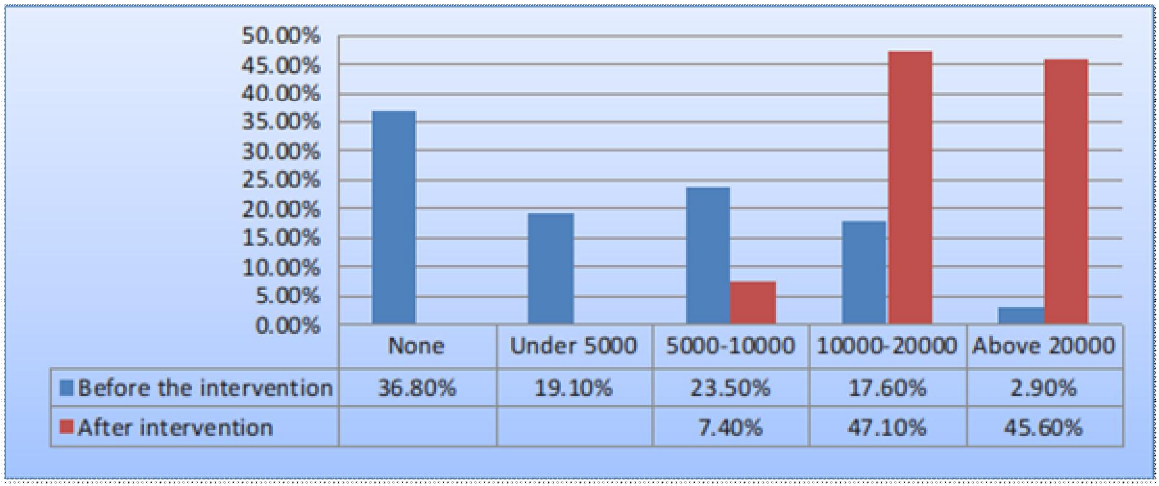
Table 4. 17: The cross-tabulation of income level before and after working with COPEDU

	Income level after COPEDU (*000)					
Income level 1(*000)	Between 10-15	Between 15-20	Between 20-25	Between25-30	Above 30	Total
Less than 5	0	3	1	0	3	7
Between 5-10	5	2	5	1	0	13
Between 10-15	0	0	9	5	6	20
Between 15-20	0	0	0	1	3	4
Between 20-25	0	0	0	0	4	4
Between 25-30	0	0	0	0	5	5
Above 30	0	2	0	0	1	3
Total	5	7	15	7	22	56

Source: Primary data, 2014

The graph of the income levels before and after the joining COPEDU shows that the number of beneficiaries having less than 5000Rwfs of income reduced from 10.3% before working with COPEDU up to 0% after working with COPEDU Ltd and those having above 30000 increased from 4.4% up to 32.4%. This shows how the income level has been changing along the income with the beneficiaries work with COPEDU.

Figure 3: Distribution of income before and after the intervention



Source: Primary data, 2014

As it is viewed in the above graph, the income has been changed since the beneficiaries have been supported. Before the intervention of COPEDU Ltd the great percentage of 36.8% had no income and only 2.9% had above 20000. After the intervention the income of beneficiaries is distributed as follows: none has less than 5000, only 7.4% have between 5000-10000, 47.1% have between 10000-20000 and 46.6% have above 20000.

The frequency distribution of the income of beneficiaries of income before and after the intervention shows that it has been changed since the beneficiaries have been supported. The problem is still to wonder the contribution of the intervention from COPEDU Ltd in that change of income or to wonder if this change can be attributed to the intervention so that we can agree that the COPEDU Ltd has the great contribution in the increase of income of beneficiaries.

To evaluate the contribution of the intervention of COPEDU Ltd on the increase in income of their beneficiaries, the multiple linear regression analysis has been used. The following is the multiple linear regression model: Y (Income) = β_1*(Age) +β_2*(value of intervention)+β_3*(income before the intervention)+ β_4*(Saving)+ β_5(period in years of intervention).

Table 4. 18: The multiple regression model-Model Summary

Model	R	R Square[b]	Adjusted R Square	Std. Error of the Estimate
1	.933[a]	.870	.860	7236.755

Source: Primary data (June 2012)

a. Predictors: Period of the assistance, Income before intervention, Saving , The value of the intervention, Age of respondents
b. For regression through the origin (the no-intercept model), R -Square measures the proportion of the variability in the dependent variable about the origin explained by regression.

The R-square of the model is ***0.87***. This is to mean that the **87%** of variation in income of beneficiaries after the intervention of COPEDU Ltd can be explained by the regression model provided.

The adjusted R-squared is often used to summarize the fit as it takes into account the the number of variables in the model. For the above model,it is ***0.860*** and it shows how the income of beneficiaries is explained by variable such as age, intervention, saving, income before the intervention and the duration of intervention at **86%.**

To make sure if the parameters are statistically significant, the analysis of variance was used for testing the overall significance of coefficients. This test is showing if the coefficients are statistically significant at 5%, so that the independent variable would be accepted to contribute on the variation of income and would be used to estimate the value of dependent variable.

The following Hypothesis was tested to verify the global test:

H**0**: $\beta_1 = \beta_2 = \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots = \beta_5 = 0$

H1: At leasst one of them is different from 0

Table 4. 19: ANOVA table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.211E10	5	4.422E9	84.431	**.000**[a]
	Residual	3.299E9	51	5.237E7		
	Total	2.541E10[b]	56			

Source: Primary data, 2014

a. Predictors: Period of the assistance, income before intervention, saving, the value of the intervention, Age

b. This total sum of squares is not corrected for the constant because the constant is zero for regression through the origin.

c. Dependent Variable: Income after the intervention

d. Linear Regression through the Origin

The P-value tells how confident the analyst can be that each individual variable has some correlation with the dependent variable. It is equal to ***0.000*.** At the level of significance of 5%, there is enough evidence of rejecting the null hypothesis in favor of alternative one. This is to mean than the betas are statistically significant at 5% level of significance. It is globally mean that the independent variables included in the model can be used to estimate the value of independent variable.

The individual test allowed the researcher to evaluate the contribution or effect of every independent variable on the variation of dependent variable. Practically and especially in this study, individual test allowed the researcher to know the contribution in mathematical value of the the value of intervention from COPEDU Ltd on the increase in income of beneficiaries in particular and the life condition in general.The coefficients in the following table show how the independent variable are contributing on the change of the income.

Table 4. 20: Individual test Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Age	56.385	34.434	.130	1.637	.107
	The value of the intervention	***<u>.056</u>***	.018	.238	3.124	***<u>.003</u>***
	Income before intervention	.958	.153	.383	6.274	***<u>.000</u>***
	Saving	.364	.167	.141	2.177	***<u>.033</u>***
	Duration of the assistance	2228.002	684.479	.274	3.255	***<u>.002</u>***

Source: Primary data, 2014

Dependent Variable: Income after the intervention

b. Linear Regression through the Origin

The equation in the table can be linearly written as follows:

Income=**56.385***(age)+**0.056**(value of intervention)+ **0.958***(income before intervention)+ **0.364***(saving)+ **2228.002***(duration of intervention) . When the value of intervention increases by one unit the income of the beneficiary increases by ***<u>5.6%</u>***. This show the positive relationship between the income of the beneficiaries and the value of the intervention they are provided. Practically, it shows how COPEDU Ltd contributed positively on the increase of income particular and the improvement of economic conditions in general. When also the income of beneficiary before intervention increases by one unit, the income after the intervention increase by ***95.8%,*** when the saving increase by one unit the income of the beneficiaries increases by ***36.4%,*** and when the duration of intervention increase by one unit, the income of beneficiaries increases by ***2228.002.***

4.4. The impact of COPEDU Ltd as micro finance institutions to poverty reduction

In order to achieve the last specific objective of the study, the researcher wanted to to check if there is a high impact of COPEDU Ltd to poverty reduction as its services as a microfinance institution reduce sharply the rate of poverty by increased incomes, increased savings and improved access to social services specifically after obtaining loans and financial advises.

Table 4. 21: Correlation matrix

Particulars		**Volume of loan borrowed**	**Perceptions towards MFI facilities**	**Monthly income after the MFI loan**
Volume of loan borrowed	Pearson Correlation	1	-.002	.247
	Sig.(2-tailed)	.	.989	.098
	N	56	56	56
Perceptions towards MFI facilities	Pearson Correlation	-.002	1	.036
	Sig.(2-tailed)	.989	.	.812
	N	56	56	56
Monthly income after the MFI loan	Pearson Correlation	.247	.036	1
	Sig.(2-tailed)	.098	.812	.
	N	56	56	56

Source: Primary data, 2014

In order to test the research hypotheses, we have developed the econometric model with the help of Statistical Package for Social Sciences and the results fave show the hypotheses verification as under described.

Table 4. 22: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square change	F change	Df1	Df2	Sig.F change
1	.344(a)	.118	.077	1.6637	.118	2.885	2	53	.67

Source: Primary data, 2014

A predictor: (Constant), Monthly income after the MFI loan, Recent Volume borrowed time

Linear regression was used in this analysis where poverty reduction was the dependent variable while the independent variable was MFI activities (credit facilities). From the table above, the R value (multiple correlation coefficients) of 34.4% indicates that there is a strong relationship between the variance shared by the independent variables and the dependent variable. The R square (coefficient determination) indicates a considerable small amount of goodness-of-fit, the value of 11.8% of the variance in the dependent variable is explained by the independent variables in the model i.e. 11.8% of the variability in the success of the reduced poverty levels is accounted for by the explanatory variable in the MFIs activities while the remaining 88.2% could be attributed to the random fluctuation on other unspecified variables (stochastic error term). Therefore, in this study we fail to accept the null hypothesis and take the alternative, hence there is a statistically significant effect of microfinance institutions activities (monthly income after loan) on poverty reduction. The following simple linear regression model was developed: ***Poverty reduction = (.528) + 0.351(income after the MFI loan)- 0.136(Volume of loan borrowed) + error.***

The regression model above indicates a positive linear relationship between income after the MFI loan and poverty reduction while on the other hand it indicates a negative linear relationship between volume of loan borrowed and poverty reduction. Therefore, a unit increase in income causes a 35.1% reduction in poverty levels.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

The study aimed at analyzing the role of microfinance institutions on poverty reduction with reference to COPEDU Ltd, the present chapter is about the conclusion and recommendations according to the study findings for proper future prospects.

5.1 Conclusion

Poverty reduction concern the economic and political process; those two forces combined affect the rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring the fruit of economic progress to be broadest segments of the populations. This study has revealed a positive picture of microfinance institutions in poverty reduction and COPEDU Ltd has taken as case study. The study Microfinance institutions and its impact in Poverty Reduction case study of COPEDU Ltd was chosen by the researcher by considering the big percentage of population living under poverty line and can't access financial services. To encourage those persons with low and middle income, microfinance institutions is one of strategies adopted by Government of Rwanda in the process to overcome the constraints met by the unfortunate population.

After analysis of final findings, the research has confirmed the hypothesis said that by micro-credit, microfinance institutions help its members to increase their income and by trainings and technical assistance help its members to expand and diversify their enterprises. However, trough questionnaire dispatched in different clients of COPEDU Ltd, the researcher constants that many of clients has already participate at least in one or more training organized by COPEDU Ltd and after participation achieve either idea to create a project and manage it or achieve idea to extend the existing project. When we look at this side, we constants that even those who did not work after participate in training received special assistance and are monitored in their projects execution. After analyze and interpret results from questionnaire responses, we constants that the study hypothesis has been verified and confirmed because 69,4% of COPEDU Ltd clients has already participate in a training organised by COPEDU and after participation they have improve their manner of working. We have also constants that after joining COPEDU Ltd, the clients has shifted from the low gain interval to high one gain interval, so they have increase their respectively income.

Perceptions of microfinance beneficiaries on the poverty reduction strategies put in place by MFIs

The study sought information on microfinance recipients attitudes towards MFIs on poverty reduction. COPEDU Ltd recipients were asked to respond to a 5 point Likert scale on statements about microfinance institutions activities. The scale was anchored from 1 = strongly disagree to 5= strongly agree. Data were collected, analyzed and presented and displayed accordingly. The clients responses presented there were differences in the clients perceptions towards MFI activities/facilities on the items being measured. Some interesting trends were manifested in the data, with some items having considerable good score compared with others. This difference in score is attributed to the experiences of clients with MFIs.

Improvements in standard of living

The table reveals that the majority of the respondents 86.9% indicated that their standard of living had improved. Improvements can be attributed to what clients reported ion questions relating to why they go for credit, businesses they are engaged in and maybe the number of people they have employed. For example, 80.9% of clients reported that they went for credit to start businesses. Other reasons provided were to expand business (1), to add or increase stock (4), improve farming (2) and buy land (1). On the same note, 84.7% of clients indicated that they have employed between 1- 5 people.

Client s opinions about microfinance as a poverty reduction tool

Qualitative data from open-ended questions from the clients concerning their opinions on microfinance institutions as a way to reduce poverty helped come up with interesting results. For instance, three customers who had benefited from the loans indicated that microfinance institutions are the best. For example, one COPEDU Ltd client who was sampled said: I had started with dairy goats and now I have got 20 dairy cows. Secondly they charge very low interest rates, and the mode of repayment is favourable not forgetting the creation of jobs to other people of the society. The sentiments show how important microfinance is since that recipient s business has expanded. It was also found that microfinance institutions had brought about a lot of progress thus uplifting the living standards of the poor as mentioned by customers.

5.2. Recommendations

This research is of the strong opinion that the adoption of the financial institutions is the key to achieve sustainable both social and economic development. My strongest conviction is that a thorough and careful implementation of the suggestions forwarded below, by the relevant organizations and authorities will lead to the successful and sustainable achievement of the desired impact microfinance institutions in poverty reduction.

5.2.1. To the government

Even if governments are usually not good at lending, they play an important role in setting appropriate policies and legal framework for the smooth operation of microfinance institutions. The key things that a government can do for microfinance are to maintain macroeconomic stability and to avoid interest rate caps that prevent microfinance institutions from covering their costs and operating sustainable. Beyond this, it is doubtful that the development of microfinance, at least in its earlier stages, requires a national policy framework. It is advisable that institutions are given the freedom to develop their own system. In fact, political attention to microfinance has sometimes done more harm than good. However, although regulation inhibits the operation of the market system, some legislation that will guide the mostly illiterate gullible rural poor must be put in place.

5.2.2. To COPEDU Ltd

Strong retail institutions committed to outreach and sustainability are essential for extending the permanent reach of financial services and to have a significant impact on poverty reduction. Thus, building the capacity of institutions with a commitment to reach the poor is vital. This is particularly true for institutions that target potential clients in resource-poor areas and the poorest of the poor. We strongly recommend to COPEDU Ltd to approaches the rural area because some of their clients are located in rural area.

5.2.3. To the clients

Because microfinance is primarily targeted to the poor who are disadvantaged, social mobilization is necessary to introduce them to a formal or semi formal, market-oriented institutional environment. This is particularly true for women, youth and the poorest of the poor.

5.3 Area for further research

The researcher recommends further research on the impact of MFIs on profitability of small scale businesses in Rwanda.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

UNIVERSITY OF RWANDA

COLLEGE OF BUSINESS AND ECONOMICS

MSc. ECONOMICS

Dear respondents,

Re: Introduction letter

My name is **Enatha KANGABE**, studying Master in Sciences of Economics at **University Rwanda (UR)**/ College of Business and Economics Mburabuturo Campus. I am currently conducting a research on Microfinance Institutions and its impact in poverty reduction as a partial fulfillment for the award of Master degree in Economics.

In this regard, the following questions are prepared in order to get the necessary information, which will help me to analyze the impact of microfinance services in poverty reduction. All the information will be treated in the highest degree of confidentiality and for the purpose of this research only.

Hoping to be granted your best cooperation, I thank you in advance.

Sincerely,

KANGABE Enatha

APPENDEX II. QUESTIONNAIRE

This questionnaire is to be filled in, by the beneficiaries of COPEDU Ltd. Its purpose is to facilitate the researcher to conduct a study on "***The role of Micro finance Institutions on poverty reduction: case study of COPEDU Ltd*** **".**

Instructions: This questionnaire consists of open questions, which require the respondent to answer briefly in your own words in space provided, and closed questions which require the respondent to answer by ticking with **v** in the rectangle given in front of the true answer, for example [v]. Kindly, answer the questions as truly as possible, for this study to yield relevant and reliable results.

I. Identification of the respondent

i. Sex of the respondent: Male [ ] Female [ ]

ii. Age of the respondent……………………………………

iii. Marital status: a) Single [ ] Separated [ ]

Married [ ] Wido[ ] Divorced [ ]

iv. What is your current occupation?

a) Jobless [ ] d) Commercial [ ]

b) Art and craft [ ] e) Others specify………………………..

c) Agriculture [ ]

v. What is your highest educational qualification?

a) None [ ]

b) Primary level [ ]

c) Secondary level [ ]

II. Questions addressed to COPEDU Ltd beneficiaries related to the topic.

1. What are the problems you used to face before joining COPEDU Ltd?

a) Insufficient food

b) Lack of school fees

c) Lack of health insurance

d) Unemployment

e) Any other (specify)………………………………………………..

2. What kind of assistance or intervention did you get from COPEDU Ltd?

a) Money

b) School fees

c) Material

d) Technical

e) Health insurance

f) Loan

3. What is your monthly income level?

-Before intervention of COPEDU Ltd…………………………………………

-After intervention of COPEDU Ltd……………………………………

4. What is your monthly level of saving? ....

5. How do access to your medical services and medicines changed, since you were supported by COPEDU Ltd?

a. Strongly worsened
b. Worsened
c. No change
d. Improved
e. strongly improved

6. In this section the researcher seeks to establish the role played by COPEDU Ltd toward poverty reduction. Please Tick the appropriate alternative

Statements	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
COPEDU Ltd promotes financial inclusion					
COPEDU Ltd improves access to education					
COPEDU Ltd increases beneficiaries incomes					
COPEDU Ltd support small businesses					
Assistance the beneficiaries are given					
COPEDU Ltd promotes business development					
COPEDU Ltd improves standard of living of beneficiaries					
COPEDU Ltd follows up financial use					
Loans are given to fight poverty					
Financial advises are provided					
Savings in COPEDU Ltd increase					

7. Do you think, poverty has been increasing, decreasing, or staying the same during the assistance of COPEDU Ltd?

a) Increasing ☐

b) Decreasing ☐

c) Staying the same ☐

d) Don't know ☐

8. According to you, do MFIs contribute to poverty reduction in Rwanda?

Yes ☐ No ☐

9.If yes, to what extent according to you, have MFIs reduced poverty in Rwanda?

a) High rate ☐

b) Moderate ☐

c) Low rate ☐

10. How can you advise the government of Rwanda/local administration forward the better performance of micro finance institutions on poverty reduction?

....

....…………………………………………………………………………

Thank you …………………