The role of rural finance in improving livelihoods of small scale farmers: A case study of SCC-Viagroforestry’s ‘Community Saving and Empowerment’ project in Nyando District, Kenya

By

Racheal Wangu Mutua
PG/MA/034/2008

A thesis submitted in partial fulfilment for the award of degree of Master of Arts in Project Planning and Management

School of Environment and Earth Sciences
Urban and Regional Planning Programme
Maseno University

August 2011
DECLARATION

Declaration by candidate

This thesis is my original work and has not been presented for the award of a degree to any other university. The work reported herein has been carried out by me and all sources of information have been acknowledged by means of references.

Signature ___________ Date________________________

Mutua Racheal Wangu

PG/MA/034/2008

Declaration by the supervisors

This thesis has been submitted for examination with our approval as the University supervisors.

Signature________________ Date________________________

Dr. Boniface O. Oindo, PhD
School of Environment and Earth Sciences,
Maseno University.

Signature________________ Date________________________

Dr. Leah Onyango, PhD
School of Environment and Earth Sciences,
Maseno University.
DEDICATION

This work is dedicated to my husband Wilfred Ochieng Odadi and to our daughters Lisa Mukoya Ochieng and Linda Njoki Ochieng. I also dedicate it to my loving parents Mr. and Mrs. James Mutua, and to my brothers Mbugua and Githinji.
ABSTRACT

Reducing poverty and improving livelihoods is a major concern for most governments in developing countries. Agriculture is the most common area of intervention for development agents in Kenya, because it supports majority of the rural poor. However, lack of financial services hampers the extent to which individuals can improve their livelihoods. Rural finance is geared towards provision of services to rural areas. SCC-Viagroforestry is a Swedish organisation working in the Lake Victoria basin in East Africa, with a mission to improve livelihoods of the rural poor. The organization has been promoting a village savings and loaning scheme under the project COSAVE (Community Savings and Empowerment) in Nyando District. Group members save their money jointly and access loans at an interest. However, there is no information on the actual impacts of this scheme on the livelihoods of the target group. This study was conducted to be able to measure impacts of the scheme. The objectives of this study were to: assess how members raise money for saving in order to qualify for loans from the savings group sponsored by SCC-Viagroforestry; determine whether the savings and loaning project enhanced access to financial services and improved livelihoods of small scale farmers; and examine whether credit received by small scale farmers is used for income generating activities. The study population consisted of 2613 individual members in 101 savings groups. A sample size of 337 individual members in 30 groups of the SCC-Viagroforestry’s microfinance groups in Nyando District were selected for use in the study. The groups were sampled using stratified random sampling method. The strata were the five divisions in the District, with the contribution by each division to the sampled groups being proportionate to the total number of groups in that division. The individual respondents were randomly sampled from the members’ registers of the sampled groups per division. Primary data were collected using questionnaires, interview schedules, Focus Group Discussions and key informant interviews. Key informants included leaders of the savings groups and staff of Viagroforestry. Secondary data were collected from Viagroforestry reports, university libraries, government reports, journals and internet. Qualitative data was organized by creating themes and patterns, and evaluating the usefulness of the information in the answered research questions. Quantitative data was analyzed using descriptive statistics such as means and percentages and presented in tables and charts. The study found out that trading was the most important source of raising money for saving in the groups followed by sale of farm produce. Access to financial services improved as a result of the savings and loaning scheme. The services included provision of loans which members used to carry out various economic activities, hence improving their livelihoods. Majority of those who received credit used it for starting or expanding their businesses. Second most important use of the credit was farming activities like buying farm inputs. The study concluded that trading was the most important economic activity in the study area. There were also general positive impacts arising from the savings and loaning activities. While majority used credit received for business, there was also wide use of credit on non income generating activities like school fees and medical care. The scheme mostly attracted women more than men. The study recommends that the scheme should be adjusted to allow for longer period of loan repayment. There is need for more awareness to be created among the groups on the risks involved in handling huge sums of money in terms of security and fake money. Groups that have outgrown the scheme and are in need of bigger loans need to be linked to formal financial institutions. Groups need to have bank accounts for the security of amounts of money not issued out as loans. Trainings on enterprise development should be given priority given the important role trading plays in the study area. Training on importance of value addition of farm produce should be given focus since very few respondents invested in this. This is despite the fact that value addition would help them get more income from their farm produce.
ACKNOWLEDGEMENTS

I wish to express my gratitude to Dr. Boniface O. Oindo and Dr. Leah Onyango for their supervisory support during the study. I thank SCC-Vi Agroforestry staff especially Catherine Osso, Eliakim Ambajo, Charles Onyando and Nereah Ochieng for their support. The members of the groups involved in the study were very helpful and I wish to thank them too. This study was conducted in SCC-Vi Agroforestry project sites and I am grateful to the management for the support.
# TABLE OF CONTENTS

DECLARATION ................................................................. ii  
DEDICATION ................................................................. iii  
ABSTRACT ................................................................. iv  
ACKNOWLEDGEMENTS ....................................................... v  
TABLE OF CONTENTS ....................................................... vi  

## CHAPTER ONE: INTRODUCTION ........................................... 1  
1.1 Background to the Study ............................................. 1  
1.2 Problem Statement ................................................... 4  
1.3 Objective of the Study ............................................... 5  
1.4 Research Questions .................................................. 5  
1.5 Justification of the study ............................................ 6  
1.6 Scope and limits of the study ...................................... 6  

## CHAPTER TWO: LITERATURE REVIEW .................................... 7  
2.1 Introduction ......................................................... 7  
2.2 Rural finance and livelihood ....................................... 7  
2.2.1 Community Saving and Empowerment Project (COSAVE) ...... 10  
2.3 Raising money for savings .......................................... 10  
2.4 Group / Village Savings and Loaning .............................. 14  
2.4.1 Contribution of village savings and loaning in financial services access and improving livelihoods of small-scale farmers .......................... 20  
2.5 Credit facilities and income generating activities .............. 23  
2.6 Conceptual Framework .............................................. 24  

## CHAPTER THREE: METHODOLOGY ....................................... 26  
3.1 Introduction ......................................................... 26  
3.2 The study area ...................................................... 26  
3.2.1 Location of study area .......................................... 26  
3.2.2 Population ....................................................... 27  
3.2.3 Land use and economic activities ................................ 27  
3.2.4 Rural finance institutions ....................................... 28  
3.3 Research Design .................................................... 28  
3.4 Study population and sampling strategy ......................... 28  
3.5 Data collection ...................................................... 31  
3.5.1 Primary Data ................................................... 31  
   Key Informants Interviews ......................................... 31  
   Questionnaires ..................................................... 32  
3.5.2 Secondary Data ................................................. 33  
   Project reports ..................................................... 33  
3.6 Data analysis and presentation .................................... 33  
3.7 Ethical issues and dissemination .................................. 33  

## CHAPTER FOUR: RESULTS AND DISCUSSION ............................. 34  
4.1 Introduction ......................................................... 34  
4.2 Socio-economic characteristics of respondents .................. 34  
4.3 Raising money for saving to qualify for loans ................. 35  
4.4 Access to financial services and improved livelihoods .......... 37  
4.5 Use of credit for income generating activities .................. 42  

## CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ....... 47  
5.1 Introduction ......................................................... 47  
5.2 Summary of findings ............................................... 47  
5.3 Conclusions ......................................................... 48  
5.4 Recommendations .................................................. 49
REFERENCES .......................................................................................................................... 52
APPENDICES ....................................................................................................................... 56
Appendix 1 - Group Member Questionnaire ............................................................................ 56
Appendix 2 ................................................................................................................................ 62
Key informants Interview ......................................................................................................... 62
Group Leaders Interview Guide .............................................................................................. 62
Appendix 3: Observation Checklist .......................................................................................... 63
Appendix 4: Focus Group Discussion with Group members ...................................................... 64

LIST OF TABLES

Table 1: Groups distribution (source: SCC-Viagroforestry data base) ........................................ 29
Table 2: Summary of sources of income among respondents ..................................................... 36
Table 3: Summary of groups’ savings and loans issued ............................................................. 38
Table 4: Impact of access to financial services ......................................................................... 40
Table 5: Income generating activities using loans ...................................................................... 42
Table 6: Sources of money for repaying loans as ranked by respondents ................................. 44

LIST OF FIGURES

Figure 1: Conceptual framework (source: author's conceptualization) ...................................... 25
Figure 3: Gender distribution in group membership ................................................................. 34
Figure 4: Comparison of male and female respondents ............................................................ 35
Figure 5: Total group loans and savings portfolio ................................................................... 37
Figure 6: Impact of access to financial services ....................................................................... 41
Figure 7: Income generating activities engaged in using the loans received ............................. 43
Figure 8: Sources of money for loan repayment ....................................................................... 45

LIST OF PLATES

Plate 1: A poultry income generating activity started by a member of a VSL group using credit accessed from the group. ..................................................................................... 43
## LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>COSAVE</td>
<td>Community Saving and Empowerment</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>KNBS</td>
<td>Kenya National Bureau of Statistics</td>
</tr>
<tr>
<td>MFIs</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non Government Organizations</td>
</tr>
<tr>
<td>PIA</td>
<td>Participatory Impact Assessment</td>
</tr>
<tr>
<td>SCC-VIAFP</td>
<td>Swedish Co-operative Centre and Viagroforestry Project (SCC-Vi, SCC-Vi AFP, SCC-Vi Agroforestry, are interchangeably used in the document to refer to the Swedish Co-operative Centre and Viagroforestry.</td>
</tr>
<tr>
<td>VIAFP</td>
<td>Viagroforestry Project.</td>
</tr>
<tr>
<td>VSL</td>
<td>Village Savings and Loaning</td>
</tr>
</tbody>
</table>
CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Despite rapid development of financial services, the majority of smallholder farmers worldwide remain without access to the services they need to compete and improve their livelihoods according to World Bank (2007). World Bank further states that broader access to financial services would expand opportunities for more efficient technology adoption and resource allocation. Financial constraints are more pervasive in agriculture and related activities than in any other sector. This is because they involve higher transaction costs and risks compared to urban settings. This is due to the greater spatial dispersion of production, lower population densities, lower quality of infrastructure and seasonality of rural production activities. This makes banks and other profit oriented financial institutions to limit their activities to urban areas where operating costs are lower, loan sizes are larger and legal contracts are more easily enforced. This is despite the fact that majority of people in many developing countries live in rural areas. According to the KNBS (2010), for example, 67.7% of the entire population in Kenya live in rural areas. Seibel (2007) says that with continued population growth in rural areas, the rural people need to diversify their economic activities but access to finance in a limiting factor.

The World Bank (2007) quotes a study in India which surveyed 6000 households. The study showed that 87% of small scale farmers had no access to formal credits while 71% had no access to a savings account in a formal financial institution. Informal financial arrangements serve majority of rural communities but they tend to be biased towards household allocation, asset ownership and membership in kin or ethnic based. All these affect the transaction costs, the size of possible transactions and the interest rate charged. There is therefore need for financial innovations that can serve the needs of the smallholder farmers and at the same time complement financial services by managing risks that undercut their supply. In Central and
Eastern Europe, 50% of smallholder farmers in five countries report financial constraints as the major barrier to growth and expansion of their enterprises according to World Bank (2007).

In Africa, rural areas mostly rely on agriculture but the provision of services and infrastructure is very low compared to urban centres. World Bank (2007) continues to state that more than 75% of the poor population live in rural areas. African countries have a challenge in providing basic services like healthcare, education, roads, food among other needs to citizens. Rural areas become even more disadvantaged. Provision of financial services has been seen as a means to alleviate poverty and improve living conditions of the poor. The poor need financial services to improve household and enterprise management, increase productivity, enlarge and diversify their businesses, and increase their income. It also helps them to take care of social obligations like marriage, sending their children to school, among others. The financial sector in Africa is broad and encompasses all financial products and providers. The services include savings, remittances, insurance, and credit provision among others. However, access to these services in rural areas is not as easy as in urban areas.

According to Honohan (2007), African financial systems are not all the same. They are spread across a spectrum of financial sector performance. However, there are similarities that exist in the financial systems in Africa. There is generally low savings rate across Africa. They also face similar difficulties in terms of scale, informality, governance and shocks. He, however, emphasises the important role access to financial services can play in improving enterprise productivity and growth in agriculture, which is the backbone of the African economy. The right financial arrangements can also speed and improve the provision of physical infrastructure. According to Mutua (2007), access to financial services in Kenya has been identified as a major problem experienced by many in attempts to start and sustain business. He further says that though it is true that credit in formal banking has grown steadily over the
years, the same is not available to the people in the rural areas. Although there are about 532 branches of financial institutions in Kenya, their location is heavily biased towards the urban areas and districts with good infrastructures that can fetch good returns (Mutua, 2007). Nairobi, Rift Valley, and Central province provinces have the bulk of commercial bank branches, 77, 52, and 44, respectively. The two of the largest banks, Barclays Bank of Kenya and Standard Chartered Bank of Kenya closed most of the rural/upcountry branches, citing high transaction costs and therefore less profit. This further increased the number, especially in the rural areas without access to banking facilities. It is estimated that in Kenya, only 30 per cent of households have access to credit (Mutua, 2007). He further states that commercial banks are reluctant to lend to low-income households because they lack adequate or credible credit history and any usable collateral. Further explanation for locking out the bulk of the poor in financial services by commercial banks is the high transaction cost and the perceived high risks. Commercial banks also view the poor as people who cannot save and only need credit services. As a result, only a few commercial banks have tried to provide microfinance to the low-income people, with the exception of Kenya Commercial Bank, Equity Bank and K-Rep Bank. The other commercial banks target client is largely urban and a few rural people just above the low-socio-economic strata (Mutua 2007).

Graham (2001) notes that lack of access to affordable credit has been a hindrance to entrepreneurship development. Bad history of marketing co-operatives has further slowed the provision of financial services to the rural poor. Focus of most microfinance institutions excludes savings mobilization and looks at the rural poor as a market for their business promoting credit –led facilities that if mismanaged, can leave the poor in a worse situation. Formal banking institutions also charge exorbitant costs for provision of their services, locking out the small scale farmers. Some of the financial services providers in Kenya include: banks, Microfinance institutions like K-REP and FAULU Kenya, cooperative societies, merry go round groups and NGOs, among others. SCC-Viagroforestry promotes
group savings and loaning through a project called COSAVE (Community Saving and Empowerment), using the ‘Village Savings and Loaning’ (VSL) model.

1.2 Problem Statement

Financial service is important for any economy to grow. Access to capital, safe savings and insurance are basic financial services which ought to be available to everyone engaged in any economic activity. Commercial banks are driven by profit motive and provide their services where there will get optimum returns. They therefore tend to be concentrated in urban areas. This leaves rural areas with inadequate provision of financial services. This has led to rural finance sector which mostly targets people living in villages and away from urban centres.

Microfinance institutions have come in to fill in this gap. However, most of the microfinance institutions are also profit oriented. A new dimension of rural finance is coming up where communities organize themselves to provide the service they need to themselves. Such services are offered through savings groups. NGOs like SCC-Viagroforestry, CRS (Catholic Relief services) and CARE Kenya, have been training such groups on how to offer financial services to their members through such savings groups.

The Swedish Cooperative Centre and Viagroforestry (SCC-VIAFP) are working together in Eastern Africa to improve the livelihoods of small-scale farmers. In Nyanza, the organizations are jointly implementing a project which focuses on agroforestry, marketing and rural financial services (SCC-VIAFP 2008). The rural financial services are promoted by the organisations through the COSAVE project (Community Saving and Empowerment). This rural financial service project was initiated to assist the community in reducing poverty and improving their livelihoods. Upon training the community on how to improve their agricultural yields, the question of farm inputs always arose. Again after harvesting and being trained on how they could add value to their farm produce to earn higher income, the issue of cost of value addition equipment arose. SCC-VIAFP could not afford and neither was it
sustainable for them to provide the farm inputs and value addition equipment to the farmer groups. Through COSAVE, the farmers mobilize their own savings and use the same to provide credit to members of their groups. This service has become popular among the communities working with SCC-Viagroforestry (SCC-VIAFP 2008).

Despite the popularity of Village Savings and Loaning supported by COSAVE, little has been done to analyze the impact it has had on the livelihoods of small scale farmers. Records from SCC-Viagroforestry show that communities have been accessing loans from this facility. However, how the savings and loaning activities transform the livelihoods of the people in the community is not well understood. Therefore the purpose of the study was to examine the role of rural finance in improving the livelihoods of small scale farmers in Nyando district.

1.3 Objective of the Study

The overall objective of the study was to examine the role of rural finance sponsored by SCC-Vi Agroforestry’s ‘Community Saving and Empowerment Project’ (COSAVE) in improving livelihoods of small scale farmers in Nyando District.

Specific objectives were;

1. To assess how members raise money for saving in order to qualify for loans from their savings groups sponsored by SCC-Vi Agroforestry’s COSAVE project.
2. To determine whether the Village Savings and Loaning sponsored by COSAVE project has enhanced access to financial services and improved livelihoods of small scale farmers.
3. To examine whether credit obtained by small scale farmers through COSAVE groups is used for income generating activities.

1.4 Research Questions

1. In what ways do group members raise money for saving in order to qualify for loans from their savings groups sponsored by COSAVE?
2. How has village savings and loaning contributed to access to financial services and improved livelihoods of small scale farmers?

3. What income generating activities have members started using the credit received from their savings groups?

1.5 Justification of the study

According to Robinson (2001), poor people are unable to inform the formal markets about their creditworthiness or about their demand for savings and loans services. This has led to a market niche served by microfinance institutions. NGOs have also come up with products targeting the poor providing savings and loans services. SCC-Viagroforestry (SCC-VIAFP) is promoting village savings and loaning among farmers living in Nyando District. However, the impact that these services have on the rural poor has not been studied. This study will provide important information on whether the rural finance projects assist rural communities in improving their livelihoods. The study will also provide an insight into whether the Village Savings and Loaning methodology is suitable for rural setting. The results from this study will be used by SCC-VIAFP to assess the impact of village savings and loaning that has been promoted in Nyando District. The information will also be used in designing rural financial products.

1.6 Scope and limits of the study

Village Savings and loaning has been promoted in all the project areas of Viagroforestry. These are; Maseno, Wagai, Madiany, Kombewa, Kadibo, Winam, Muhoroni, Miwani, Nyando, Upper Nyakach, Lower Nyakach and Kabondo division. However, this study will concentrate in divisions within Nyando District. This will include; Muhoroni, Miwani, Lower Nyakach, Upper Nyakach and Nyando divisions. The study will also be confined to the small scale farmers in the study area.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will review literature on rural livelihood, rural finance, how small scale farmers raise money for saving, how savings group in the villages assist farmers and income generating activities arising from credit access by small scale farmers.

2.2 Rural finance and livelihood

Datta et al (2004) defines livelihood as a set of economic activities involving self employment and/ or wage employment by using ones endowments to generate adequate resources for meeting requirements of self and household, usually carried out repeatedly and as such become a way of life. He further states that ideally, a livelihood should keep a person meaningfully occupied in a sustainable manner with dignity, emphasizing that it goes beyond income generation or employment. Ritchie (2007) states that one of the key priority areas for many communities is to improve the livelihoods of community members. Financing the acquisition of the productive assets needed to diversify and expand household income is a key constraint that communities face. According to Fries et al (2004), developing countries around the world have seen a reduction in rural credit over the last two decades especially with the closing of many agricultural development banks.

Ritchie (2007) says that the characteristics of demand for financial services and the costs of providing those services influence the types of financial service providers that can operate in a given area. In rural areas, on one end is low demand for financial services with households producing subsistence crops and few off-farm economic activities. These characteristics need a low-cost organization that can cover the costs of intermediating small pools of capital for large numbers of customers with small transactions that satisfy their household cash management needs. On the other end of the spectrum Ritchie (2007) further says are better
and more diverse economic opportunities leading to higher demand for financial services. These can be serviced by higher cost organizations intermediating larger pools of capital for a smaller number of customers who make larger transactions. He further says that these characteristics are the principal reasons why banks and professionally operated microfinance institutions are not able to reach the majority of people living in sparsely populated rural areas. Fries et al (2004) says that conditions in rural areas explain the gap in rural financial services. He says that rural areas mostly face high transaction costs. Ritchie (2007) says that some of the factors that increase the cost and risk of lending in rural areas include: isolation and poor road and communications infrastructure, low productive capacity that reduces the profitability of business investments, small loan sizes and high fixed costs. These factors are often worsened by distance, seasonality of cash flow that requires larger cash reserves and lump sum repayments that also increase the risk of bad debt. The risk of poor harvests that can affect the entire client base in a region, and more barter transactions can make collections more difficult.

Ritchie (2007) further says that emerging technologies such as mobile banking and point of sale devices in rural shops might deepen the reach of financial institutions to the rural poor. Provision of financial services to the rural low-income people requires changes in the way banks operate. Changing this might not be easy and banks might not see it worthwhile because of the small profits expected. He suggests that the best way is to provide technical assistance to genuinely interested banks to be able to operate profitably serving the low income groups. The technical assistance would include development of appropriate products, services delivery mechanisms and information systems. Payne et al (2010) says that given how mobile money services are growing in sub-Saharan Africa, they offer an opportunity to increase access to financial services. Ritchie (2007) notes that banks with a large rural branch network have the greatest potential for expansion of services.
Fries et al (2004) states that there is need for expansion of financial services to the rural sector. According to Ritchie (2007) many development agencies have sought to develop community based financial organizations to effectively provide financial services to the ‘low demand’ end of the spectrum. Grants have been provided to these organizations to establish revolving funds to support development of rural livelihoods. However the experience has been that such funds decapitalise, benefiting a few people and encouraging defaulting. But he further notes that in recent years several savings-led community finance models have emerged and they seem to offer better prospects for long term sustainability than credit led models. Savings led financial organizations initiate financial services with members’ savings and access external funds from bank-linked or donor funded revolving funds only after members have gained experience managing the lending of their own savings. In some cases there is no external funding. Reid (2004) says that absence of dictation and conditions demanded by external agencies allow community based organizations to implement their development programmes according to their own prioritization.

Community based financial organizations can be sustainable entities provided certain success factors are built into the design, (Ritchie, 2007). These factors include; mobilizing members’ savings before accessing internal loans. This he says provides a buffer against unforeseen expenses thus lowering risks. He also says that small regular savings help to develop financial discipline. Other factors for success of community based financial organization are: vision for long term development of the organization, clear ownership of donor funds if provided and a management structure that facilitates management by members. Appropriate loan policies, simplified financial management systems, appropriate high quality capacity building and continuity of technical support are also important. So are internal regulations, controls and linkage to banks or microfinance institutions.
2.2.1 Community Saving and Empowerment Project (COSAVE)

According to SCC-Vi (2007), COSAVE project’s main objectives were to: build the capacity of the rural households to mobilize and manage finances (savings, credit and insurance) effectively and efficiently; facilitate the creation of synergies and linkages to formal organizations that will contribute positively to rural cooperatives and informal organizations.

The COSAVE project adopted the VS&L Model. This is a savings –led approach towards rural micro finance. Unlike the credit-led approaches common with the formal micro finance institutions, the VS&L methodology offers the communities the opportunity to mobilize savings from which they can borrow, hence reducing the stress related to external borrowing and their related high costs, (SCC-VI, 2007). The project trained groups on the VS&L model through field officers. Among the effects that the project realised according to SCC-VI (2007) include: clients were able to access and borrow locally and regularly; low cost loans for individual development; clients were able to manage their own financial services; managing of emergencies was possible and initiation of new and expansion of existing income generating activities.

2.3 Raising money for savings.

Hirschland (2005) says that during lean times, savings help people get by. Savings enable them to invest when opportunity knocks, to weather a sudden illness or flood, or to pay for school fees. She further says that saving may or may not provide a lift out of poverty, but it makes people less vulnerable to poverty’s worst effects. She also explains that the poor and the rural people are considered separately in financial provision because they are barely reached. Therefore their financial services needs are not met as they are not an attractive market for the big financial institutions.
According to Huppi (1990), members’ savings and capital accumulation are very important for successful savings groups. This has been shown by studies in Bangladesh, Cameroon, Guatemala, Republic of Korea, Rwanda, Taiwan, Togo and other economies. He further notes that savings mobilization campaigns and innovative offers for deposits adapted to local conditions have helped credit unions to increase their funds and attain self sufficiency in many countries. In Rwanda, credit unions were created specifically to mobilise rural savings. This led to an increase in savings by 34.8% annually between 1977 and 1986. Credit associations that rely heavily on share capital and members’ savings deposit to fund their loans usually have higher repayment rates because members realise that their own funds are at stake. This has been confirmed by various studies in Cameroon, the Dominican Republic, Honduras, Korea and Taiwan (Huppi 1990).

According to World Bank (2007), contrary to the image that smallholder farmers purely rely on farming, they rely on many activities and income sources. They participate in agricultural labour markets, self-employment or wage employment in rural non-farm economy. They might also receive transfers from household members who have migrated to urban areas. However, within these diversified sources of income, a large part of household income comes from combining incomes from different household members. According to World Bank (2007), in Malawi, 32 percent of farm households have two sources of income and 42% have three or more sources of income. However, among household heads, only 27% engage in more than one income generating activities. The same report states that in China, 65% of rural households operate in both farm and non farm sectors. The household income diversification can fluctuate with household cycles and number of working age individuals in the households. But returns on many of the activities are low and therefore diversity in occupations does not always mean income diversification. Usually, one activity is the dominant source of income.
Microfinance is the provision of financial services to the poor according to IFAD (2009). According to SCC-Vi (2008), the services could be savings, loans, insurance, and remittances, among others. These services can be provided though moneylenders, self help groups, cooperatives, microfinance institutions, among others. SCC-Vi (2008) further notes that the idea behind microfinance is to provide an avenue for saving and accessing credit for the poor. Through this, they are able to afford things and services that would otherwise have been impossible. In cases of emergency, the poor are very vulnerable since they do not have huge lump sums of money. Most of their money is saved in assets such as animals which are sold off in times of need (SCC-Vi, 2008). Microfinance offers such people an avenue through which they can put in small amounts of money, and provide them with an opportunity to save and access credit with dignity. IFAD (2009) states that access to financial services in rural areas allows poor people to manage their household cash flows start new agricultural activities and set up small businesses.

Graham (2001) states that financial services reduce vulnerability of poor individuals and households by providing money to protect against risk and cope with shocks. This is achieved through; providing savings and emergency loans to draw upon, building assets that can be sold in case of need, increasing women clients’ control over assets, offering a place to safely store savings, increasing diversification and development of household assets and providing money to build assets. Graham (2001) further says that the assets could be in different forms such as: financial, physical, human, or social assets. The social assets include: self esteem, bargaining power, control over decisions, skills and knowledge, financial management and business related information, social networks, membership of groups, building trust in relationships and having access to wider institutions of society.

Money management problems can greatly affect ability and rate of saving. Helms et al (2002) states that savings is the only way through which the poor can manage to pay for major life
events. Rutherford (2001) categorizes money management problems into three categories.  

*Life cycle needs:* The poor need large sums of money to deal with life cycle events like births, deaths, marriage, education, home-making, widowhood, old age, death, seasonal variations in consumption, etc. Rutherford (2001) further states that while most of life cycle events are known and can be planned for, the poor might not always have avenues to enable them save and plan for these needs. This therefore causes financial problems for the poor. *Emergencies* to cope with impersonal emergencies like floods, cyclones, fires, and personal emergencies like illness, accidents, divorce, etc, will always cause financial difficulties for the poor.  

*Opportunities* like starting a business, acquiring productive assets, buying life enhancing consumer durables like TVs require huge amounts of money which the poor cannot accumulate without saving (Rutherford 2001). The only way for the poor to raise huge amounts of money is through saving. But how do the poor save? The majority according to Rutherford (2001) save through informal avenues. These include home, clubs, deposit collectors, etc. Others save in the formal sector, i.e. in the banks, insurance companies or registered co-operatives. Semi-formal sector is also another avenue of saving and this includes the microfinance institutions. Robinson (1995) looks at various issues that must happen for savings to be a reality. Profitable mobilization of voluntary savings is dependent on political stability and suitable demographic conditions. Supervision of institutions providing micro-finance services, especially those taking deposits, should be done by the government. History, capability and performance of institutions are important if people are to have confidence in the financial institutions for them to deposit their money there.

According to IFAD (2010), the livelihoods of poor rural households are diverse across regions and countries and within countries. Livelihoods are derived from smallholder farming, agricultural wage labour, wage or self employment in the rural non-farm economy and migration. While some households rely on one type of activity, most seek to diversify their livelihood base as a way to reduce risk. Agriculture plays a key role in most countries with
over 80% of rural households farming to some extent. However income gains at non-farm income sources are increasingly becoming important (IFAD 2010). This opinion is shared by Seibel (2007) who argues that to survive, the rural households have to engage in both on-farm and off-farm economic activities.

2.4 Group / Village Savings and Loaning

Allen et al (2010) argues that because of widespread exclusion of the rural people in accessing financial services, their alternative has been a ‘highly decentralized and non-institutional savings led approach’. This way, members of a group come together to save and lend their savings to one another with interest, and share the profit. These groups according to Allen et al (2010) are simple, transparent, and autonomous and operate at very minimal cost. Ritchie (2007) gives an example of such that was supported by World Bank - Community Development and Livelihood Improvement Project, also known as “Gemidiriya”. This supports microfinance through Village Savings and Credit Organizations (VSCOs). He further states that microfinance is part of a larger initiative that supports the efforts of rural communities to identify, prioritize, and fund their development needs through a “direct financing of communities” mechanism, using the community-driven development (CDD) approach. Gemidiriya supports the development of community organizations that are initiated and managed by the poor. Gemidiriya microfinance model aims to expand opportunities for income generation by people who currently do not have access to loans from formal financial institutions, and improve access to financial services through linkage to formal banks. The savings and loan model is designed to ensure transparency, accountability, and good governance, so that these objectives can be met.

According to Ritchie (2007), a savings group consists of five to seven members who save together weekly and lend to each other the amounts that they decide to collect as mandatory savings. However Allen (2010) says that the groups can be made up of
individuals ranging from 5 to 30, with an average of 22 members per group. A key feature of the savings group is its complete independence in terms of determining the membership, the amount of compulsory savings that the group wants to collect, and managing that money. Savings groups usually make short-term loans to their members for emergency and consumption purposes, but they may choose to lend to people outside their group or for other purposes, Ritchie (2007). Allen (2010) emphasises that the groups use lockable cash boxes to keep surplus cash and their records safe. The savings group structure makes it possible for people of different economic levels to participate in savings activities; groups formed of the poorest of the poor may decide to save as little as $0.10 per week. According to Ritchie (2007), each savings group elects a chairperson and a treasurer. These officers serve for two years and have two main duties: to manage the group activities and to represent the group within a cluster. Clusters are formed from a maximum of six savings groups, and thus have a membership of around 40 people. The cluster committee is composed of the chairpersons and treasurers of each savings group. The cluster committee is responsible for opening and maintaining a bank account for the voluntary savings of savings groups members. Voluntary savings can be any amount of money that a member would like to save over and above the compulsory savings collected and rotated within the group. The treasurers of the groups who participate in the cluster committee are responsible for ensuring that the voluntary savings of the members of the groups have been deposited in the bank, maintaining the records of voluntary savings, and ensuring that the records reconcile with the bank balance.

According to VSL Associates’ website (www.vsla.net 2011), while microfinance has matured as an industry in many parts of the world, it has proven unable to penetrate remote areas because of high costs of doing so and low demand for credit. Therefore, there is a big gap between the needs of the poor for financial services and ability of banks to provide these services. In addition, this gap cannot be filled by banks because of the cost involved. The
products provided by the banks do not also serve the needs of the poor. Most microfinance institutions (MFIs) tend to emphasise on credit and are unable to offer savings services because they are not licensed to take deposits. However according to VSLA associates (www.vsla.net, 2011) many practitioners observe that instead of credit led services, many poor people prefer to build their assets through savings rather than increase their risk exposure by taking out loans. Helms et al (2002) agrees stating that credit usually serves the same purpose as savings for the poor but it is more riskier, expensive and often unavailable. It is in this light that VSLA associates (www.vsla.net 2011) believe that VSL model provides sustainable and profitable savings, insurance and credit services to people who live in places where banks and MFIs do not have presence. This model was originally developed in Maradi, Niger by CARE International in 1991 and has now spread to 33 countries in Africa, 3 in Latin America and 7 in Asia with over 3 million active participants worldwide. The methodology is now used by various NGOs to provide entry-level financial services to people either too poor or living in too remote areas to be availed of financial services by MFIs (www.vsla.net, 2011).

According to Ritchie (2007), Village Savings and loaning association (VS&LA) is a group savings and loan system in which, after training and practice, it has the capacity to govern and manage its savings and loan activities. Rules are simple, transparent, and easy for every group member to understand. Group members either contribute a fixed amount on a weekly basis or at every meeting, buy between one and five shares that have a fixed purchase price. The amount of the contribution or the share value is set by the group. After several weeks, the group begins making loans to members, with the loan term and interest rate decided by the group. Most of the loans according to Ritchie (2007) are used for income-generating activities. The groups use their own savings as the source of loan capital and there is no external long-term dependency either for technical support or loan fund capitalization. Allen et al (2010) adds that while the loan fund provides loans to individual members, it can also be
used to fund group based investments. A group usually begins with a field agent entering a village and holding preliminary meetings to discuss the VS&LA concept. Once new groups have been formed or old groups reinvigorated, the field agent attends the meetings regularly over a three-month period to teach the basic elements: establishment of a management committee, internal rule making, weekly contribution level, loan procedures, interest and penalties, problem solving, and conflict resolution. He further explains that in nonliterate groups, each meeting begins with a recitation of the rules, with each group member responsible for remembering and reciting one rule. Group members have passbooks, but other written records are not necessary. The methodology for oral record-keeping has been fully developed and is covered in the training modules. Two members count the cash each week, which is kept in a lockbox with three separate keys held by three different officers. All the locks must be opened at the same time to allow access (Ritchie, 2007). He further explains that experience has shown that this system vastly reduces the chances of fraud, an important consideration, given that many groups do not live in communities with banks that can safeguard savings. After the training period, the village agent takes a more passive role, progressively allowing the participants to accept more responsibility for the management of their own affairs. At this point, the village agent’s main role is to reinforce the methodology followed by the group so that meetings are conducted according to a well-established set of rules and procedures.

Ritchie (2007) continues to say that although these may be modified by the group when they become independent, the solid grounding in a methodology that works is the foundation on which the program’s success is based. At the end of the first year, the field agent visits the group to conduct an informal evaluation, discuss any problems, and train members on the annual distribution of assets. The savings and interest collected on loans are distributed to the members; some may be retained to
start the next annual cycle of loans at a level that avoids waiting for the slow buildup of a useful sum. He further states that the main reasons for distributing the funds are to keep the size of the funds within the management capacity of the group members and to allow the members use of their accumulated funds at a time of year when a large sum of money is needed, such as for agricultural inputs or education expenses. Allen et al (2010) concurs that ideally, the liquidation is done at the period of the year when there is a ‘predictable need for cash’. The groups then restart their operations, after allowing members who do not want to continue to participate to leave and others to join. According to Ritchie (2007), a variety of studies of the VS&LA program have indicated that members who operate small economic activities tend to keep their businesses in operation throughout the year, have a bigger say in household decisions, enjoy better nutrition, invest more in their children’s education, and enjoy a higher social status than nonmembers. There is a significant increase in small household and livestock assets, that are usually those controlled by women. The loans given out by the groups tend to be used almost exclusively for income-generating activities, such as purchasing inventory for a small store, feeding livestock, and petty trade. The shared-out funds from the savings groups tend to be used primarily for food, clothing, school fees, and life-cycle events. Unlike most Accumulating Savings and Credit Associations (ASCAs) and many other community-based programs, Ritchie (2007) says that members can withdraw their savings at any time throughout the cycle, if in need. The loss of accrued interest earnings is a disincentive to do so, especially late in the cycle, but access to savings has become an important principle of VS&LAs. Although VS&LA programs are mainly implemented in rural areas, where CARE focuses its efforts, they also work well in urban slums, although group sizes tend to be smaller and meetings are held monthly. He adds that many of the strengths of the VS&LA model lie in what it is not. It is not complicated. It is not expensive. It is not donor driven. It is not dependent on rigid structures or outside investment. Most important, it does not
depend on long-term technical support, which distinguishes it from most other community-based microfinance methodologies. The model is easily replicable, inexpensive to establish, and requires minimal training. It can be implemented in a wide variety of institutional settings, from multisector rural development projects to stand-alone financial services projects. Successful implementation does not need highly trained experts, large budgets, and long time frames to reach sustainability. It is a model that has the potential to be massively scaled up, particularly in Africa, where vast numbers of poor people in countries such as Sudan, Democratic Republic of Congo, and Liberia do not have access to sustainable financial services. At of December 2006 more than 1 million people were members of VS&LAs, mainly in the poorer parts of Africa according to Ritchie (2007). VSL Associates (www.vsla.net,2011) state that members of the savings groups receive a return on their savings that can go from as low as 30% per annum to as high as 100%; far exceeding what is paid by commercial banks. Allen et al (2010) gives this rate of return an average of 35% - 50%, which is still higher than banks rates. The members are able to save when they need to and in whatever amount they wish and are able to borrow with minimum fuss.

Grameen Bank is another example of successful financial service provision through groups (www.grameen-info.org, 2010). In 2006, Professor Muhammad Yunus the founder of Grameen Bank in Bangladesh won a Nobel price for his work in Microfinance. Grameen bank is owned by the poor women who are also the majority borrowers. The women own 90% of the bank while the government of Bangladesh owns the remaining 10%, according to information posted on the Grameen website (www.grameen-info.org 2010). The bank does not ask for any collateral or legal documents for loans. Instead members are in groups of five persons, who check on each other and ensure that everyone makes regular payments of her loans. But the group is not liable to pay anything in case of a member defaulting. Payment solely lies with the beneficiary of the loan. According to the website (www.grameen-info.org
2010), the recovery rate of the loans of 98.08% and the loans disbursed are financed by the bank’s deposits 100%. In 2007, the bank declared a 20% dividend payment to its shareholders. The members are involved in electing their leaders and board members. This gives them opportunity to directly decide who leads their organization. However, Graham (2001) points out that microfinance has been a supply driven endeavour. It has had a limited methodology to provide working capital loans to poor micro entrepreneurs. In Africa, supply led credit models have not led to a massive outreach and sustainability. Rhyne (2004) is quoted by Graham (2001) saying that financial services do not create economic opportunities directly. Rather, they help people and enterprises position themselves to take advantage of opportunities. Huppi (1990) states that the success of group lending ventures depend on various factors. These factors include: participation by homogenous borrowing groups that are jointly liable and assume some managerial and supervisory responsibility; ability to deny access to future credit to all group members in case of default by any member; previous experience with group activities and a common bond other than credit; reliance on members’ deposits for loaning.

2.4.1 Contribution of village savings and loaning in financial services access and improving livelihoods of small-scale farmers.

According to Patel et al (2000) participation in the formal financial sector is not an option for most small scale farmers. This is because only 2 to 5% of the 500 million poorest households in the world have access to credit through formal institutions. In Guatemala, shopkeepers provide credit for food on a limited basis and only to well known families. Family and friends also loan money to one another to cover emergency health-care costs. Studies done in India conclude that for the lower economic strata of society whose major requirement is consumption credit, formal credit institutions have no relevance. Also the procedural difficulties and inability to satisfy the required collateral drive them away from formal credit institutions. According to Allen et al (2010), ‘less than half the population in Africa has
access to any form of financial services, whether formal or informal’. Patel et al (2000) further notes that in Madagascar, fewer than 10% of the poor have access to formal credit and relatives and friends are the most frequent lenders. Padmanabhan (1988) says that co-operative societies are the most accessible formal systems for farmers. Apart from credit, co-operatives offer several other functions like supply of inputs, marketing, managing storage or processing facilities. However, building effective co-operatives for credit delivery has been difficult in many countries. Padmanabhan (1988) further says that main problems faced by co-operatives are lack of trained personnel and informed leadership, political interference, absence of experienced management, lack of supporting infrastructure, insufficient supervision and auditing. For marketing co-operatives, failure in marketing affects credit as it leads to increased loan default. Group lending has been popularised by development agencies. According to Allen (2002), the international NGO, CARE promotes group lending where 20 or more members in a group come together for savings and loaning purposes. These groups also receive education to achieve self organisation with the lending being purely supported by members’ savings.

World Bank (2007) states that in India a movement has emerged based on village-level women self help groups and their federations. The estimated 2.2 million groups collect savings from their members and either deposit them in rural banks or lend them to their members. Several risks face such savings groups and Graham (2001) states that structural risks relate to the government policies, inflation, controls and regulation in the financial sector. If the structures are weak, then the savings will not be protected and the people might not have confidence in microfinance institutions. He further notes that seasonality of income, expenditure, savings and credit throughout the year is another risk. For example in the month of January, majority of members in a savings groups might be requiring loans for school fees for their children. This affects the liquidity of the group as at that time. In the rural areas where income is dependent on agriculture, the savings might not be done regularly and might
be done only when the farm produce is sold. Crisis risks for example emergencies, deaths, floods etc can destabilize the savings groups. All the money could be diverted to take care of the emergency, leaving the organization with no money for further activities. Ashe (2005) does not think that the risks faced by the savings groups are any different from those faced by credit unions. But the savings groups have an advantage over credit unions since all the money used for transaction belongs to the group. Graham (2001) cites another category of risk that faces the groups as ‘life cycle risks’ like age, socio-cultural environment, society expectation among others. The society would expect some level of personal development of a person by a certain age. If this is drawn to the group, it might cause unfairness among group members. For example an elderly person who is building a house might be given preference in a group than a young person who wants to start a small business, since the members might see that the elderly person has to catch up on his own development, while the young person still has time to do other things in his life. On the other hand it can work on the reverse such that elderly people might feel ashamed to be part of the savings groups if they do not meet the society expectations as at their age (Graham 2001).

Helms (2006) states that a deeper and more inclusive financial system benefits the poor through increased growth and access to needed services. Helms (2006) further notes that when financial institutions are effective, they mobilise savings for investment, facilitate and encourage inflows of foreign capital and ensure that capital that capital goes to its most productive use. Measuring direct impact of financial services is understanding how it affects the lives of the poor people and their families (Helms 2006). Helms (2006) further states that a study conducted in India documented that 75% of microfinance clients improved in their economic wellbeing based on sources of income, ownership of productive assets, housing conditions, and household dependency ratio. Helms (2006) also notes that a similar study in Ghana showed that ‘Freedom from Hunger’ clients in Ghana increased their monthly incomes and diversified their income sources. Microfinance has an impact on more than just income
levels of poor clients since it reduces their vulnerability to shocks and allows them to make investments in better health and education for their families (Helms 2006).

2.5 Credit facilities and income generating activities.

Access to credit facilities can go a long way in assisting farmers increase and improve their farm productivity. According to FAO (2005), provision of loans to the small holder through microfinance initiatives has greatly benefited those not served by formal banks. Cultural barriers, lack of access to education and legal issues often prevent the poor from obtaining loans from banks. Lack of collateral especially excludes women and landless farmers from formal financial services. Credit facilities assist the smallholder farmers to increase and diversify their incomes, build social and economic assets and improve their livelihoods. FAO (2005) further states that increased income for poor people enables them to invest in a wide range of assets, better nutrition, improved health, access to schooling, better roof for their homes and expansion of their small businesses. Groveman (1994), states that without increased income and savings, it is difficult to achieve any other goal. Karlan (2009) insists that microcredit is an increasingly common weapon in the fight to reduce poverty and promote economic growth. Microlenders typically target women operating small-scale businesses and traditionally uses group lending mechanisms. But as microlending has expanded and evolved into what might be called its “second generation,” it often ends up looking more like traditional retail or small business lending: for-profit lenders, extending individual liability credit, in increasingly urban and competitive settings (Karlan 2009). He further adds that the motivation for the continued expansion of microcredit, or at least for the continued flow of subsidies to both nonprofit and for-profit lenders, is the presumption that expanding credit access is a relatively efficient way to fight poverty and promote growth. Yet despite often grand claims about the effects of microcredit on borrowers and their businesses, there is relatively little convincing evidence in either direction. In theory, expanding credit
access may well have null or even negative effects on borrowers, (Karlan 2009). He further adds that formal options can crowd-out relatively efficient informal mechanisms.

2.6 Conceptual Framework

The SCC-Viagroforestry’s COSAVE project provides training to the groups. The groups are empowered to handle the records of their members to be able to track savings and loans repayments. The individual members in the groups save together. From what has collectively been saved, individual members are able to get loans from their groups. It is conceptualised that this leads to increased access to financial services, and that the members use the loans productively.
Figure 1: Conceptual framework (source: author's conceptualization)
CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter introduces the study area, describing its geographical location, population characteristics, land use, economic activities and existing rural financial services. Importantly, the research design, study population, sampling strategy, sample size and data collection are also discussed.

3.2 The study area

3.2.1 Location of study area

This study was carried out in Nyando District in Kisumu County. The District has a latitude of -0.3 (0° -18’ 0S) and a longitude of 34.85 (34° 51’ 0E).

![Figure 2: Map of Nyando District (source: SCC-VIAFP Kisumu office)](http://mapsof.net/uploads/staticmaps/kenya_districts.png)
It has five divisions which are Nyando, Miwani, Muhoroni, Lower Nyakach and Upper Nyakach.

3.2.2 Population

An annual report of SCC-VIAFP (2008) quotes the Welfare Monitoring Survey (WMS) of 2000 in stating that 199,318 (66%) people live below rural poverty line in Nyando District. This is in a district that 1999 census shows a population of 299,930 people. High levels of poverty and food insecurity is blamed on poor performance of sugarcane and rice enterprises in the district.

3.2.3 Land use and economic activities.

Various socio-economic activities are carried out in the District, including small scale farming, processing of agricultural products, extraction and processing of natural resources, fishing, petty trade, livestock rearing among others. The district has medium to high agricultural potential. There is high potential for a wide range of crops such as maize, sorghum, pulses, sweet potatoes, vegetables for subsistence. Commercial agriculture focuses on sugar cane, coffee, dairy, irrigated rice and small-scale horticulture. Livestock reared include goats, sheep, cattle and poultry. Irrigated agriculture is done on small scale along the tributaries of the River Nyando and on a large-scale in parts of the Kano plains. However, extraction and processing of natural resources (sand, bricks, pots, papyrus mats) and small-scale trade are much more important livelihood sources in the District. The main socio-economic activities in this district include: small scale farming, processing of agricultural products, extraction and processing of natural resources, fishing, small scale commodity trade and livestock rearing. The district is endowed with permanent and seasonal rivers, which traverse adjoining hills and escarpments through the vast plains draining into the Lake Victoria.
3.2.4 Rural finance institutions

Nyando District has several small towns, including Ahero, Muhoroni, Sondu and Chemelil. Whereas there are formal banks in some of these towns, the majority of the populations living both inside and outside the centres, have no access to formal banking services. Although there are some farmer cooperatives especially in the sugarcane growing areas such as Muhoroni and Chemelil, their provision of financial is limited to their members. Consequently, microfinance institutions have come in to fill this gap. Some of the institutions in the area include; Kenya Women Finance Trust, CENT SACCO and NGOs like CREPP and SANA international. Group/village savings and loaning is being promoted in the area by SCC-Vi Agroforestry and CARE International. The Swedish Cooperative Centre - Viagroforestry (SCC-VIAFP) is promoting Village Savings and loaning through a project called COSAVE (Community Saving and Empowerment). This Rural financial service was initiated to assist the community in reducing poverty and improving their livelihoods.

3.3 Research Design

The study was a formative evaluation research that sought to find out how farmers raised the money they brought to their savings group, how village savings and loaning has contributed to access to financial services and improvement of farmers’ livelihoods, and whether farmers used credit from the groups to start income generating activities. The evaluation used cross-sectional data from the savings groups and group members for analysis. This design was chosen for its relevance in being able to evaluate the ongoing COSAVE project and its impact on the targeted beneficiaries.

3.4 Study population and sampling strategy

The study was conducted in five divisions of Nyando District, with the target population being farmers supported by SCC-VIAFP during the year 2010. An analysis of SCC-VIAFP project reports showed that there were 2613 individual members in 101 savings groups in the
study area at that time. Stratified random sampling was used to select the groups studied per division. All the groups in each division were assigned unique numbers, shuffled and the desired number of groups randomly picked. From the selected groups, random sampling was used to select individual persons to be included in the study.

3.4.1 Sample Size

Groups

This study sampled 30 groups out of the total 101 groups operating in Nyando District at the time of the study. It was envisaged that this sample size would suffice based on the suggestion of McClare (1994) that sample sizes of ≥30 will be adequate for normal approximation to be reasonable for most sampled populations. The sampled groups were spread across the five divisions of Nyando district as shown in Table 1. The distribution was based on the proportion of the total microfinance groups in the study area (101 groups) contributed by each division.

Table 1: Groups distribution (source: SCC-Viagroforestry data base)

<table>
<thead>
<tr>
<th>Division</th>
<th>Number of groups</th>
<th>Percentage to total groups</th>
<th>Sampled groups</th>
<th>Members in the groups</th>
<th>Percentage to total no. of members</th>
<th>Sampled individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miwani</td>
<td>20</td>
<td>20%</td>
<td>6</td>
<td>495</td>
<td>19%</td>
<td>64</td>
</tr>
<tr>
<td>Muhoroni</td>
<td>23</td>
<td>23%</td>
<td>7</td>
<td>565</td>
<td>22</td>
<td>71</td>
</tr>
<tr>
<td>Lower Nyakach</td>
<td>12</td>
<td>12%</td>
<td>3</td>
<td>260</td>
<td>10%</td>
<td>33</td>
</tr>
<tr>
<td>Upper Nyakach</td>
<td>23</td>
<td>23%</td>
<td>7</td>
<td>676</td>
<td>26%</td>
<td>88</td>
</tr>
<tr>
<td>Nyando</td>
<td>23</td>
<td>23%</td>
<td>7</td>
<td>617</td>
<td>24%</td>
<td>81</td>
</tr>
<tr>
<td>TOTAL</td>
<td>101</td>
<td>30%</td>
<td>30</td>
<td>2613</td>
<td>33%</td>
<td>337</td>
</tr>
</tbody>
</table>

Individuals

A total of 337 individuals were interviewed from the 30 groups used in this study. This sample size was determined according to Pancerselvan (2007) as follows:

\[ N = Z^2pq \]
where $N$ = Sample size

$Z = \text{Standard deviation, 1.96 corresponding to 95% confidence}$

$D = \text{Significance level (0.05)}$

$p = 50\% = 0.5$

$q = 1-p = 0.5$

Therefore the sample size will be;

\[
N = \frac{(1.96)^2 (0.5) (0.5)}{(0.05)^2} = 384
\]

The population was less than 10,000. Therefore according to Mugenda and Mugenda (1999), the actual sample size will be;

\[
n_f = \frac{n(1+n)}{N}
\]

Where $n_f$ = desired sample size when population is less than 10,000

$n$ = desired sample size when population is more than 10,000

Total membership of groups comprising of the target population is 2613. Therefore $N=2613$

\[
n_f = \frac{384}{(1+384)/2613} = 337
\]

All individual members of the sampled groups within each of the five divisions were assigned unique numbers and picked randomly. To avoid skewed representation, the sample size was proportionately distributed per division based on the percentage of total membership contributed by that division.
3.5 Data collection

The study used questionnaires, focus group discussions, interviews and secondary material for data collection. This was appropriate given the amount of data that was needed for the study and the time and funds available for the study. The study involved administering questionnaires to sampled groups and group members. Interviews were conducted officers from Viagroforestry who have been working with the savings groups. Focused group discussions, observation and photography were also used. Existing data and reports were reviewed. The interviewed groups were constituted from the group database that is maintained by SCC-VIAFP. The database formed the sampling frame of the study. This design was important because it was cost effective and made data collection to be easy. Given the nature of the project under study, the sampled respondents provided the baseline information of how they were before engaging in the project activities and after they started benefiting from the project. This information was used for comparison.

3.5.1 Primary Data

Key Informants Interviews

Staff

Staffs working with the savings groups were interviewed to give more in-depth information regarding village savings and loaning. Two field officers who are covering Nyando District were interviewed. The supervisor of the field officers was also interviewed. Other staffs working in Nyando but not directly with the savings groups were interviewed. Purposive sampling was used to identify the staff to be interviewed.

Local leaders

The local leaders in the communities where the study was conducted were interviewed. The local leaders gave their opinion on what they think of the saving and loaning activities done by the groups in their areas. Purposive sampling was used to pick the leaders to be interviewed during the study.
**Questionnaires**

The questionnaires were administered to group members who were sampled from the sampled groups. The information from the questionnaires was supplemented by the qualitative data that was collected through focus group discussions. The questionnaires were pre-tested on 10% of the sample (Mulusa, 1990). In this study, the sample size was 337 and therefore 34 respondents were used for pretesting. The individuals involved in the pretesting were excluded in the actual study (Mugenda and Mugenda, 1999). The pre-test assisted in checking acceptability, validity and reliability of the questionnaires.

**Focus Group Discussions (FGDs)**

Group discussions were conducted among the savings groups. There was one FGD per division each with 10 – 15 participants. This number facilitated good participation and enabled participants agree on issues easily. A discussion schedule based on the objectives of the study was developed to guide the discussions. The discussions were able to bring out impacts, benefits and challenges experienced by the group members with regard to village saving and loaning. It also provided a platform for those with low literacy levels to express their opinion. Comprehensive notes were taken during the discussions. Each FGD composed of groups’ representatives in the Division.

**Observation**

Observation checklist was developed and used in recording events during the study. Photographs relevant to the study were also taken.
3.5.2 Secondary Data

Desk review of available information was conducted. Relevant information from Viagroforestry, other institutions, University libraries, government reports, journals and internet was reviewed. This assisted in getting the current information about rural finance.

Project reports

The study analyzed past reports on the implementation of the financial services component. The reports provided the trend of the groups since they started implementing the Village Saving and loaning methodology.

3.6 Data analysis and presentation

Quantitative data collected from the field were entered in MS ACCESS and analyzed in MS EXCEL. Descriptive statistics including means, frequency distribution, graphs and charts were used to organize and summarize quantitative data. The quantitative data were also presented in tables, and further processed into graphs for ease of discussion and comparison. Qualitative data were collected from the group discussions. The outcomes of the discussions were presented in narration form. The qualitative data were organized to create themes and patterns.

3.7 Ethical issues and dissemination

Throughout the study, integrity was upheld. Informed consent was sought from all the respondents. Reasons for the research were explained and confidentiality was assured. Research findings will be disseminated and shared through barazas, seminars and workshops. Copies of the report will also be availed to Viagroforestry and Maseno University Library.
CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

The overall objective of this study was to examine the role of rural finance promoted by SCC-Viagroforestry under COSAVE in improving the livelihoods of small scale farmers in Nyando District. This chapter presents the results of the study, interprets and discusses the data collected during the study.

4.2 Socio-economic characteristics of respondents.

All the 30 groups used in this study were found to be actively saving and loaning money to members. All the groups had a constitution that guided the members. Majority (81%) of the members in the sampled groups were women (Figure 3).

![Figure 3: Gender distribution in group membership](image)

The age structure and gender of the respondents used in this study are presented in Figure 4. Women comprised a much higher proportion (86%) of the respondents than men. The women of all ages are fairly represented while men of 35-39 and above 50 years were the majority. Overall, majority of the respondents were aged 25 years and above (93%).
The huge disparity between women and men indicates that women are more attracted to the village savings and loaning activities. According to the 1995 UNDP Human Development Report, 70% of the 1.3 billion people living on less than 1 dollar a day are women. The same report indicates that women have a higher unemployment rate than men in almost every country. Women also make up the majority of the lowest paid, unorganised informal sector of most economies. It is therefore important that products are designed to attract women and aid them in improving their welfare and that of their families. Given that the Village Savings and Loaning is being implemented in the rural areas, it is good that it is attracting more women. By attracting women, the groups provide an opportunity through which they are empowered to make decisions and most importantly, economic decisions. Another issue that favoured women in the savings groups is that the model is not complicated. Various levels of rural finance will require different types of documentation. At the very basic informal level, there is little paperwork that is required. This made the model attractive even to those with little or no education.

4.3 Raising money for saving to qualify for loans

The first specific objective of the study was to assess how members raise money for saving in order to qualify for loans from their savings groups sponsored by SCC-Vi Agroforestry’s
COSAVE project. For members to access loans from their groups, they were required to make savings. The amount of money loaned was dependent on amount of money saved by an individual. This study sought to find out how the group members were raising the money to save in their groups. A summary of various sources of income and how they were ranked according to importance by the respondents, number 1 being the most important source, is presented in Table 2.

Table 2: Summary of sources of income among respondents.

<table>
<thead>
<tr>
<th>source</th>
<th>ranked 1</th>
<th>ranked 2</th>
<th>ranked 3</th>
<th>ranked 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>225 (67%)</td>
<td>48 (14%)</td>
<td>0</td>
<td>1 (0%)</td>
</tr>
<tr>
<td>Selling farm produce</td>
<td>61 (18%)</td>
<td>123 (36%)</td>
<td>22 (7%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Casual labour</td>
<td>28 (8%)</td>
<td>29 (9%)</td>
<td>13 (4%)</td>
<td>1 (0%)</td>
</tr>
<tr>
<td>Remittances</td>
<td>8 (2%)</td>
<td>25 (7%)</td>
<td>32 (9%)</td>
<td>1 (0%)</td>
</tr>
<tr>
<td>Salary</td>
<td>13 (4%)</td>
<td>6 (2%)</td>
<td>2 (1%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Other</td>
<td>2 (1%)</td>
<td>4 (1%)</td>
<td>1 (0%)</td>
<td>0 (0%)</td>
</tr>
</tbody>
</table>

Trading was the most important source of income, with most (67%) of the respondents ranking it as the most important source. Selling of farm produce was the second most popular activity, with 18% of respondents ranking it as the most important source of income. Casual labour, salary, remittances and ‘other’ followed with 8%, 4%, 2% and 1% of the respondents respectively. Selling of farm produce was ranked second by 36% of the respondents. Trading was ranked the second most important source of income by 14% of the respondents. Casual labour, remittances, salary and others were reported by 9%, 7%, 2% and 1% of the respondents respectively as being second most important source of income. The third most important source of income was remittances from relatives. This was reported from 9% of the respondents. Selling of farm produce was ranked as the third most important source of income by 7% of the respondents. The individual respondents had various sources of income that ranked differently in order of importance from each respondent to another. Clearly, as stated by World Bank (2007), contrary to the belief that people in the rural areas solely rely on farming, they actually rely on several diversified sources of income as it became evident in
this study. IFAD (2010) also confirms this by stating that many households seek to diversify their livelihood base as a way of reducing risk. They therefore engage in smallholder farming, agricultural wage labour, wage or self employment in non-farm economic activities. From the various sources of income, petty trading and selling of farm produce emerged as the most important sources in this study.

4.4 Access to financial services and improved livelihoods.

The second specific objective of the study was to determine whether the Village Savings and Loaning sponsored by COSAVE project had enhanced access to financial services and improved livelihoods of small scale farmers. The groups involved in the study used the members’ savings to lend loans and interest charged generated income for the groups. This income was distributed to members as earning on their savings. The groups involved in the study had a total saving of Kshs. 2,227,210 and had issued loans worth KSHS. 5,138,106. They had a total outstanding loan balances worth Kshs.2,757,390. The portfolio of the groups in terms of savings and loans is summarised in figure 5.

![Figure 5: Total group loans and savings portfolio](image)

The groups were able to offer loans worth more than their total savings because loan repayments for older loans were also used to issue new loans. For the groups to be able to
provide loans to their members, they must be able to accumulate higher savings. This was
evident in the groups since those with higher savings managed to provide bigger loans to their
members. However, this is only true if the members of the group have enough demand for the
loans offered by the group. For example while Magere group had the highest amount saved,
they did not issue the highest amount of loans issued among the groups in the study as can be
seen in table 3.

Table 3: Summary of groups’ savings and loans issued.

<table>
<thead>
<tr>
<th>Name</th>
<th>males</th>
<th>females</th>
<th>Total members</th>
<th>savings</th>
<th>amount of loans issue</th>
<th>outstanding loans</th>
<th>interest rate p.m. (%)</th>
<th>defaulted loans</th>
<th>cash (bank, cash, stock in goods)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJWANGI</td>
<td>10</td>
<td>22</td>
<td>32</td>
<td>98000.00</td>
<td>225105.00</td>
<td>163060.00</td>
<td>10</td>
<td>0</td>
<td>165</td>
</tr>
<tr>
<td>GER ODIE</td>
<td>4</td>
<td>28</td>
<td>32</td>
<td>61900.00</td>
<td>107648.00</td>
<td>74118.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>HERA</td>
<td>30</td>
<td>25</td>
<td>55</td>
<td>26360.00</td>
<td>91332.00</td>
<td>35737.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>ST. GABRIEL</td>
<td>4</td>
<td>27</td>
<td>31</td>
<td>76200.00</td>
<td>129419.00</td>
<td>86718.00</td>
<td>10</td>
<td>0</td>
<td>2938</td>
</tr>
<tr>
<td>SAWAKO</td>
<td>5</td>
<td>24</td>
<td>29</td>
<td>93000.00</td>
<td>147145.00</td>
<td>113050.00</td>
<td>10</td>
<td>0</td>
<td>18070</td>
</tr>
<tr>
<td>NYAMUSO</td>
<td>6</td>
<td>24</td>
<td>30</td>
<td>37080.00</td>
<td>138420.00</td>
<td>41473.00</td>
<td>10</td>
<td>0</td>
<td>5699</td>
</tr>
<tr>
<td>CHAMULUCHI</td>
<td>3</td>
<td>15</td>
<td>18</td>
<td>23600.00</td>
<td>27060.00</td>
<td>27060.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>KOJOLO</td>
<td>6</td>
<td>24</td>
<td>30</td>
<td>94100.00</td>
<td>255498.00</td>
<td>115000.00</td>
<td>10</td>
<td>0</td>
<td>1420</td>
</tr>
<tr>
<td>NYILOKA</td>
<td>0</td>
<td>18</td>
<td>18</td>
<td>118500.00</td>
<td>129460.00</td>
<td>146274.00</td>
<td>10</td>
<td>0</td>
<td>6100</td>
</tr>
<tr>
<td>FRIENDS</td>
<td>0</td>
<td>20</td>
<td>20</td>
<td>136200.00</td>
<td>299306.00</td>
<td>188320.00</td>
<td>10</td>
<td>0</td>
<td>19170</td>
</tr>
<tr>
<td>CENTRAL</td>
<td>6</td>
<td>18</td>
<td>24</td>
<td>34600.00</td>
<td>93760.00</td>
<td>44605.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NYI BUNGE</td>
<td>4</td>
<td>21</td>
<td>25</td>
<td>54000.00</td>
<td>98214.00</td>
<td>63514.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>MAGERE</td>
<td>0</td>
<td>18</td>
<td>18</td>
<td>155600.00</td>
<td>195504.00</td>
<td>159644.00</td>
<td>10</td>
<td>0</td>
<td>22170</td>
</tr>
<tr>
<td>UBORA</td>
<td>5</td>
<td>18</td>
<td>23</td>
<td>27800.00</td>
<td>166800.00</td>
<td>17920.00</td>
<td>10</td>
<td>0</td>
<td>21000</td>
</tr>
<tr>
<td>KABONGO</td>
<td>7</td>
<td>38</td>
<td>45</td>
<td>100950.00</td>
<td>258400.00</td>
<td>77100.00</td>
<td>10</td>
<td>1</td>
<td>52465</td>
</tr>
<tr>
<td>TUMAINI</td>
<td>2</td>
<td>28</td>
<td>30</td>
<td>53150.00</td>
<td>159450.00</td>
<td>74410.00</td>
<td>10</td>
<td>0</td>
<td>4225</td>
</tr>
<tr>
<td>HAKI NA UKWELI C</td>
<td>10</td>
<td>24</td>
<td>34</td>
<td>52600.00</td>
<td>169000.00</td>
<td>73640.00</td>
<td>10</td>
<td>0</td>
<td>1715</td>
</tr>
<tr>
<td>JIRANI MWEMA B</td>
<td>6</td>
<td>25</td>
<td>31</td>
<td>113800.00</td>
<td>341400.00</td>
<td>159320.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>JIRANI MWEMA C</td>
<td>2</td>
<td>29</td>
<td>31</td>
<td>75200.00</td>
<td>225600.00</td>
<td>105280.00</td>
<td>10</td>
<td>0</td>
<td>1280</td>
</tr>
<tr>
<td>PAR WADU C</td>
<td>6</td>
<td>26</td>
<td>32</td>
<td>75135.00</td>
<td>225405.00</td>
<td>105189.00</td>
<td>10</td>
<td>0</td>
<td>9730</td>
</tr>
<tr>
<td>NETWORK</td>
<td>3</td>
<td>33</td>
<td>36</td>
<td>22000.00</td>
<td>80655.00</td>
<td>29655.00</td>
<td>10</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>NETWORK B</td>
<td>2</td>
<td>31</td>
<td>33</td>
<td>21000.00</td>
<td>81200.00</td>
<td>26600.00</td>
<td>10</td>
<td>0</td>
<td>2700</td>
</tr>
<tr>
<td>KAWAKA F</td>
<td>4</td>
<td>26</td>
<td>30</td>
<td>41900.00</td>
<td>58660.00</td>
<td>56200.00</td>
<td>10</td>
<td>0</td>
<td>480</td>
</tr>
<tr>
<td>JITAIHIDI</td>
<td>4</td>
<td>18</td>
<td>22</td>
<td>105700.00</td>
<td>272455.00</td>
<td>184139.00</td>
<td>10</td>
<td>1</td>
<td>438</td>
</tr>
<tr>
<td>OSIEPE KOKECH</td>
<td>3</td>
<td>22</td>
<td>25</td>
<td>64500.00</td>
<td>135500.00</td>
<td>56660.00</td>
<td>20</td>
<td>0</td>
<td>48625</td>
</tr>
<tr>
<td>NENO GITIMO</td>
<td>3</td>
<td>32</td>
<td>35</td>
<td>71600.00</td>
<td>121100.00</td>
<td>78420.00</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NYAMAKI</td>
<td>27</td>
<td>3</td>
<td>30</td>
<td>88100.00</td>
<td>189460.00</td>
<td>117422.00</td>
<td>10</td>
<td>1</td>
<td>2186</td>
</tr>
<tr>
<td>WACHO GI TIMO B</td>
<td>0</td>
<td>30</td>
<td>30</td>
<td>119665.00</td>
<td>298900.00</td>
<td>71697.00</td>
<td>10</td>
<td>0</td>
<td>96054</td>
</tr>
<tr>
<td>KINDA BER</td>
<td>2</td>
<td>25</td>
<td>27</td>
<td>84350.00</td>
<td>221850.00</td>
<td>127800.00</td>
<td>10</td>
<td>0</td>
<td>408</td>
</tr>
<tr>
<td>AYUCHA RIWUROK</td>
<td>7</td>
<td>20</td>
<td>27</td>
<td>100600.00</td>
<td>194400.00</td>
<td>137365.30</td>
<td>10</td>
<td>0</td>
<td>74</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>171</td>
<td>712</td>
<td>883</td>
<td>2227210.00</td>
<td>5138106.00</td>
<td>2757390.30</td>
<td>3</td>
<td>317172</td>
<td></td>
</tr>
</tbody>
</table>
All the groups in the study charged an interest rate of 10% of the amount loaned. Out of all the 30 groups involved in the study, 3 groups reported one case each of loans default. Women were the biggest beneficiaries in these savings groups. Susy (2007) quotes the ‘Microcredit Summit Campaign 2001 Report’ saying that 14.2 million of the world’s poorest women now have access to financial services through Microfinance institutions, banks, NGOs and other non-bank financial institutions. Most of these women now have access to credit to invest in businesses and majority of them have excellent repayment records in spite of the hardships they face (Susy 2007). This study agrees with Susy (2007) since in all the groups involved in the study, majority of them were women and loan defaults were very few. The success of the continued loaning is also because of the disciplined repayment record of the members, leading to profit earnings from the interest charged on loans.

Aryeetey (1995) concurs with this stating that while the annualised interest rates charged by informal groups might appear higher than in formal institutions, the same members of the groups expect to earn dividends out of the interest profit earned. He further notes that informal finance plays a major role in savings mobilization. Having lending being pegged to level of savings plays an incentive for continued saving among group members. Just like the groups involved in this study, he also notes that most informal institutions offer little short term loans. Therefore, interaction between informal and formal institutions would be very beneficial. While the informal groups mobilise savings, the formal institutions can be able to offer bigger more long term loans. However, informal savings is popular among the rural poor because of cost of transactions at formal banks, transport cost to the banks which are mostly in towns and travelling time required. Aryeety (1995) further adds that liquidity of the assets saved is very crucial for the poor people. They are more willing to save in real assets than in financial assets. They need assets that they can easily transform into liquid cash. Confidence in management of various financial assets is also important.
According to Susy (2007), several studies and experiences of several MFIs have shown that simply putting financial resources in the hands of the poor is not enough to bring about empowerment and improve their welfare. During the focused group discussions, most groups indicated that before, they used “merry go round” schemes in their groups. They expressed that while this was helping them to save, it did not provide any other services they needed. But from the village savings and loaning scheme, they were able to get more services from their groups. They listed these services as: development loans, emergency loans, social funds, earning interest on their savings, and some had through their groups enrolled with the National Health Insurance Fund (NHIF). To measure the impact of the financial services in their lives, respondents were given a list of impacts that they would tick on how the situation was before and after accessing financial services. Table 4 shows a summary of the responses from the respondents.

<table>
<thead>
<tr>
<th>IMPACT</th>
<th>POSITIVE</th>
<th>NO CHANGE</th>
<th>NEGATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>able to buy farm inputs</td>
<td>221 (67%)</td>
<td>30 (8.9%)</td>
<td></td>
</tr>
<tr>
<td>able to buy house furniture / utensils</td>
<td>158 (46%)</td>
<td>33 (9.8%)</td>
<td>1 (0.2%)</td>
</tr>
<tr>
<td>able to pay school fees</td>
<td>166 (49%)</td>
<td>32 (9.4%)</td>
<td></td>
</tr>
<tr>
<td>able to start or expand business</td>
<td>257 (76%)</td>
<td>23 (6.8%)</td>
<td></td>
</tr>
<tr>
<td>able to pay medical expenses</td>
<td>212 (62%)</td>
<td>44 (13%)</td>
<td>1 (0.2%)</td>
</tr>
<tr>
<td>other</td>
<td>20 (0.05%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As shown in table 4, there was positive impact realised by majority of the respondents. Among the respondents involved in the study, 67% of them reported being able to afford to buy farm inputs which they accessed with difficulty before accessing the loans from the groups. There was positive impact realised on ability to buy furniture and utensils (46%), ability to pay school fees (49%), ability to start or expand business (76%), and ability to pay medical expenses (62%). Through the groups some respondents had joined the National Health Insurance Fund (NHIF) which had further assisted them in catering for their medical needs.
expenses. A number of respondents had been able to afford various things even before joining the savings group; 8.9% were able to buy farm inputs and 9.8% bought house furniture with ease before and after joining the groups. These impacts are illustrated in Figure 6.

![Figure 6: Impact of access to financial services](image)

As indicated in figure 6, there was general positive impact of the activities for the savings and loaning groups. According to Kibaara (2007), lack of working capital and low liquidity limits the farmer’s productivity. The average production efficiency levels are higher among producers who have access to credit. Kibaara (2007) however, points out that several challenges and opportunities face community led financial services. Among the challenges she points out; insecurity, poor infrastructure, lack of policy and regulatory framework, lack of necessary, management skills and high interest rates charged by the groups.

World Bank (2007) states that microcredit has enhanced opportunities in countries like Bangladesh. It supplies credit in areas too poor or remote to be served by traditional banks. Through group lending, microcredit provides viable alternative to the collateral required by formal banks. This access has improved income-earning opportunities especially for women. FAO (2005) says that a complete range of financial services would greatly facilitate rural and agricultural development. Liquidity constraints in developing world prohibit smallholders from intensifying production and inhibit growth of small agro-based enterprises. Reliable
access to credit helps farmers obtain capital to meet seasonal requirements like planting and harvesting. However, FAO (2005) further states that this access to financial services in rural areas is inhibited by high transactions costs and default risks. These result from; low population density, poor physical infrastructure, vulnerability of farmers incomes by yield or price variation, small size and volumes of transactions, unfavourable legal framework among other factors. However, this study found out that group savings and loaning associations are able to provide services with low transaction costs and minimal default. But they are limited by their small scale, short geographical reach and narrow range of instruments. FAO (2005) states that rural people demand a range of financial services. These include: Savings (so that farmers do not have to store wealth in low yielding risky physical stocks like livestock), short term finance, long term finance, leasing, low-cost money transfer for remittances and insurance.

4.5 Use of credit for income generating activities.

The third specific objective of the study was to examine whether credit obtained by small scale farmers though COSAVE savings groups is used for income generating activities. For positive impacts of the access to financial services to be realised, the use of credit received by the members is very critical. One of the study’s objectives was to also find out whether group members were using the loans received for income generating activities. The researcher asked those who had received loans whether they had used the money for income generating activities. The table 5 summarises the responses from the respondents.

<table>
<thead>
<tr>
<th>Income generating activity</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty trade</td>
<td>282 (84%)</td>
</tr>
<tr>
<td>Farming</td>
<td>185 (55%)</td>
</tr>
<tr>
<td>Value addition of farm produce</td>
<td>6 (2%)</td>
</tr>
<tr>
<td>Other</td>
<td>2 (1%)</td>
</tr>
</tbody>
</table>
From table 5, most respondents (84%), engaged in petty trade and farming (55%) using the loans they received from their groups. Respondents who used the loans in adding value to their farm produce were 62%. Some respondents had more than one income generating activities. IFAD (2010) states that while some households rely primarily on one income generating activity, most seek to diversify their livelihood base as a way to reduce risk. It is the poorest households that rely most on farming and agricultural labour. The trend of various income generating activities carried out by respondents is illustrated in figure 7.

![Figure 7: Income generating activities engaged in using the loans received](image)

Plate 1: A poultry income generating activity started by a member of a VSL group using credit accessed from the group.
Trading and farming emerged as the most important economic activities among the group members. The success of the savings and loaning activities lies with the ability of members to repay the loans they receive. To understand where members got money for paying loans, the researcher provided the respondents with a list of various income generating activities. From the list they were required to rank the most important source as “1” and continue ranking up to the fourth most important source. The responses from the respondents are summarised in table 6.

Table 6: Sources of money for repaying loans as ranked by respondents.

<table>
<thead>
<tr>
<th>source</th>
<th>ranked 1</th>
<th>ranked 2</th>
<th>ranked 3</th>
<th>ranked 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>238 (71%)</td>
<td>31 (9%)</td>
<td>9 (3%)</td>
<td>1 (0%)</td>
</tr>
<tr>
<td>Selling farm produce</td>
<td>47 (14%)</td>
<td>118 (35%)</td>
<td>19 (6%)</td>
<td>1 (0%)</td>
</tr>
<tr>
<td>Casual labour</td>
<td>24 (7%)</td>
<td>27 (8%)</td>
<td>11 (3%)</td>
<td>2 (1%)</td>
</tr>
<tr>
<td>Remittances</td>
<td>11 (3%)</td>
<td>34 (10%)</td>
<td>31 (9%)</td>
<td>4 (1%)</td>
</tr>
<tr>
<td>Salary</td>
<td>10 (3%)</td>
<td>0</td>
<td>8 (2%)</td>
<td>0</td>
</tr>
<tr>
<td>Bodaboda</td>
<td>2 (1%)</td>
<td>1 (0%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>1 (0%)</td>
<td>3 (1%)</td>
<td>1 (0%)</td>
<td>0</td>
</tr>
</tbody>
</table>

Trading was ranked as the most important source of money for loan repayment by 71% of the respondents. While 35% of the respondents ranked selling farm produce as their second most important source of money for loan repayment. Remittances were ranked third by 9% of the respondents. Four respondents ranked remittances as their fourth most important source. This information is illustrated in figure 8 which shows that trading and sale of farm produce are very important economic activities among the members of the savings groups. IFAD (2010) states that to manage risks rural households use diversification systems. Many households use non-farm activities to complement and reduce risks attached to farming and vice-versa. In this study, trading and farm income tend to provide this diversification and offer a buffer against shocks when either of the two does not do well.
This study recorded a very low loan repayment default. Aryeetey (1995) says that the informal banking relies on the basis of trust. Potential participants considered to lack credit worthiness are not welcome to join the group. There is also intense social pressure exerted by the members because of their close interaction with each other. Membership to the group is treated as some form of insurance in itself. This according to Aryeetey (1995) is highly valued in poor communities who have no other form of insurance. The way credit is utilised is an important aspect into how easily it will be paid back. Credit used for income generating activities will ensure there is a continuous source of cash that will be used to repay back the loan. However, credit used on school fees, medical care, among others, will mean that the group member has to raise money from elsewhere to be able to repay the loan. IFAD (2009) emphasises that access to financial services in rural areas allows people to manage their cash flows, start new agricultural activities and set up small businesses. When people have higher earning and safe ways to save their money, they will be able to pay for healthcare, education and invest in the future of their farms or businesses.

IFAD (2009) notes that over the past 20 years, there has been a steep decline in resources for agriculture and rural development. It continues to state that between the years 1983-1987 and 1998-2000 the average allocations for agriculture in least developed countries fell by 57%.
Lending from international financial institutions followed a similar trend. This was also mirrored by domestic investment in agriculture and rural development. With such a background, it is important that the smallholder farmers have options and viable alternatives that they can use to develop themselves. The savings and loaning activities in the groups provided the respondents with easily accessible credit that they used for income generating activities.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of findings, conclusions and recommendations arising from the study.

5.2 Summary of findings

The VSL methodology has been widely and well received by the target group. The majority of the beneficiaries according to this study are women who made up 86% of the respondents in this study. Most of the women use the savings and loaning groups as small accessible banks. Within these groups they are able to save money and access small loans they use for various purposes ranging from consumption, school fees, medication, development, business and others. SCC-Vi Agroforestry has also used the same groups as avenues for introducing other ventures like agroforestry and entrepreneurial farming. This study sought to find out how members of the savings groups raise money for saving. Contrary to the belief that all the target beneficiaries engaged fully in farming, they engaged in various economic activities. The most dominant source of money for saving was trading and was ranked as the most important source by 67% of the respondents. While all the respondents were farmers, the study found out that other economic activities were important in generating money. Selling of farm produce was the second most important source of raising money for saving with 36% of the respondents ranking it second most important source. Remittances from relatives working in towns were the third most important source of income (9%), while casual work was ranked fourth (9%).

This study also sought to find out whether the savings and loaning scheme had led to enhanced access to financial services and led to improvement of livelihoods. From the analysis of the sampled respondents, it became evident that most of the respondents relied on
their savings groups for financial services. This was mostly due to the fact that most were living in areas far from towns and centres where banks were situated. Most of them did not also have formal employment. Access to loans and motivation to save also enabled them to do more economic activities. Such activities included; buying farm inputs, buying house furniture, paying school fees, paying medical bills among others. There was a general positive impact on the livelihoods of the respondents as a result of accessing financial services through their savings and loaning groups.

One other objective of the study was to examine whether credit received by the small scale farmers was used in income generating activities. Use of credit received is important for positive impacts to be realised. Among the respondents, majority used the credit accessed to either start or expand small businesses. Farming was the second most important avenue for investing credit received. Very few respondents used the loans for value addition of farm produce. While value addition is not an income generating activity in itself, it however has the potential to increase the amount of money the farmers get from sale of farm produce.

5.3 Conclusions

This study found out that the savings groups are dominated by women. Through the groups the women are able to meet their financial services needs. From the study it appeared that few men were attracted to the savings groups.

From the study, it was evident that trading and farming are the most important economic activities among the respondents. They emerged the two most important sources of money saved in the groups. For livelihood of the rural people to be improved therefore, there should be investments in these two sectors.
The savings groups have led to enhanced access to financial services. The respondents reported being able to save and access short term loans from their groups. However it emerged that as groups grew and their savings became bigger, they tended to demand more services than offered by the group. Group members wanted bigger loans which could not be offered by the small groups. But through the groups, they were linked to bigger commercial banks through agent banking which is a new phenomenon in rural finance.

The study noted that there were general positive impacts arising from activities of the savings and loaning groups. Most of the respondents reported being able to carry out several activities with ease because of the credit services they received from their groups. Majority of the respondents used the credit accessed for income generating activities. However there was still wide use of the loans on expenses like school fees, and medical costs which do not generate income, but are very important in improving the general wellbeing of the respondents.

**5.4 Recommendations**

There is need to recruit more men to join the groups for the model not to be biased. It would be worthwhile to assess why men are not largely attracted to the savings groups so that they can also access services in cases where they do not have access to banks.

An enabling environment favouring trading and farming would translate to higher incomes which would lead to improved livelihood of the people in rural areas. Investment and attention should therefore be considered for these two sectors by development agents if meaningful rural development is to be realised.

There is need to support groups that have outgrown the model so they can reach out to commercial banks. This is especially so with the entry of agent banking which can be easily used in the rural areas. During the focus group discussions, the respondents raised concern
about the repayment period of loans. Majority of the groups had it in their constitution that all loans should be paid within 1 to 3 months. The respondents felt that the groups needed strengthening so that they are able to offer more long term loans. Some of the respondents reported facing difficulty in repayment of loans due to the short repayment period even though the study reported very minimal default rate. The VSL model could therefore be adjusted to allow repayment of loans for much longer periods. Some groups had experienced a few cases of fake money. They had however become more vigilant and were very keen on checking the notes received from members to dissuade such occurrences. The members need to be made more aware of the risks involved in handling money and be better equipped in handling such risks. The safety of the money saved was also raised as a concern by the members. This was especially when they were about to liquidate and huge balances remained in the cash boxes. Such groups should be advised to have bank accounts where they can deposit amounts that have not been issued to members as loans.

From the study, very few respondents used credit accessed for value addition of farm produce. Value addition would help in increasing value and therefore profits for farmers selling farm produce. For this to happen, there is need for the farmers to be made aware of the possible value addition practices they can engage in to increase their farms productivity. Entrepreneurship is important and should be encouraged among the target groups. Use of credit should be encouraged to be in income generating activities so that income generated is used for other household expenses. While this is not an easy task, it should be the goal. So that most of the credit acquired is put into money generating activities. Given the important role that trading and farming plays in the lives of the respondents, it is worthwhile to invest in capacity development and improve infrastructure to enable these two activities to flourish. This would translate to improvement of the other sectors in the rural areas resulting from increase in incomes of the people in rural areas.
Suggestions for further research;

1. Role of VSL in introducing formal financial services to the unbanked.
2. Impact of women participation in VSL activities in rural development.
3. Importance of non-farm income generating activities in the rural areas.
4. Potential of on-farm enterprises in rural development.
5. Role of mobile and agent banking in reaching the unbanked.
REFERENCES


Helms, B., A. Latortue and N. Goronja (2002), “Savings are as Important as Credit: Deposit Services for the Poor”, CGAP, Washington D.C.


Pancerselvan, R. (2007), Research Methodology, Princeton Hall of India, New Delhi

Poor: Can Anyone Hear Us?”, Oxford University Press, New York.

Agriculture in Africa”, USAID, Washington D.C.

Reid, K. J., (2004), “Financial Relationships Between Community Based Organisations and
the Formal Banking Sector YCO’s Perspective”, Microfinance Gateway, Washington D.C.

Remote Rural Areas?”, World Bank, Washington D.C.


World Bank, Washington D.C.

Rutherford, S. (2001) "Savings and The Poor: Methods, Use and Impact of Savings by the
Poor of East Africa," in "Why Poor Peple Want / Need to Save, and How They Do It". World Bank, Washington DC.


Sygenta Foundation for Sustainable Agriculture, Basel.


Websites

www.vsla.net  (2011)
APPENDICES

Appendix 1 - Group Member Questionnaire

Section 1: Respondents Background Information

Location………………………… Sub-location……………………………….

Village…………………………

101. Sex: Male Female

102. Age
   1. 18 and below
   2. 19-24
   3. 25-29
   4. 30-34
   5. 35-39
   6. 40-44
   7. 45-49
   8. 50-54
   9. 55 and above

Section 2: Raising money for savings to qualify for loans

201: Do you belong to any group?
   1. Yes
   2. No

202. Do you save in your group?
   1. Yes
   2. No
203. How often do you have saving meetings in your group/

1. Daily
2. Weekly
3. Bi-monthly
4. Monthly
5. Other (specify)………………………………………

204. Where do you get the money you save? (Rank from the most important source (number 1) to the least important in the table below).

<table>
<thead>
<tr>
<th>SOURCE OF MONEY</th>
<th>RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Selling farm produce</td>
<td></td>
</tr>
<tr>
<td>2. Casual labour</td>
<td></td>
</tr>
<tr>
<td>3. Trading</td>
<td></td>
</tr>
<tr>
<td>4. Bodaboda</td>
<td></td>
</tr>
<tr>
<td>5. Salary</td>
<td></td>
</tr>
<tr>
<td>6. Remittances</td>
<td></td>
</tr>
<tr>
<td>7. Other (specify)</td>
<td></td>
</tr>
</tbody>
</table>

205. Do your savings earn interest?

1. Yes
2. No

206: What type of savings do you have in your group?

1. Insurance
2. School fees
3. Social fund
4. Other.........................

207: Does your group offer loans to members?

1. Yes
2. No
208: What is the qualification to access loans?

1. Multiplied by shares held
2. No criteria/ restriction
3. Other (Specify)…………………………………

Section 3: Access to financial services and improved rural livelihoods

301. For how long have you been participating in the savings and loaning group?

1. Less than 6 months
2. 1 year
3. More than 1 year

302. Does your group meet all your financial services needs?

1. Yes………………………………
2. No …………………………….

304 a. What services do you receive from your group?

1. Savings
2. Loaning
3. Insurance
4. Emergency funds
5. Other (specify)……………………………………………………..

304 b: Did you receive these services before joining the savings group? (If yes, tick where appropriate.)

1. Savings
2. Loaning
3. Insurance
4. Emergency funds
5. Other (specify
305. Which services are not met by your group?

1. Savings
2. Loaning
3. Insurance
4. Emergency funds
5. Social security
6. Other (specify) ………………………………………………………………………

306. Would you like your group to offer more services than being offered today?

1. Yes…………………………
2. No…………………………

307. Which services would you like to be added in the group?

1. Insurance
2. Welfare (burial, weddings)
3. Social security
4. Emergency funds
5. Other (specify) ……………………………………………

308. Are you happy with the service you get from your financial group?

• Yes ☐  Why…………………………………………………………………………………………

• No ☐  Why?…………………………………………………………………………………………

309. Do you obtain financial services from other groups or institutions?

1. Yes
2. No

310. How has access to financial services impacted on your life? (Please fill in the table below with YES or NO)
<table>
<thead>
<tr>
<th></th>
<th>BEFORE ACCESS</th>
<th>AFTER ACCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Able to pay school fees</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Able to pay medical expenses</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Able to buy farm inputs</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Able to start or expand business</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Able to buy house furniture/ utensils</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Other (Specify)</td>
<td></td>
</tr>
</tbody>
</table>

Section 4. Use of Credit

401. Have you ever received a loan from your Village Savings and Loans group?

1. Yes

2. No (If no skip section 4)

402. How did you use the loan(s) you received? (Please tick in the table below).

<table>
<thead>
<tr>
<th>LOAN USE</th>
<th>LOAN 1</th>
<th>LOAN 2</th>
<th>LOAN 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. School fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Medical expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Buy farm inputs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Start or expand business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Buy house furniture/ utensils</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Other (Specify)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

403. How long did it take you to pay the last loan you received?

1. below 1 – 3 months

2. 4- 6 months

3. 7- 10 months

4. one year
403. Did you have difficulty in repaying the loan?
   1. Yes
   2. No

404. While repaying the loan, did you continue saving?
   1. Yes
   2. No

405. Where did you get money to service your loan? (Please rank from the most important source (number one) to the least important source of income)

<table>
<thead>
<tr>
<th>SOURCE OF MONEY</th>
<th>RANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Selling farm produce</td>
<td></td>
</tr>
<tr>
<td>2. Casual labour</td>
<td></td>
</tr>
<tr>
<td>3. Trading</td>
<td></td>
</tr>
<tr>
<td>4. Bodaboda</td>
<td></td>
</tr>
<tr>
<td>5. Salary</td>
<td></td>
</tr>
<tr>
<td>6. Remittances from relatives</td>
<td></td>
</tr>
<tr>
<td>7. Other (specify)</td>
<td></td>
</tr>
</tbody>
</table>

406: Have you ever used any of the loans you received in income generating activities?
   1. Yes
   2. No

406b: If yes, which activities? (Tick where appropriate)
   1. Farming
   2. Petty trade
   3. Value addition of farm produce
   4. Other (specify)……………………………………………..
Appendix 2

Key informants Interview

**Group Leaders Interview Guide:**

<table>
<thead>
<tr>
<th>Location</th>
<th>Division</th>
</tr>
</thead>
</table>

1a. Name of group .................................................................

1b. Membership number:

Number of male members..............Number of female members..............

1c. Does your group have a constitution?.........................................................

2a. Value of savings in Kenya shillings to date................................................

2b. Amount of Loans issued in Kenya Shillings to date........................................

2c. Value of outstanding loans to date.................................................................

2d. Interest rate charged on loans........................................................................

2e. Number of defaulted loans................................................................................

2f. Amount of cash at hand, bank, or held in stock of goods ..........................

3a. What challenges has the group faced in their savings and lending activities?
.........................................................................................................................

3b. How has the group overcome the challenges?....................................................
.........................................................................................................................

4a) What criteria are used to issue loans to members?

4b) Are members able to meet these requirements?

5) What benefits have members accrued by belonging to the savings group? Did they receive these benefits before? If they did, from where did they receive these benefits?

6) What kind of activities do members engage in to raise money for saving and repaying loans?

7) Do members use the credit received for income generating activities? If yes, Which activities are these?
<table>
<thead>
<tr>
<th></th>
<th>Tick if available</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group constitution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own savings box</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leaders elected democratically</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proper group records</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4: Focus Group Discussion with Group members

1. Why did you join the savings groups?
2. DO you belong to other groups?
3. What is the difference between the other groups you belong to and the savings group?
4. What are the common income generating activities carried out?
5. Has participation in Village Savings and Loaning activities improved the livelihoods of the group members? How?
6. How has access to credit changed lives of members?
7. Why do members save in the group and not in the bank individually?
8. Do members leave the saving groups? Why?
9. Are new members allowed to join? If Yes how? If no Why?
10. What are the advantages and disadvantages of being a member of the savings group?
11. What is your impression of how the savings group are managed?
12. What would you like to see changed in how the savings groups are managed?
13. What challenges do you encounter in your savings groups?
14. What would you suggest to address the challenges? (In order of priority from the most important).
<table>
<thead>
<tr>
<th>FGD participants</th>
<th>Lower Nyakach</th>
<th>7. Herine Ayiemba</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upper Nyakach</strong></td>
<td>1. Rosemary Otieno</td>
<td>1. Benard Nyandire</td>
</tr>
<tr>
<td>2. Roselyne Nyaoke</td>
<td>2. Edward Aomo</td>
<td></td>
</tr>
<tr>
<td>3. Veronica Adhiambo</td>
<td>3. Lawrence Okoth</td>
<td></td>
</tr>
<tr>
<td>4. Emily Omollo</td>
<td>4. Gilbert Awiti</td>
<td></td>
</tr>
<tr>
<td>5. Silvance Adiema</td>
<td>5. Enock Odera</td>
<td></td>
</tr>
<tr>
<td>7. Francisca Adiema</td>
<td>7. Jairus Abongo</td>
<td></td>
</tr>
<tr>
<td>8. Isaac Arara</td>
<td>8. Everlyne Ajwang</td>
<td></td>
</tr>
<tr>
<td>10. Pamela Oyuang</td>
<td>10. Linet Omondi</td>
<td></td>
</tr>
<tr>
<td><strong>Lower Nyakach</strong></td>
<td>11. Benard Nyandire</td>
<td><strong>Muhoroni</strong></td>
</tr>
<tr>
<td>1. Mary Akeyo</td>
<td>1. Mary Akeyo</td>
<td></td>
</tr>
<tr>
<td>2. Alice Omondi</td>
<td>2. Alice Omondi</td>
<td></td>
</tr>
<tr>
<td>4. Aska Odima</td>
<td>4. Aska Odima</td>
<td></td>
</tr>
<tr>
<td>5. Syprosa Odima</td>
<td>5. Syprosa Odima</td>
<td></td>
</tr>
<tr>
<td>7. Mary Abok</td>
<td>7. Mary Abok</td>
<td></td>
</tr>
<tr>
<td>8. Rhodah Orwah</td>
<td>8. Rhodah Orwah</td>
<td></td>
</tr>
<tr>
<td><strong>Nyando</strong></td>
<td>9. Alex Mwendwa</td>
<td></td>
</tr>
<tr>
<td>1. Jason Kotolo</td>
<td>1. Jason Kotolo</td>
<td></td>
</tr>
<tr>
<td>2. David Ondoi</td>
<td>2. David Ondoi</td>
<td></td>
</tr>
<tr>
<td>5. Eunice Okoth</td>
<td>5. Eunice Okoth</td>
<td></td>
</tr>
<tr>
<td>7. Rusalia Asuso</td>
<td>7. Rusalia Asuso</td>
<td></td>
</tr>
<tr>
<td>8. Peres Sigu</td>
<td>8. Peres Sigu</td>
<td></td>
</tr>
<tr>
<td>9. Alex Mwendwa</td>
<td>9. Alex Mwendwa</td>
<td></td>
</tr>
</tbody>
</table>