

**MICRO FINANCE INSTITUTIONS: AN ANALYSIS OF  
THE SOCIO-CULTURAL FACTORS IN LOAN  
REPAYMENT IN MATHIRA DIVISION, NYERI  
DISTRICT, KENYA.**

**BY**

**MBOGO J. WAWIRA**

**Project Paper Submitted to the Institute for Development Studies, University of  
Nairobi, III Partial Fulfilment of the Requirements for Master of Arts Degree in  
Development Studies.**

**6<sup>th</sup>. 09. 2004**

University of NAIROBI Library

0300107 0

**Institute for Development Studies**  
**University of Nairobi**  
**P.O Box 30197, Nairobi**

• " " K T S S ' '

## DECLARATION

This project Paper is my original work and has not been submitted for a degree in any other university.

MBOGO J. WAWIRA

15/11/2005 ZDOI

DATE

This project has been submitted for examination with our approval as university Supervisors

O - ( X ^

PROF. PATRICK O. ALILA

N o v — w i s H a © o f

DATE

R. Atieno

DR. ROSEMARY ATIENO

1± / 2005

DATE

Institute for Development Studies  
UNIVERSITY OF NAIROBI

## **DEDICATION**

To my mother Aloisia Mbogo  
For raising the value of Motherhood to a higher level  
For being my number one supporter, and  
For laying down all for me.

## TABLE OF CONTENTS

Title	
Declaration .....	ii
Dedication .....	iii
Table of Contents .....	iv
List of Tables and Figures .....	vi
Acronyms and Abbreviations .....	vii
Acknowledgement .....	viii
Abstract .....	ix

### **CHAPTER ONE: INTRODUCTION** **Page**

1.1	Background .....	1
1.2	Problem Statement .....	3
1.3	Rationale of the study .....	5
1.4	Scope and Limitations .....	6
1.5	Organisation of the Paper .....	7

### **CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK.**

2.1	Introduction .....	9
2.2	History of Microfinance .....	9
2.3	Role of Microfinance in Kenya's development process .....	11
2.4	Loan Repayment Problems .....	13
2.5	Role of Culture in the Development of Microfinance Activities .....	16
2.6	Theoretical Framework .....	20
2.6.1	The Socio-capital Theory .....	20
2.6.2	The New Economic Sociology Paradigm .....	22

### **CHAPTER THREE: METHODOLOGY**

3.1	The study Site .....	25
3.2	Nyeri District Socio-cultural Profile .....	26
3.3	Sampling .....	29
3.4	Data Collection .....	30

3.5	Data Analysis.....	31
3.6	Definition of Terms.....	32
3.7	Operational Definitions.....	34

**CHAPTER FOUR: LOAN SCHEMES**

4.1	Loan Arrangements In Mathira.....	35
4.2	Microfinance institutions in Kenya.....	36
4.3	Approaches to Micro Credit in Kenya.....	39
4.4	MF1 Institutions, their Policies and Loan Products.....	41
4.5	The Target Population.....	50
4.6	Summary.....	50

**CHAPTER FIVE: ANALYSES OF FINDINGS**

5.1	Profile of Respondents.....	53
5.2	Relationship between Socio-cultural Factors and Membership.....	53
5.3	Relationship between Socio-cultural Factors and Loan Repayment.....	60
5.4	Relationship between Socio-cultural Factors and Leadership.....	63
5.5	Power hierarchy, Group Behaviour and Loan Repayment.....	68
5.6	Leadership and Group Survival.....	69

**CHAPTER SIX: SUMMARY, CONCLUSION AND POLICY**

**RECOMMENDATIONS**

6.1	Summary.....	74
6.2	Findings.....	75
6.3	Conclusion	
6.4	Policy recommendations	
6.5	Further Research.....	78

<b>BIBLIOGRAPHY.....</b>	<b>79</b>
--------------------------	-----------

**APPENDICES**

Appendix 1: Survey Questionnaire.....	88
Appendix 2: Guiding Questions for key informants.....	97

3.5	Data Analysis.....	31
3.6	Definition of Terms.....	32
3.7	Operational Definitions.....	34

**CHAPTER FOUR: LOAN SCHEMES**

4.1	Loan Arrangements In Mathira.....	35
4.2	Microfinance institutions in Kenya.....	36
4.3	Approaches to Micro Credit in Kenya.....	39
4.4	MF1 Institutions, their Policies and Loan Products.....	41
4.5	The Target Population.....	50
4.6	Summary.....	50

**CHAPTER FIVE: ANALYSES OF FINDINGS**

5.1	Profile of Respondents.....	53
5.2	Relationship between Socio-cultural Factors and Membership.....	53
5.3	Relationship between Socio-cultural Factors and Loan Repayment.....	60
5.4	Relationship between Socio-cultural Factors and Leadership.....	63
5.5	Power hierarchy, Group Behaviour and Loan Repayment.....	68
5.6	Leadership and Group Survival.....	69

**CHAPTER SIX: SUMMARY, CONCLUSION AND POLICY**

**RECOMMENDATIONS**

6.1	Summary.....	74
6.2	Findings.....	75
6.3	Conclusion	
6.4	Policy recommendations	
6.5	Further Research.....	78

<b>BIBLIOGRAPHY.....</b>	<b>79</b>
--------------------------	-----------

**APPENDICES**

Appendix 1: Survey Questionnaire.....	88
Appendix 2: Guiding Questions for key informants.....	97

**LIST OF TABLES AND FIGURES**

	<b>Page</b>
Table 1	Respondents by Occupation ..... 54
Table 2	Respondents by Education ..... 59
Table 3	Causes of Repayment problems ..... 61
Table 4	Average Amounts of Loan Borrowed by Borrowers' Level of Education ..... 63
Table 5	Cross Tabulation between Age of Respondent and Leadership Positions ..... 64
Table 6	Cross Tabulation between Percentage of Leadership Positions held and Gender ..... 66
Table 7	Cross Tabulation of Marital Status and Group Leadership . . . . . 67
TableS	Description of Groups'leadership.....72
Figure 1	Respondents by Age and Membership ..... 55
Figure 2	Gender and Group Membership..... 57

## LIST OF ACRONYMS AND ABBREVIATIONS

ASCAs	Accumulating Savings and Credit Associations
CBEs	Community Based Enterprises
FGDs	Focus Group Discussions
GoK	Government of Kenya
JLBS	Joint Loans Board Scheme
K-REP	Kenya Rural Enterprise Programme
KWFT	Kenya Women Finance Trust
NES	New Economic Sociology
NCCK	National Council of Churches of Kenya
NGO	Non-Governmental Organisation
MFI	Micro Finance Institutions
REME	Research, Monitoring and Evaluation Project
ROSCAs	Rotating Savings and Credit Associations
SMEP	Small and Medium Enterprise Programme
SMEs	Small and Medium Enterprises
SISDO	Small Holder Irrigation Scheme development Organisation
UNDP	United Nations Development programme



## ACKNOWLEDGEMENT

It would not have been possible to complete this paper without the help of numerous people, who assisted me in various ways. Special thanks however go to my supervisors, Prof. Patrick Alila and Dr. Rosemary Atieno for their guidance and close supervision of this work. Their goodwill, patience, attention and advice called me to deeper levels of commitment and resolve towards the completion of this paper. I say, bless you

In addition, I would like to thank all my lecturers and colleagues at the Institute for Development studies (IDS) who gave me both academic and moral support. Your encouragement and confidence nudged me on to the completion of this paper. To you all I say thank you from the bottom of my heart.

I also extend my gratitude to various organisations and people who supported me towards carrying out this study, either by way of financial help or by availing their time to take part in this study. In particular, special thanks go to the Gandhi Smarak Fund for funding part of my studies. Special thanks also go to the people of Mathira Division, who availed time to be part of my study sample as well as their public administrators for permitting this study to be carried out in the area. Various MFIs warrant mention too for permitting the study to be carried out among their loan groups and giving wonderful insights and the information used in this paper.

Special thanks go to my family. My mother Aloisia Mbogo, my sister Wanja and my nieces Stephanie and Sheila. You are the women in my journey, who have shown me what I am and what I can be. Your love, encouragement and confidence have stirred me to seek greater heights of excellence. Your love and support has been unconditional and for that I say bless you.

To Katiero, what a friend I have in you! For believing in me more than I ever believed in myself Thank you for the numerous reading materials that you availed and the many hours you set aside for me and this paper, but most of all for teaching me to believe in myself. Lastly I thank the almighty God for the guidance and strength for each day, much more for power and hope for each trying moment of this paper.

## ABSTRACT

This study investigates the role of socio-cultural factors in loan repayment among the Kikuyu of Nyeri district in Kenya. This is based on the premise that loan groups, being embedded in the local culture of the community they operate in, bring numerous local institutions into the micro finance arena. These institutions influence the administration and management of these groups in terms of formation, leadership, loan repayment as well as their survival.

The objectives of the study are therefore to establish the power hierarchy within micro finance loan groups, to examine the socio-cultural sources of power and exercise within the group and to investigate the effects of these factors on loan repayment. The study makes use of both the social capital theory and New Economic Sociology paradigm as the theoretical framework. Data was collected from both primary and secondary sources. This was based on field interviews with borrowers, non-borrowers and loans officers in Mathira Division. Relevant literature on microfinance was also reviewed.

The study findings show that socio-cultural factors affect participation, loan repayment, leadership and the survival of the groups. In the first place, social hierarchy in society influences aspects of group formation, savings and even loan repayment in MFI loan groups. Secondly, that the problem of unsatisfactory repayment rates is much more than a problem of poor economic conditions, rather a product of the intervention of various socio-cultural factors. Thirdly, that the exercise of power within the group does indeed influence leadership and group survival, whereby poor leadership it was concluded constitutes a barrier to the survival of any group.

The study recommends training of borrowers on financial management as a way of lessening the occurrence of default. Partnership needs to be encouraged between the borrowers and lenders for effective flow of information between loan groups as well as between MFIs. Greater community participation in microfinance is important as a means to overcoming the challenge of capital formation at the local level. Finally, there is need for further research to examine the means of appropriately incorporating culture into savings and credit groups with a view to strengthen loan repayment.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 BACKGROUND**

Capital formation is a necessary condition of development. Otero (1994) argues that all financial institutions have a common role to fulfil in terms of bringing supplies of finance to those who demand it. Without financial intermediation economies would therefore be limited to self-consumption, making the essential components of economic progress difficult and costly. Access to different financial instruments therefore enables investors and savers to exchange financial resources in a way that suits their return, price, maturity and risk expectations. The effective use of resources, savings, trade and risk taking are thus essential elements in any growing economy.

Financial markets according to McKinnon (1973) are important in guiding the flow of scarce financial resources to investments of highest return and in the provision of essential services in any market economy. An effective financial system facilitates specialisation in production, trade and exchange of commodities. Adams (1990) posits that by comparing alternative investment possibilities and selecting those with the highest return, financial intermediaries contribute to raising the efficiency of resource use.

In an attempt to promote economic development, the developing countries mediation policies entailed the subsidisation of interest rates and the targeting of credit to development priority sectors. These policies in most countries had negative effects on financial market development. In addition, many countries financial institutions came increasingly under stress, when due to the global declining commodity prices, increasing borrowing interest rates and declining demand from industrial countries, borrowers were unable to repay loans and pay interest. In Sub-Saharan Africa, governments had for instance to assist financial institutions to prevent their collapse under the burden of debt and non-repayment of loans (Adera, 1995). The emergence of microfinance as an alternative financial delivery mechanism was therefore fundamentally a response to the failure of past efforts by governments and international agencies to effectively provide financial services to the poor (Otero, 1999).

Microfinance is the arrangement for provision of financial services especially for low income and poor people mainly in self-employment. The broad objective is to alleviate poverty for people mostly residing in the rural areas. Though the focus of Microfinance Institutions (MFIs) may be the rural poor, the urban poor are increasingly gaining focus of attention. MFIs therefore, handle the poor urban dwellers mainly in informal squatter and slum settlements and the rural, generally poor people historically shunned by the conventional formal finance institutions. A fundamental goal of MFIs is therefore, to militate against constraints faced by the poor (Ledgerwood, 1998).

MFIs have fast become a necessary channel for the distribution of services and capital for the poor through mobilising resources to more productive uses (Atieno, 2001). The donor community has increasingly promoted Micro finance as a panacea for the developing countries and particularly so for women and the poor who they perceive as having been locked out of the development arena. The World Bank President James Wolfensen describes it as "a particularly effective way of reaching women". The U.N Secretary General calls it "a critical anti-poverty tool for the rural women". The one time American first lady Hillary Clinton alludes to the critical importance of microfinance as "a tool that will help women survive globalisation" (Women World Banking, 1999).

Eicher and Baker (1982) argue that ignorance of or inadequate attention paid to peoples' institutions and their role in fostering participation in decision-making has led to the failure of numerous development efforts. Development thinkers and practitioners have over time overlooked local level social and political differences unique to each group of people, preferring a standardized approach to development thereby undermining the need to distribute growth benefits to the poor while incorporating their local institutions. However in the 1980s a new realisation emerged that began to refocus attention to local level institutions as key ingredients in achieving development (Otero, 1999). The microfinance approach was thereby embraced as one way to integrating people in development. Through this approach, people are able to define their own development needs within their own local setting based, while not losing sight of their traditional values.

Microfinance groups have emerged as important avenues through which individuals can access finance. These groups however do not operate in a vacuum, rather they are embedded in numerous underlying institutions within the sponsoring community. Therefore, for a clear understanding of these institutions and their operations, it is imperative to study peoples' norms and beliefs that impact on interaction within the group. These institutions play a major role in influencing the success of the given group. However, the effects of the essential institutions in any given microfinance group may remain unnoticed due to the intricate nature of socio-cultural relations.

This study will therefore pay specific attention to factors in the groups that influence loan repayments alongside other governance and management issues within microfinance units. In doing so, the study therefore set out to address issues of power structures and resultant relationships within and outside the group that have effect on repayment. In essence, the study sought to find out whether factors other than an individual's economic ability to pay determine loan repayment. In the analysis, several socio-cultural factors including gender, age, marital status and kinship ties, education and social status of members of the microfinance groups were investigated

## **1.2 PROBLEM STATEMENT**

Over emphasis on the economic aspects of the microfinance sector has meant neglect of and inadequate attention to the critical socio-cultural and political factors surrounding microfinance activities (K-Rep 1991). MFIs operate within a framework of local institutions embedded in the particular communities in which the MFI groups are formed. Institutions such as trust, discipline, a saving culture and reciprocity are created based on social relations, kinship ties and social groupings and have a great bearing on the group's success.

Despite the critical role institutions play in influencing participation in microfinance activities, they are often ignored. The group one joins, his or her level of savings, borrowing and even repayment may for instance appear straight forward, yet a closer look reveals a complex web of underlying institutions, often drawn from the socio-cultural milieu that the group operates under. The achievements of a microfinance group



will therefore depend to a large extent on the understanding and incorporation of the particular community's institutions into its activities.

Loan repayment problems have been cited as a major hurdle in the growth and performance of most microfinance groups. Incidents of default are often cited as reasons for collapse of such groups. Explanations have been advanced mainly pointing at individual poverty, which is attributed to the poor economies prevalent in the third world countries. However, the poor state of the economy is not the only factor. Evidently, more goes into an individual's inability to repay loan especially non-economic, socio-cultural factors, which for certain individuals may be more at play.

Loan repayment problems have also been noted among MFIs in Kenya. For instance Dondo (1994) posits that defaults and loan arrears are major problems experienced by MFIs in Kenya and have been known to cause the collapse of microfinance organisations. Similarly, Pischke (1975) also documented a high rate of default on agricultural loans in Kenya. Presence of loan repayment problems is therefore noted to increase the cost of credit operations, making credit disbursement unviable and compromising the sustainability of loan schemes and therefore requires greater focus.

The problem of default in this analysis was addressed through local institutions for example social collateral. This takes many forms ranging from external social sanctions, family bailing out defaulters, among others. However, power relationship dynamics within the group also have critical influence on social collateral.

The study thus sought to answer the following questions:

1. What major factors in the community norms have a bearing on MFI activities?  
To what extent have these norms and values influenced group formation, leadership and sustainability?
3. How do these norms affect loan repayment?

## **OVERALL OBJECTIVE**

The broad objective of the study is to investigate the role of socio-cultural factors in loan **repayment** in Microfinance Institutions in Mathira Division, Nyeri District.

## **SPECIFIC OBJECTIVES**

The specific objectives of the study were:

1. To establish the power hierarchy within MFI loan recipient groups
2. To examine the socio-cultural sources and exercise of power within the group
3. To investigate the effects of group influence on loan repayment

## **HYPOTHESES**

The study sought to test the following hypotheses:

- i. Social hierarchy is the basis of power in MFI loan recipient groups
- ii. Socio-cultural norms determine the sources, and bearers of power in a group
- iii. Power relations influence loan repayment behaviour of group members

## **1.3 RATIONALE OF THE STUDY**

The importance of financial savings and capital accumulation for economic development cannot be over emphasised. For sustainable economic growth and overall development, developing countries need to lay strong emphasis on mobilising savings at the local level. This therefore means that factors hindering effective savings mobilisation and loan recovery require greater attention.

Where financial services for the poor are scarce, the people arrange their own microfinance organisations since like every one else, the poor also need financial services. They need to manage shocks and emergencies, to smooth out peaks and troughs in income and expenditure, make investment in families, homes and businesses, and to provide for their old age and for their heirs (Rutherford, 1996). Through different microfinance systems, not only is finance capital generated among the poor, but also human and social capital. Human capital development arises out of the training achieved >n the process of credit disbursement and also through access to education and health for members and their families through the credit received. Social capital formation occurs

through the integration of local organisations and institutions into the credit structures. Therefore to safeguard these capital accumulation channels for the poor, means of ensuring sustainable microfinance units are called for. This calls for an analysis and understanding of the possible means of improving loan recovery performance as well as better leadership styles at the group level.

Dondo (1994) for instance cites the presence of loan repayment problems and default in the microfinance sector in Kenya, and goes on to point out the need for further research in order to surmount the problem. Where research on the loan repayment problem has been done, socio-cultural factors were seemingly underestimated. This study therefore investigated the factors behind loan repayment problems among microfinance beneficiaries in Mathira division.

This study set out to generate empirical evidence in Kenya on the causes of loan repayment problems in MFI groups. An attempt is made to analyse the socio-cultural factors in an effort to understanding why loan repayment is more common among some borrowers than others. The study therefore seeks to provide information upon which lending institutions can improve their loan recovery mechanisms and thereby minimising and controlling non-repayment. In so doing, the study makes a contribution to the loan repayment debate by seeking to provide insights and recommendations towards the improvement of the survival rate of MFI lending units. Additionally, the study seeks to fill existing gaps on the role of non-economic factors in microfinance activities.

#### **1.4 SCOPE AND LIMITATION OF THE STUDY**

Although microfinance organisations exist in virtually all parts of Kenya, the study focused on Mathira division of Nyeri district. Nyeri district hosts some of the first microfinance activities with major MFIs such as Faulu, KWFT and K-Rep still operating in the region. The KWFT (1996) described the region as prosperous and more supportive of women's activities, high female literacy rates was evident with an enrolment rate of 85,260 boys as compared to 88,250 girls. Nyeri district also exhibits high economic activities and larger business portfolio for MFIs.



The above factors make Nyeri the hub of MFI activities in central province, however due to the impracticability of carrying out a large-scale research occasioned by economic as well as time constraints, Mathira was purposively picked as the location of study. Housing a significant number of MFIs. Mathira as a focus of study, generated interesting data.

The study was however limited in that it does not focus on other MFI activities outside of the Nyeri region. It further only focused on socio-cultural norms of the Kikuyu ethnic group under study and precisely mainly those that influence MFI activities.

Studies carried out in the region have mainly focused on the organisational and economic aspects of loan repayment, while seldom integrating socio-cultural factors. This study therefore sought to fill the information gap that exists on the influence of socio-cultural factors in loan repayment. Moreover, the focus on these not largely studied, yet crucial factors helped minimise respondent fatigue, as it provided a fresh angle in integrating the respondents local institutions into their financial arena.

## **1.5 ORGANISATION OF THE PAPER**

The paper is divided into six chapters and two appendices. Chapter one focuses on aspects of formulation of the research questions alongside statement of the study's objectives and hypothesis. Furthermore, the chapter sets out a rationale of the study upon which further research and policy formulation can be carried out. This sets pace for the discussion on the socio-cultural factors inherent in microfinance organisations.

The second chapter reviews literature pertaining to the microfinance sector and socio-cultural factors inherent therein. It also contains the theoretical framework upon which the study lies. Additionally, a discussion is earned out on the role of culture in development and in microfinance in order to lay a basis for understanding the role of socio-cultural factors and institutions in loan repayment.

Chapter three sets out the methodology used in the study. In this chapter, the study site is described as well as the sampling tools and techniques used. Chapter four on the other hand critically examines the microfinance landscape of Mathira Division with a focus on

four major MFIs. Main features of the MFIs namely SISDO, KWFT, K-Rep and Faulu are examined in terms of their credit arrangements and target population in the area.

The study's findings are presented in chapter five. In this section, socio-cultural factors of gender, age, marital status, religion and ethnicity as well as education are analysed in relation to group membership or participation, loan repayment, leadership as well as sustainability. This paves way for the summary and conclusion of the study in chapter six. This section also attempts to offer recommendations for policy formulations as well as pointing out areas for further research in the field.

## **CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

### **2.1 Introduction**

In this chapter literature on microfinance is reviewed. A review of the history of microfinance is earned out whereby the study traces the growth of the sector over time. This seeks to lay a foundation for the debate on the role of microfinance in development. In order to investigate the role of socio-cultural factors in loan repayment in MFI units, this chapter reviews literature on the loan repayment problems facing the sector as well as the role of socio-cultural factors in the sector.

Further, the chapter offers a conceptual approach in analysing the role of socio-cultural factors and institutions in loan repayment. To do so, the social capital theory and the New Economic Sociology paradigm are reviewed. It is in light of this that the study lays a foundation for the analysis of the socio-cultural factors as they influence loan repayment.

### **2.2 History of Micro Finance**

The poor need financial services too, either for investment purposes, to cover expenditure and as an insurance against risks and uncertainties associated with living. Unfortunately, though they are a market for financial services, formal financial institutions have shunned them, either by insisting on unattainable collateral, high transaction costs on credit, geographical and social seclusion (Adams, 1990). The unfavourable rules and regulations of the formal finance sector have thus portrayed the poor as not bankable, and uncreditworthy (Adera, 1995).

Furthermore, subsidised and directed credit programmes implemented in the 1980s experienced poor loan recoveries, inefficiencies and high transaction costs, among other constraints. This led to the piloting of bold experiments and new approaches utilising market based solutions to reach the majority of the poor who had been excluded from formal credit sources.

For the developing countries especially, Non Governmental Organisations (NGO) and hi lateral organisations sought ways of achieving a community approach to development.

**There** was need to create flexible and creative institutions that would take into account the highly dynamic nature of the financial sector. Due to their ability to adapt to the local **situations**, MFIs were able to succeed. Atieno, (2001) argues that the success of any **lending** institution is characterised by borrower creditworthiness based on information **about** the borrower, services based on flexible arrangements to adjust to changing **economic** circumstances and reducing transaction costs to the borrowers who respond by **maintaining** discipline in order to sustain their access to credit.

Woods and Sharif (1997), argue that currently, most bilateral and multilateral **development** agencies incorporate micro credit into their projects and even advocate for the same among NGO and private volunteer organisations involved in social development into the function of credit delivery. From the disbursements of subsidised loans to target sectors and populations, the focus of these agents of development shifted towards setting up local institutions that catered for the poor. This resulted in the emergence of microfinance institutions that serve the poor.

The World Bank estimates that there are 900 micro credit institutions in 101 countries that offer loans to the world's poor. Of these institutions, 206 were found to have offered 14 Million loans with a portfolio of US\$ 7 Billion. This is definitely a commendable strategy of addressing global poverty (Woolworth & Woller, 1999).

The history of the microfinance sector in Kenya can be traced to mid 1950s when the colonial government set up a Joint Loans Board Scheme (JLBS) to facilitate credit for small businesses (Alila, 1992). However, it was not until the late 1970s that credit became part of the rural development strategy. This gave rise to organisational arrangements for distribution of official credit to smallholders in the agricultural sector.

in the 1970s, the state through its various agencies was the main source of credit for the farmers. To promote the agricultural sector, cheap credit was required. Therefore, based on the German Raiffeisen co-operative union model, credit societies were developed (Ledgerwood, 1998) and were used as a means of imparting a saving culture to the rural farmers. However by the 1980s the approach had begun to show signs of failure. Many

especial) 11. the international development agents felt that the co-operative movements were drawing heavily on the public expenditure while not generating the intended growth. This coincided with the move to have the state roll back from the development realm. This saw other approaches to financial arrangements, among them the microfinance approach, which was viewed as an essential part of helping communities build local and sustainable services.

The 1975 International Women's Year Conference in Mexico City also shaped the history of microfinance as it gave rise to the Women's World Bank to assist women in developing countries access credit. In Kenya, efforts were made to achieve greater participation of women in economic activities through access to finance, which was seen as their major hindrance. In the 1980s in an effort to build institutions and sustainable development initiatives for the poor, the NGO sector introduced credit schemes, which consisted of small loan grants without the aspect of collateral requirement. The sector is currently receiving a lot of attention as a means of achieving rural development in Kenya.

A number of organisations came up to advance and promote this goal of women's involvement in the economy thereby achieving rural development. These included the Kenya Women Finance Trust in 1981, Women's Economic Development in 1983, K-Rep in 1984 and Pride Africa in 1989 among others. The sector has grown as an important means of not only poverty alleviation but also growth of enterprise. Indeed the 1997 baseline study on MSEs estimates that there are over 50 NGOs providing financial services to the sector (R.E.M.E, 1998).

### **2.3 Role of Microfinance in Development**

Services offered by MFIs enable the poor organise their finances towards raising their capacities, increase incomes, tidy up consumption and on the whole improve their quality of life, (Kinyanjui, 2002). Additionally Otero (1999) argues that microfinance helps the poor create productive capital, protect their capital, and deal with risks thereby creating and building an asset base among people lacking assets.

especially the international development agents felt that the co-operative movements were drawing heavily on the public expenditure while not generating the intended growth. This coincided with the move to have the state roll back from the development arena. This saw other approaches to financial arrangements, among them the microfinance approach, which was viewed as an essential part of helping communities build local and sustainable services.

The 1975 International Women's Year Conference in Mexico City also shaped the history of microfinance as it gave rise to the Women's World Bank to assist women in developing countries access credit. In Kenya, efforts were made to achieve greater participation of women in economic activities through access to finance, which was seen as their major hindrance. In the 1980s in an effort to build institutions and sustainable development initiatives for the poor, the NGO sector introduced credit schemes, which consisted of small loan grants without the aspect of collateral requirement. The sector is currently receiving a lot of attention as a means of achieving rural development in Kenya.

A number of organisations came up to advance and promote this goal of women's involvement in the economy thereby achieving rural development. These included the Kenya Women Finance Trust in 1981, Women's Economic Development in 1983, K-Rep in 1984 and Pride Africa in 1989 among others. The sector has grown as an important means of not only poverty alleviation but also growth of enterprise. Indeed the 1997 baseline study on MSEs estimates that there are over 50 NGOs providing financial services to the sector (R.E.M.E, 1998).

### **2.3 Role of Microfinance in Development**

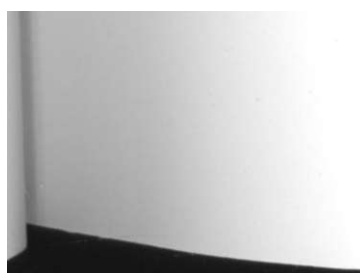
Services offered by MFIs enable the poor organise their finances towards raising their capacities, increase incomes, tidy up consumption and on the whole improve their quality of life, (Kinyanjui, 2002). Additionally Otero (1999) argues that microfinance helps the poor create productive capital, protect their capital, and deal with risks thereby creating **and** building an asset base among people lacking assets.

MFIs offer services ranging from savings, credit to insurance for members among others. MFIs operate under different legal frameworks depending on their inception and affiliations and offer microfinance as their core business. Additionally, many MFIs provide social intermediation services such as group formation, development of self-**confidence**, and training in financial literacy and management capabilities among members of a group (Ledgerwood, 1998).

**Providing** financial services to the poor has the potential to efficiently and effectively **contribute** to income generation and stabilisation, thereby addressing both short and long-term financial needs of the poor. Ledgerwood (1999) in a study on the role of finance in development argues that financial markets for the poor should seek to promote economic growth through mobilisation of resources and providing financing for financially and economically viable investments and economic activities. This serves to further efficient resource allocation as well as contribute to better income distribution and poverty reduction by enabling access to financial markets for the poor. Additionally, financial services to the poor support the building of sustainable, self-supporting rural finance institutions based on local knowledge and institutions.

Kinyanjui (2002) posits that MFI activities are a means of achieving development in the third world countries. Its impact on poverty reduction strategies can be classified into at least four dimensions; improvement of material well being of the poor in terms of increased incomes. Secondly, greater organisation into solidarity groups is achieved, thus overcoming socio-psychological barriers that otherwise impede people's participation in the development arena. Thirdly, the poor are able to build social capital through the networks formed and resultant social relations and thereby enhancing the mobilisation and utilisation of community resources for the betterment of the group.

Members of a microfinance unit define their own development goals and objectives based on their local institutions, thereby owning the process of change. The local organisations become channels through which the poor voice their needs, goals and aspirations thus localising some measure of empowerment. Through the groups the local community is



also involved in the control of its environment and the exploitation of the same, which results in greater access to means of production.

In Africa the sector has grown largely as an attempt to satisfy the demand for finance by those excluded by the formal financial sector (Atieno. 2001). Therefore the informal sector derives its dynamism from developments in the formal sector as well as its own internal characteristics of flexibility and adaptability (Aryeetey and Gockel, 1991). To date the micro finance sector continues to expand as evidenced by the rise in number of MFIS and large clientele.

The ability of MFIs to reach the low income households and their ability to build on and strengthen traditional systems and institutions has been the main reason for their rapid growth. By building on local institutions such as trust and reciprocity, they are able to remain relevant to the needs of their clients while safeguarding their organisational objectives.

However microfinance does not work in isolation. Hulme and Mosley (1996) argue that credit (a major microfinance service) should play a facilitating role rather than lead in the poverty eradication war. Though microfinance has played a major role in development, there are certain misconceptions regarding it. It is for instance held that microfinance helps the poorest of the poor. Certainly the sector has targeted the poor, however not all categories of the poor benefit from these arrangements. Microfinance helps the entrepreneurial poor who are able to put the credit into enterprises (Kinyanjui, 2002). This means that microfinance is just one among many ingredients that the poor need to come out of poverty.

#### **- 4 Loan Repayment Problems**

The survival of microfinance institutions requires a high credit recovery performance. *Thus* institutions with recovery rates falling below 95% to 90% have often been found according to Ledgerwood (1999) to get into difficulties. Provisions for bad debts raise lending costs and can hardly protect an institution if the recovery rates decline below these levels. Of all problems an MFI is likely to face, default is one of the most serious as



it threatens the survival of the organisation. If the money invested by the organisation cannot be recovered, then the whole programme may cease to operate.

Although a few among the lending organisations have been able to keep their repayment rates satisfactory, a significant number of organisations have not. Though not elaborately documented, default rates in some organisations have been known to go as high as 20 - 40% (ASA, 1997)

**Dondo** (1994) documents difficulties in paying back loans and default as being major problems in all loan-giving institutions. One may fall into arrears due to varying **circumstances** either external or internal to the group but may resume repaying the loan where upon the problem is overcome. This does not signify default, which in turn means **the** total inability of the borrower to repay a loan already considered overdue.

To all lending institutions, default is a major concern as it compromises the portfolio quality of the organisation. Studies in Kenya document high levels of default in loans. One third of all agricultural loans disbursed between 1973 and 1975 were for instance documented as being in default (Pischke, 1975) while 12% default rate was also recorded by the K-Rep holdings in 1994 (Dondo, 1994). Similarly, according to the same organisation's April 1992 Monitoring Data Digest, 15% of loans were in default while another 481 loans were in arrears (K-Rep, 1992). Loan repayment problems made the cost of credit operations for the organisation impossible to cover using the related revenue.

Severe problems of default may cause the collapse of the lending institution. In Kenya, organisations such as the Upweoni Community Development Centres, the Catholic Diocese of Isiolo and the Anglican Church of Maseno had their microfinance services terminated because of default. Default also erodes the value of loan investments and 'units the number of potential loanees that an organisation can reach, making it difficult to create viable financial systems for the borrowers. When default occurs within a group, good borrowers are affected since they may either lose their savings or are forced to pay UP for the defaulters in order to recover outstanding loans.

In analysing the loan repayment problem, writers such as Steams (1991) and Sanderatne (1978) classify borrowers according to their willingness to repay loans on the basis of their socio-economic and cultural differences and characteristics. In this analysis, Sanderatne views factors such as the use of production loans for consumption purposes, treatment of loans by loanees as substitutes for private savings rather than as a debt and delinquent by imitation among others as major reasons for default.

Donald (1973) on the other hand argues that natural causes, sickness or death of a borrower or a member of his or her family are the leading causes of default and arrears in repaying agricultural credit. Consumption, livelihood concerns as well as other factors were thus found, by Steams (1991), to account for usage of institutional loans

The above writers agree on the presence of factors other than economic as causing default. However, the socio-cultural link in the factors needs further investigation as acknowledged by Dondo (1994) in the study that noted the presence of socio-cultural determinants in repayment rates. This study notes that 30% of the studied borrowers had diverted their loans into consumption and other household obligations such as family and kinship requirements, which subsequently resulted in arrears or defaults. Additionally, 25% of women in the study reported a direct link between household demands and loan repayment problems. The study did not however go on to analyse in detail the nature of demands, which is its major shortcoming in trying to answer the socio-cultural link in loan repayment at the household level.

The poor have little or no collateral to offer making them a risk group in terms of credit disbursement. Therefore in advocating credit for them while seeking to maintain relatively satisfactory repayment rates, there is a need for a thorough understanding of the existing local institutions that constitute barriers or boosts to loan repayment.

Rutherford (1996) noted that many of the financial services devised for the poor are often short-lived and relied on repetition rather than performance. In such groups then, loan repayment performance tends to be poor especially in the absence of social reinforcement towards repayment. While agreeing with this, Johnson (2001) observed each type of

financial intermediary has rules, monitoring and enforcement mechanisms that work to govern the group's performance. As such then, the extent to which a group excels in loan recovery is directly dependent on the extent to which the underlying institutions such as social sanctions work within the group. Customs and norms therefore are important in loan repayment since the extent to which they are applied as sanctions against non-repayment determines the extent to which the group can achieve satisfactory repayment rates.

Social sanctions of shame are for instance used in loan groups to discipline defaulters. However, this is gender specific. In a study carried out in Karatina, Mathira division, Johnson (Ibid. pp38) found out that unlike women, shame is insufficient as a social sanction for men. Men were for instance found to seldom repay loans in order to safeguard themselves against gossip. For such groups then, in the male defaulters were likely to go unpunished, especially since no other legal recourse was taken.

## **2.5 Role of Culture in the Development of Microfinance activities**

Culture according to Porters (1998) has the features that separate human beings from the lower animals. UNDP (2004) on the other hand advocates for cultural liberty as a component of development. Culture in this report is seen as important in defining an individual's identity and therefore gaining the freedom to interact and participate in society without undue confrontation over culture and identity. Therefore, " policies recognising cultural identities and encouraging diversity to flourish do not result in fragmentation, conflict, weak development or authoritarian rule. Such policies are both viable, and necessary, for it is often the suppression of culturally identified groups that leads to tensions"

Culture rises in part from the need for security and identity for the people. In its characteristic, it is an adaptive mechanism, constantly evolving in response to changes in the environment, conventional, possesses great stability and a regulator of human behaviour through its stipulated codes, beliefs, customs and laws.

In order to promote creativity and diversity, cultural goods need to be nurtured. Indeed peoples' traditions, norms and beliefs need to be safeguarded and respected for their effective participation in development. When cultural institutions are incorporated into the development arena, people are able to overcome psychological barriers that hinder their participation in affairs of their communities (Kinyanjui, 2002). They acquire a voice, power and confidence and may at times translate into economic and social independence and opportunities to participate in community activities.

ICillick and Martin, (1990) argue that factors such as proximity to the financial services, the appropriateness of the services and culture influence the scope of financial transactions, including loan repayment. Adams (1990) on the other hand posits that for an effective analysis of the usefulness of microfinance, one needs to focus on the opportunity costs and the risks a lender incurs, the monopoly benefits he or she gains over the borrower and the linkage between the loans and the market. These suggest an intricate relationship in the transaction and mean the existence of underlying institutions that shape the extent to which successful transactions can be achieved.

Local culture gives shape to institutions. However, culture is not an independent variable; it has an impact on development and vice versa. This means that development strategies are not culturally neutral, but embedded in their culture of origin and within which the intended development takes place (Hedricks, 2003). Often, MFIs fail to recognise local cultures and duplicate ideas, modes of organisation, values and forms of expression that are typically Western and have little in common with the lifestyle of communities into which they are imported.

Bass (1997) posits that development takes place within a context, of which culture forms a significant part. This means that, for development practitioners, be it the state or peasant groups, do not operate in a vacuum, rather within a set of conditions that shape and influence their activities. Bass, therefore categorises this cultural context into six elements:

- M Administrative/legal: rules, norms, and requirements that affect the organisation
- ) Political: issues of good governance, participation, policy influence, etc.

- 3.) Socio-cultural: issues concerning the wider public or societal expectations and norms as they relate to the organisation
- 4.) Economic: forces/trends affecting the organisation's ability to capture resources
- 5.) Technical: technology available to the organisation
- 6.) Stakeholders: key stakeholders' roles and expectations of the organisation (Cooney, 1999)

Culture and its institutions in an ideal situation form the link between social capital and microfinance, which is for instance seen through the joint liability for repayment in group lending, and contingent renewal of loans (all borrowers must pay back all outstanding loans before any member gets the next loan). It is however interesting to note that, in microfinance initiatives using a self-forming group process for solidarity lending, social capital can exclude the poorest - because they lack social networks to be invited into a group, and the trust necessary to work together in a joint-liability situation (Bastelaer, 1999)

Though critical to group formation, methods of developing social capital, formal or informal, vary from one culture to another, so exploring the area of culture and development, and examining the socio-cultural factors that foster culturally sensitive projects, will likely optimise results. It is therefore imperative that we gain an understanding of the practical working of cultural components in social capital, so as to leverage them into better development impact.

Njeru and Njoka (2001) argue that groups draw membership among people participating in local activities such as farming, teaching and small-scale businesses. For most of these people, especially the women, the group offers an opportunity to develop themselves while not breaking away from their traditional welfare oriented roles. As such then, these people being part of a larger culture are bound to bring into the group, based on both an individual and collective interpretation, cultural norms that they operate in.

Studies on the Grameen bank however record aspects of culture as greatly influencing <sup>0ari</sup> repayment. Yunus, (1994) and Rahman, (1999) in their studies on these groups

found out that the level of collective consciousness and group solidarity through regular attendance of group meetings is found more in women groups as opposed to male groups. This obviously has a cultural connection to issues of trust, leadership and loan repayment and forms a basis for the study of the socio-culture features of the given community as they influence loan repayment.

Dole (1971) for instance noted that male interference impacts on the utilisation of any monies received from the group. Men are the traditional heads of the family making it mandatory for the women to give over their earnings to the men, who then budget for the family. In instances where the man makes wrong financial decisions, the woman is left to bear the brunt of his errors (Rahman, 1999).

This means that the woman may join a group not out of her own free will but to please her spouse. Apathy may arise, as the woman feels deprived of her money since she passes it all on to her spouse for utilisation. Marital aggression has been noted to occur in instances where either the woman fails to join groups to finance the man, or when a woman's reputation is tarnished for default. In the latter case, the husband or family members may feel that the woman by defaulting has tarnished not only her reputation but that of her family, hence needing 'disciplining'

In a study to investigate the causes of default in microcredit organisations, (ASA, 1997) found out that socio-cultural factors do indeed play a role in influencing loan repayment. In this study, 90.46% respondents felt that ones family and marital status influenced their repayment trends especially so in cases of married respondents. This tends to agree with (Yunus 1994) who documented 83.7% of respondents as sighting family ties as playing a role in default, a factor that (Dondo, 1994) disputes.

From the literature it is clear that default and repayment problems are indeed viewed as critical to the survival of MFIs. The need to generate more information arises as clearly factors other than those economic in nature do indeed influence loan repayment. Considering the importance of maintaining satisfactory loan repayment rates, this study sought to identify the socio-cultural causes of default and arrears and exploring the

possible measures to combat the problem in order to make MFI programmes more effective.

In generating information, the study sought to investigate the basis for the cultural differences for instance between people of different educational levels, gender, social status and leadership levels, in an attempt to investigate the extent to which these factors affect loan repayment in MFIs.

## **2.6 THEORETICAL FRAMEWORK**

There have been approaches applied in analysing culture in relation to microfinance to explain socio-cultural influence in microfinance. Among the various approaches are the socio-capital theory and the new sociological paradigm, coined by Smelser and Swedberg (1994). The former explains the presence of social networks and capital in the micro finance arena while the latter explains the existence of institutions from the sociologist point of view. This study applies the two approaches in explaining the role of both the social networks and the institutions governing these networks to understand in loan repayment behaviour of individuals as well as groups.

### **2.6.1 The Social Capital Theory**

Putnam (2000) argues that in social capital, it is not what you know but who you know that counts. This argument suggests that communities endowed with diverse stock of social networks and civic associations are in a stronger position to confront poverty and vulnerability, resolve disputes and take advantage of new opportunities (Moser, 1996; Narayan, 1995; Isham, 1999)

A social network can be defined as the norms and arrangements that enable people act collectively (Woolcock, 1998). This definition points to associations and socio-cultural institutions that govern these associations and also emphasises the concept of trust and reciprocity in the associations. The poor for instance, may have a closely knit and 'intensive stock of'bonding' social capital that they can leverage to get by (Briggs, 1998) but lack the extensive 'bridging' social capital deployed by the non-poor to get ahead (Narayan, 1999), which in turn affects development. Social relations are primary

mechanisms for capital exploitation. Indeed, UNDP (2003) posits that social capital is needed to reinforce participation especially for the vulnerable groups in society such as the poor.

The history of social capital dates back to more than 90 years ago through the writings of Lyda .I. Hanifan<sup>1</sup> (1914) in explaining the importance of community participation in enhancing school performance. Putnam (1993) and Coleman (1990), gave further meaning to social capital by relating it to political economy and new institutional economics. In their theories, social capital is categorised into four; the communitarian view, the networks view, the institutional view and the synergy view.

The first view equates social capital with local organisations such as clubs, associations and civic groups. This view holds that social capital is inherently good and has a positive effect on the communities' welfare. It stresses the centrality of social ties in helping the poor manage risks and vulnerability (Portes, 1998)

The flip side as seen by Rubio, (1997) is that in instances where community networks are parochial, isolated or working at cross-purpose to the collective purpose, social capital can easily give way to what he refers to as 'perverse social capital' that hinders development.

The *networks view* on the other hand, integrates the upside and downside of social capital by stressing the importance of vertical as well as horizontal associations between people and communities. It recognises that strong intracommunity ties give families and communities a sense of identity and purpose (Astone et al, 1999) while with weak intercommunity ties, strong horizontal ties can become a basis for the pursuit of narrow sectarian interests. Intracommunity ties are referred to as 'bonding' ties while the intercommunity ties are <sup>1</sup>bridging' social capital (Gitell and Vidal, 1998). The interaction between the two hinders or boosts development.

' those tangible substances [that] count for most in the daily lives of people: namely good will, fellowship, **sympathy**, and social intercourse among the individuals and families who make up a social unit.... **If** [an individual comes] into contact with his neighbour, and they with other neighbours, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social Potentiality sufficient to the substantial improvement of living conditions in the whole community.



North, D (1990) in analysing the *institutional view* posits that the vitality of community networks and civil society is largely the product of the political, legal and institutional environment. North holds that the capacity of social groups to act in their collective interest depends on the quality of the formal institutions under which they reside.

The fourth view referred to as the *synergy view* attempts to integrate the networks and institutional views. In this theory, it is argued that synergy between government and citizen actions are based on *complementarity* and *embeddedness*. The former looks at mutually supportive relations between public and private actors while the latter focuses on the nature and extent of the ties connecting citizens and public officials (Evan, 1996). Whether people interact through local organisations, networks or a synergy between the two, institutions are the underlying factors for the success or failure of peoples' development intentions. Institutions play a role in facilitating the relationship between people at all levels of community. The social capital theory as well as the new economic sociology paradigm therefore, become practical tools in institutional analysis.

### **2.6.2 The New Economic Sociology (NES) Paradigm**

North, (1990) in the New Institutional Economics (NIE) argues that institutions are rules of the game in a society and are humanly devised to constrain and shape human interaction. He posits that markets do not operate in an environment of perfect information, rather through interplay of institutions.

In coining the NES, Smelser and Swedberg (1994) argue that networks, social capital and trust form the backbone of institutions. In their view, transactions of all kind are rife with social connections (Granovetter, 1985). This underscores the importance of networks in the market. Tripp (2001) posits that it is impossible to abstract economic transactions from networks of social relations, which become key in understanding issues such as mobilisation of capital and information and the diffusion of innovations in an economy.

Field (1984) and others argue that the NIE over emphasises on the responsiveness of institutions within conventional economic parameters, yet not all markets institutions emerge from the bargaining of economic agents. Field in this argument introduces

different sociological assumptions such as norms, networks and social capital about institutional performance. Thus the New Economic Sociology (NES) paradigm incorporates other socio-cultural factors in markets.

Sociologists argue that norms are established through the process of socialisation, which forms the framework within which individuals pursue self-interest (Ibid, pp 705). It is therefore essential to examine the cultural and social dimensions of institutional performance.

### **Relevance of the theory to the study**

In this study, social capital is seen as an essential aspect of cultural identity. It is through this approach that people are able to define their development while drawing on their cultural knowledge and thereby effectively participating in community activities including microfinance. Participation in activities is however riddled with underlying socio-cultural institutions prevalent in the community. This is analysed through the new economic sociology paradigm, which sought to give a rational meaning to institutions outside the conventional economic parameters. This means that people in loan groups operate within the local level institutions, which are not necessarily economic in nature, but which play a role in influencing their participation in the group as well as loan repayment initiatives.

The study thus made use of both the social capital and NES theories since both interact in microfinance loan groups. Networks relate to social capital to improve the efficiency of society by facilitating co-ordination of actions (Putnam, 1993). Similarly, trust comes in as an expression of social capital, the growth of which contributes to the lowering of transaction costs. The role of trust here is more sociological than economic and is expressed in factors such as societal norms, regulations and networks among others (Williamson, 1993). In this regard therefore, NES helps us understand the role of social interactions in the exchange of information in a transaction. Effective flow of information<sup>s</sup> is important in boosting loan recovery in any MFI unit.

An understanding of these theories is an important step towards conceptualising the relationship between economic transactions within the MFI unit and the local culture. Indeed, social capital and the underlying institutions are an integral framework upon which development thinkers and practitioners can use to incorporate culture into the development arena.

## **CHAPTER THREE: METHODOLOGY**

### **Introduction**

This chapter presents the methodology used in the study in terms of sampling, data collection and analysis. The sampling strategy as relates to the sampling frame and size, unit of analysis, sampling techniques, sources of data and method of data collections and its tools are also analysed.

### **3.1 Study Site**

The study took place in Mathira division of Nyeri district. Nyeri district according to the 1999 census covers an area of 3,356 sq. km with a population of 661,156 people and an average population density of 197 persons per square kilometre. Administratively it is divided into seven divisions namely Tetu, Mukurweini, Municipality, Othaya, Kieni East, Kieni West and Mathira (GoK, 1999). Mathira division covers an area of 257.5 sq. km with a population of 150,998 comprising of 38,662 households (GoK, 2001). It is divided into seven locations namely Konyo, Iria-ini, Magutu, Ruguru, Kirimukuyu, Ngorano and Karatina; the divisional headquarter and a hub of micro finance activities. There are three major MFIs operating in the division, these are KWFT, Faulu and K-Rep. Others include SISDO, Co-op Bank, SMEP and WEDI.

Economic activities vary between the formal sector, large enterprises, small and large-scale farming and the informal sector. Farming however forms the largest economic activity. Though not adequately documented, the informal sector in Nyeri comprises of various categories of enterprises for instance metal fabrication, carpentry, tailoring, hairdressing, shoe shinning and welding among others. The government in a 1995 survey estimated 922 different informal enterprises with an income of approximately KShs. 7000 per month (GoK, 2002). In Mathira division, farming covers an approximate area of 190.4 sq. km and comprises mainly of small farms both in food and cash crop production alongside livestock production. According to discussions held with the divisional social welfare officers, Mathira has a total of 2406 self help groups involved in different development undertakings, among them ROSCAs and ASCAs. Of these groups however, only a fraction are recipients of institutional loans.

With the exception of Karatina, which due to urbanisation has acquired a cosmopolitan outlook, Mathira is predominantly both ethnically and linguistically homogenous. However within the farming community there exists strata based on size and ownership of land, the major factor of production. Largest landowners or peasant elite form the upper strata. These are progressive farmers with large tracts of land. The middle peasantry owning moderate pieces of land, the lower middle peasantry with small farm holdings, whose agricultural earning potential is very limited and finally the landless peasants. The last group of peasants maintain themselves by leasing small pieces of land while traders and those in formal employment form another strata (adopted from Browne, L 1983)

### **3.2 Nyeri District Socio-cultural Profile**

The Kikuyu, who form the largest single tribe in Kenya, inhabit Central province to form seven districts namely Murang'a, Maragua, Kirinyaga, Nyandarua, Thika, Kiambu and Nyeri. There are different arguments advanced on the origin of the Kikuyu however, according to GoK (1986), they are thought to have migrated from Igembe - Tigania in Meru District due to poor climatic conditions that occasioned scarcity of resources, outbreak of disease such as malaria and population explosion.

The pattern of settlement for the Kikuyu was largely influenced by physical conditions prevalent in the areas of settlement. Upon migration, each group settled on ridges separated from each other by rivers, valleys and ravines and formed an independent unit, which exploited the natural resources of the area. These units formed smaller units known as 'mbari' or clan and settled to form a village (itura). The village was the centre of social and political interactions, which formed the basis for a close-knit community with a deep sense of community interest and togetherness.

These one-time hunters and gatherers, upon settlement on the watered slopes of Mt. Kenya, settled for economic activities based on the ecology of the land and became agriculturists. Land became the chief asset and was owned by the 'mbari'. Customary laws governed its use and allocation. Peace was maintained with solemn binding oaths,

which were performed by a council of elders with far reaching consequences and calamities on any one who broke the oath (GoK, 1986).

The Kikuyu of Nyeri are seen as more educated and assertive of all Kikuyu tribes, Murang'a are seen as hardworking while those from Kiambu, being in close vicinity to Nairobi and politically advantaged (as evidenced by a strong post independence cabinet representation) have taken up more urbanite attitudes (Berg-Schlosser, 1984).

However, of importance to this study, were the socio-cultural factors inherent to the Nyeri Kikuyu as they influence microfinance activities. These are factors such as the social stratification of gender, education, leadership, age and power dynamics alongside issues relating to marital status, kinship ties and social status peculiar to this sub-tribe.

Falling under the Nyeri Kikuyu sub-tribe, the Mathira people are culturally distinctly different from other Kikuyu sub-tribes such as Murang'a and Kiambu. However they exhibit a similarity with all other Kikuyu sub-tribes, in that they uphold the maintenance of Kikuyu solidarity based on the perceived external threat to their power and privilege (as seen in the present political scene) from other ethnic groups. This is evidenced by their co-ordinated political activities such as the overwhelming subscription to the Democratic Party (DP) membership, the party that sponsored the current president.

The Kikuyu are a culturally patrilineal society, who also tend to favour patrilocal marriages. The basic unit of Kikuyu society is the elementary family of man, his wife and unmarried children, also referred to as "*nyumba*" and may be interpreted to primarily refer to a "married woman's dwelling hut" (Fisher, 1973). The elementary family is a clearly defined residential, social and economic unit with roles clearly defined for each member based on gender and age.

Marriage confers on both men and women an enhanced social status and is regarded as "right and normal for all adults. The exchange of bride price legalises a marriage and creates a series of rights and duties, privileges and obligations between husband and wife (Kanoga, 1978). The wife for instance is charged with ensuring sufficient food for her

family while children may play a support role in carrying out the household tasks. The husband, who also heads the home is the key decision-maker and owns the family's resources. These gender roles notably influence participation into microfinance groups. To provide capital investment for the family, men for instance seek formal employment, therefore minimising their involvement in microfinance. Women on the other hand are left behind and are charged with providing basic subsistence such as food for the family and therefore join MFI units in order to meet this obligation.

The lineage system is greatly upheld in this community (Akong'a, 1988; Fisher, 1973). Lineage here refers to a group of male or females that trace a direct descent from a known founding ancestor, usually four or five generations back and is named after its founder. The lineage plays a role in the formation of networks and trust systems as people interact on the basis of shared beliefs and common ancestry. People of a common lineage also tend to build trust an important element of group success.

Members of a lineage are expected to help one another in various ways such as making contributions to bride wealth payment, giving financial assistance in payment of fines, and to co-operate in such activities as house building, garden work and tending livestock (Lambert, 1965). This factor has seen to the rise of microfinance organisations such as ROSCAs since people come together to raise money for funerals and weddings among others as well as forming a basis for greater social integration. In a microfinance unit, lineage and kinship ties positively affect loan repayment performance in instances where the kin bail out defaulters. On the other hand, it also serves to weaken loan recovery especially in situations where members forego sanctioning a defaulter to avoid antagonising the kinship ties.

The age set system is another approach used in dividing the society into a series of groups through which males and females automatically pass during the course of their life cycle. These are the infant (0-5years), small children (5-7years), older children (7-15years), adolescent (15-20years) adults and old people. The age set system comes to play in the microfinance arena whereby people tend to form groups with others of similar age set.

# 1

The young for instance form youth groups and seldom join the older citizens' groups so as to maintain respect between the young and old.

Lambert (1965) points to the existence of well-defined leadership roles and values among the Kikuyu. A leader also referred to as "*muthamakr* was the head of the community and ruled based on a set of customary laws. A good leader was perceived as one who ruled by his or her head and not by his heart. One who looks before he leaps and never loses his temper (Akong'a, 1988). A leader they believed was born and possessed an indefinite quality of intelligence, personality, good reputation, social and economic success and a sound heredity. These factors also form a basis for the election of leaders in microfinance loan groups

Though modernity and urbanisation has eroded much of the cultural system, aspects of the Kikuyu culture still run through modern times. These are expressed through the local level institutions and govern interaction between members of groups. Membership into groups may be influenced by the lineage system, which also affects issues of trust among members. Families and kin are for instance known to bail out defaulters while aspects of gender roles and the age set system do indeed influence who ascends into power and the roles one may play at the group level.

It is not for instance strange to find oathing and cursing having strong presence in loan receiving groups whereby members employ them to safeguard against default and other group disputes. This means that culture is significant in achieving satisfactory loan repayment trends within the Kikuyu community.

### **3.3 Sampling**

The study's sampling frame was drawn from a list of all loan recipient groups compiled from MFIs operating in Mathira division, namely, KWFT, Faulu and K-Rep, and SISDO among others. In order to target five groups, one group was purposively selected from the lending organisation's list compiled from information gathered from loan officers, with the aim of ensuring that groups were not picked from the same location and institution. However to obtain the expected five groups, two groups were selected from SISDO.



Both the individual and group make up the study's unit of analysis due to the nature of research objectives, which sought to investigate socio-cultural factors that influence loan repayment both at the individual level and the effects of these factors on group performance towards loan repayment.

### **Multi-Stage Sampling**

To address the sampling needs, Multi-stage sampling was used. This made use of stratified, random and purposive sampling methods. A list of five MFIs operating in Mathira was compiled from the divisional social welfare offices. These organisations were visited in order to compile a list of all loan-receiving groups. From the compiled list, stratified sampling was used to draw the five groups. This method was useful in achieving the desired representation of heterogeneous groups that exhibit the socio-cultural factors under investigation.

Upon attaining the required sample of five loans receiving groups, random sampling was used to select the ten individual group members in a simple process that gave each member a fair chance of representation. The process involved attending the selected groups' meetings during which numbers were assigned to every group member in attendance in the selected group, and randomly picking any number. The individuals whose names did correspond to the picked numbers were included in the sample. This procedure gave room for the members to voluntarily engage in the sample thereby minimising fatigued respondents.

Purposive sampling was also used to select ten (10) key informants, individuals with knowledge in respect to the objectives of the study. They included government and NGO officials, loan officers and group leaders. Key informants provided insights into issues such as demographic factors, loan repayment performance of individual groups and anthropological information among others that related to the groups. To gain insight into data, focus group meetings were conducted for the group leaders (group chairperson and secretary) as well as the loan officers. Interviews were also conducted for government and NGO officials.

### **3.4 Data Collection**

Data was collected from both primary and secondary sources. In gathering the-primary data, the study made use of structured questionnaires. The questionnaires comprised of both close-ended and open-ended questions and were administered through face-to face personal interviews. For greater understanding of the cultural norms, participant observation was undertaken during group meetings attended by the researcher.

Secondary data was collected from relevant institutions such as the loan supplying MFIs, social welfare offices within and outside Mathira and literature from various authors pertaining to the field of study, all which provided in-depth information that greatly enriched the study.

#### **Criteria of choosing respondents**

The sample was formed of groups that met the criterion of having group leaders, those that had loan default problems and those without default problems. To gather information on the strata, purposive selection was done based on information gathered from loan officers in the MFIs.

In order to meet the objectives of the study, the groups were also classified on gender line whereby three groups had both male and female members, one women-only group and another men-only group. Other aspects of socio-cultural factors were considered such as age in which case all respondents selected were above twenty years of age. One also had to be a resident of the area under study to qualify for inclusion in the sample. However, five members of the non-Kikuyu community residing in Karatina were included for a comparative analysis.

Five groups were sampled namely Imani, Kabi-ICarindi, Ragati, Ringaringa and Biashara. These were spread over three sub locations and were recipient of loan schemes from various MFIs within Mathira. The control group, consisted of two non-borrower groups namely Wazee self help group and Muungano also based in Mathira.

### **3.5 Data Analysis**

Data analysis focused on the socio-cultural factors prevalent in the region. These were analysed and clustered under themes such as gender, age, education, marital status and kinship ties, social status and leadership. The study examined the relationships between these factors as they relate to and influence microfinance activities such as group participation, membership, savings, borrowing, loan repayment trends as well as the group sustainability.

Upon the identification of the resulting categories and patterns, the data was then analysed to make tabulations on how categories or themes are related. This was important in analysing the adequacy, consistency and validity of the information in relation to the study objectives and hypothesis. Due to the presence of both quantitative and qualitative data, descriptive analysis were carried out and presented. This was done by way of frequency and cross tabulations.

### **3.6 DEFINITION OF TERMS**

#### **Rotating Savings and Credit Associations (ROSCAs)**

ROSCAs are voluntary groupings of individuals who agree to contribute financially on specified date(s) towards the creation of a fund, which is then allotted in accordance to some prearranged principles to each member of the group in turn (Calomiris and Rafarama, 1998). By drawing members from mutually interactive people, ROSCAs encourage the pooling of resources by fostering mutual confidence and trust among beneficiaries.

#### **Accumulating Savings and Credit Associations (ASCA)**

This resembles a credit union whereby members contribute an agreed amount of money towards a pool or fund, which is kept in safe custody either by one appointed member or in a bank. The fund is let to accumulate for a specified time at the end of which the savings are redistributed or loaned to members. Participants in this kind of a microfinance unit save equal amounts of money regularly on a contracted basis or to make voluntary, unequal and irregular payments to the fund (Bauman & Hospes 1994)

### **Social Capital**

Woolcock (1998) defined social capital as the norms and networks that enable people to act collectively. The basic idea of social capital therefore, is that a person's family, friends and associates constitute an important asset that can be called upon in times of crisis and leveraged for material gain. Social capital embody trust and reciprocity, which are developed in an interactive process (Portes 1998)

### **Culture**

Culture is a key element in human interactions and can be defined as the sum' total of artefacts or the totality of a people's way of life (Carter & Qureshi, 1995). It is the basis upon which people define their world; evaluate human behaviour; identify modes of communication and a basis of social stratification. Culture exists in three layers thus the outer, which is made up of the explicit things we see such as art and dressing, the middle, made up of norms and values, the criteria for evaluating our surroundings, and the core, made up of society's basic assumptions about life. The middle and core form the basis of this discussion, as they are critical to a people-centred development and govern relationships, mutual expectations and values.

### **Socio-cultural factors**

People regularly interact on a basis of shared expectations, which arise from factors of shared beliefs and culture based on a common identity. Socio-cultural factors therefore refer to qualities of a group that are external to individual members yet constrain their thinking and behaviour (Appelbaum & Chambliss, 1995), such as age, religion and ethnicity, gender, marital status and education. These factors influence the appropriation of wealth, power, prestige, social solidarity and eventually the stratification of the given community.

### **Power**

Power refers to the ability of an individual to influence others into doing, as one wants to do. In sociological terms, power can be seen as a private law existing in a society controls relations between individuals. It is often culturally defined meaning that a Person is deemed powerful by prescribed cultural attributes such as wisdom, bravery or

age. among others. Being dependent on the prevalent local culture, power relations in any given group govern interaction and subsequently the success of the group.

### **3.7 Operational Definition of Variables**

<b>Age:</b>	The chronological age of the respondent in years
<b>Education:</b>	Number of years in formal education and the level attained as well as tertiary and technical training
<b>Gender:</b>	The biological sex of the respondent as well as the socially and culturally defined roles between men and women,
<b>Marital Status:</b>	whether married at the time of the study, single (never married before), divorced or widowed.
<b>Religion:</b>	Ones professed faith as at the time of study. This grouped the respondents into Catholic, Protestant, African religions and those without any religious affiliations
<b>Ethnicity:</b>	A person's tribal affiliation.
<b>Leadership Status:</b>	Position of authority held in the group

## **CHAPTER FOUR: LOAN SCHEMES**

### **Introduction**

This chapter analyses the microfinance situation in Mathira division. However, the general microfinance landscape of Kenya is first analysed. Thus the study looks at the approaches to microfinance in Kenya and the various approaches to credit favoured by the said institutions. The chapter further looks at specific credit arrangements and microfinance organisations in Mathira as well as policies, objectives and loan products of these MFIs. A further discussion on the target population and the borrowers and non-borrower characteristics is also earned out. An understanding of these aspects of microfinance in Mathira is important and lays a foundation for the analysis of the socio-cultural factors influencing loan repayment.

### **4.1 Microfinance Institutions in Kenya**

To analyse the microfinance sector in Kenya, one needs to look at the overall financial infrastructure. This is fragmented with various segments serving borrowers with different characteristics. There exists a multiplicity of arrangements both in the formal and informal financial sectors. The formal sector for instance has distinct characteristics especially with respect to the lending policies; the informal sector on the other hand is highly heterogeneous (Atieno, 2001). This is characterised by the relationships between the borrower and lender, thereby resulting in different financial products between MFIs.

In analysing these characteristics, Dondo (1994) identifies six main types of financial institutions and their characteristics:

Commercial banks, which form the first segment. There are over forty (40) commercial banks in Kenya the most dominant ones being Barclays Bank of Kenya, Commercial Bank of Kenya, The Standard Chartered Bank and the National bank of Kenya. These banks account for an approximate 60% volume of all credit disbursed in the country, cater for the formal sector and require tangible collateral during loan disbursement.

The second category is the Non-Bank Financial Institutions (NBFIs) that came up due to the commercial banks' inability to effectively reach the informal sector. This category comprises of insurance companies, higher purchase firms, building societies, Savings and

Credit Co-operative Societies (SACCO) and the Post Office savings bank. Indigenous banks such as the Rural-urban and continental Banks also fall under the NBFIs sector.

Development Finance Institutions (DFIs) form the next type of financial institutions and offer financial and other technical services especially to small-scale enterprises. These include the Kenya Industrial Estates (KIE) and the Small Enterprise Finance Company (SEFCO). NGOs form the fourth segment and similarly offer financial services to the informal sector and are characterised by the flexibility of their loan requirements such as low collateral, usually in non-tangible forms.

The government forms the fifth type of sector through its Joint Loan Board (JLB). The JLBs, founded in the 1950s were launched alongside the Rural Enterprise Fund to oversee credit schemes especially in the rural sector.

Rotating Savings and Credit Associations (ROSCAs) as well as the Accumulating Savings and Credit Associations (ASCAs) form the last segment. Kenya has an estimated 10,000 ROSCAs serving as a source of finance for the informal sector and are used to mobilise savings, serve as social gatherings and provide insurance for members.

Zeller (1994) sees different financial sectors as being differentiated by the products they provide, lending terms and conditions, and the characteristics of the groups they lend. This criterion looks at issues of deposits, small loans and short-term loans as distinguishing the formal and informal sector. Larger account deposits, large loan transactions and longer repayment periods as compared to the informal sector distinguish the formal sector. Tied to this is the issue of tangible collateral demanded by the formal sector as opposed to the substitution of tangible collateral with other forms such as the social collateral by the informal sector.

#### **4.2 Approaches to micro credit in Kenya**

Credit is a major component of microfinance; furthermore it is indeed from credit disbursement that loan repayment issues arise. This therefore necessitates a brief overview of the microcredit approaches in Kenya. Based on the practices of various

micro finance providers, Dondo (1994) classifies the models used as: the minimalist credit model, which is divided into the group minimalist and individual based minimalist models, community based and the integrated model,

**a) The minimalist credit model**

This refers to financial programmes that offer no other service to credit recipients other than financial assistance. There are two main approaches to credit under this model: the group based minimalist model and the individual credit model.

**Group based minimalist model**

This approach offers credit to either groups that are formed by the lending organisation or to already existing groups such as ROSCAs. In the first type of arrangement, no other services or technical assistance is offered to the recipients. The reason for this lies in the premise that credit is the single most major constraint to SMEs (REME, 1998) without which all other services to the sector are rendered fruitless. The loan is disbursed to small groups of people who guarantee each other and may apply for larger loans upon the successful repayment of the initial loan.

A major limitation of existing groups as established in the literature, is their inability to create a large capital base and therefore are often unable to meet the members credit needs. Therefore in an effort to lessen this shortcoming, MFIs advance loans to already existing group. Loans are provided to members through the group network with the group members providing the guarantee. The group upon receiving the loan, usually at a predetermined rate of interest, on-lends to individual members.

This lending approach according to Dondo (1994), may be more practical especially in issues of maximising loan recovery since the group acts as a borrower's guarantor and thereby strengthening repayment. Moreover, the use of peer pressure from other group members acts as a collateral substitute as well as a repayment incentive. Group lending may also reduce transactional costs and risks because of internal group monitoring and screening.



### **Minimalist Individual Credit Models**

Credit provision in this approach is restricted to those who can secure them with tangible collateral. The model utilises existing commercial banks **and non-bank** financial institutions although it is not popular among the Small and **Micro** enterprises due to collateral constraints.

To overcome the problem of tangible collateral, individual credit models that do not require tangible collateral have been adopted by many organisations. This system replaces tangible securities with guarantors or chattel mortgages making it a favoured model for government sponsored schemes.

Individual lending provides financial services to individuals who are not members of a group that is jointly responsible for loan repayment. Being asset-based and dependent on an individual's ability to give the MFI assurances of repayment and some form of collateral, or a willing co-signer, this approach is liable to repayment problems and default and is therefore not largely favoured by MFIs.

#### **b) Community Based (owned) Enterprises (CBEs)**

This credit model provides credit to a group owned and managed enterprise consisting of 20 - 40 members. The group consists of socially and economically homogeneous members who voluntarily come together for mutual benefit and support. It is mainly favoured by NGOs who disburse credit to groups to start or expand group-based enterprises.

This approach is beneficial in that due to its self-managed style, collective leadership and decision-making in credit management is achieved, however it has been reportedly dissatisfying (Dondo, 1994) due to its low repayment rates and high administrative costs.

#### **c) Integrated Models**

The integrated model provides training as well as technical assistance alongside credit for the recipients. The borrower is required to interact on a primary level with the loan officer who appraises his or her ability to productively use the loan and successfully

repay it. One or two other persons are required to guarantee the loan in the event of difficulties with repayments or defaults occurring.

In this model, group formation consists of an initial training course focusing on the responsibility of joint liability. This factor alongside the practice of group guarantee and the disbursement of subsequent loans based on the successful repayment of other loans by all group members helps to minimise default in the group. However, loan repayment problems are also experienced in the group arising from different socio-cultural factors among members.

The minimalist model has been advocated as a more practical approach of delivering credit to the poor, however the other two models too have strong proponents thereby making the debate on the most appropriate model unlikely to end. It is however notable that all methodologies largely draw from and impact on the existing socio-cultural context in their formation. Experience has shown that social cohesiveness plays a role in loan repayment since it largely contributes to the success of peer pressure mechanisms in improving loan recovery (Donald, 1973).

This study however focused on the group based minimalist model due to its ability to draw in both the individual and the group into the loan system and thereby bringing into its fold socio-cultural factors operating both at the individual and group level. Secondly, this is the approach that is commonly used by the lending MFIs in Mathira.

### **4.3 Loan Arrangements in Mathira**

Microfinance organisations in Mathira appear to prefer the group based minimalist approach to credit to all other models. This is mainly because the group is offers guarantees to members<sup>1</sup> loans thereby maximising loan recovery for the MFI. In this model, credit is provided to small groups of either newly constituted groups or already existing ones, that in turn guarantee the loans to their individual members. This approach<sup>1s</sup> considered easy to replicate with comparatively successful results.

Individuals, based on criteria such as friendship, similarity of business enterprise or geographical proximity come together and form a group of between 20 - 30 members. They further constitute themselves into five subgroups referred to as "Watano" An individual is required to be an active member of a group for eight consecutive weeks to qualify for credit, during which time a passbook is issued to record the individual savings. This period serves to screen the character of the member in terms of observance of the group rules, saving behaviour, trust and attendance.

The group elects officials, who are responsible for running the weekly meetings, manage the funds, bookkeeping and bank transactions. Records are kept in line with good business practice and for the purposes of transparency. Weekly meetings with loan officers are convened during which loan repayments, weekly savings and problem solving take place.

Members contribute a stipulated amount of money ranging from KShs.50 to KShs.100 per week to a joint account bearing the name of the group and the lending MFI. The money in this account serves as a savings for each member and as a loan guarantee fund in the event of default. The level of savings beyond the mandatory savings depend on the individual's economic ability and therefore do not attract any sanctions but have a bearing on the amount of loan one may borrow since the borrower can only apply for a maximum of ten times his/her savings as a first loan.

Since the group acts as the guarantor for the borrower, it has power over the allocation of loans and chooses to either receive the loans as a group cheque or individual cheques for each borrower. For most groups however, group cheques are preferred for purposes of greater accountability and also to enable the group deduct the members<sup>1</sup> 10% of the loan amount as welfare or loan security. After four weeks of consistent loan repayment and group savings, more members become eligible to receive their loans

The loan attracts an 18% interest per annum or 1.5 % per month, which has been viewed as excessive by some members. However, some loans attract as low as 9% interest for the first and second loans for a six months repayment period. These are loans falling in the

business and general farming categories. Zero grazing loans attract the highest interest rates with 27% being levied for a one and a half-year repayment period. Other charges on loans include a loan application fee and loan insurance pegged at 1% of the amount borrowed for a one year repayment period or 0.5% for half year period. The MFI insures the members<sup>1</sup> loans in case of death of a borrower so as not to pass the loan repayment burden to the borrower's family. The insurance and application fees are paid in full at the initial loan application stage.

Loan repayment periods vary for the different loans but generally fall in the period between six months and one and a half years. Business loans are repaid in six months for the first and second loans, with an extension of the repayment period to one year for subsequent loans. Crop fanning and zero grazing loans attract between six months and one and half year's repayment periods.

In the event of the need to withdraw from the group, a member is cleared by the 'Watano' and receives back his or her savings plus accrued interest less any losses incurred from default. The group has power to expel or discipline members who fail to pay their loan or those who go against the group's constitution. Fines are usually imposed for lateness in attending meetings or in instances of arrears in making weekly contributions.

#### **4.4 MFIs and their Policies and Loan products**

Loans are disbursed to different categories of people alongside the provision of technical assistance. MFIs operating in Mathira include;

##### **4.4.1 Small-Holder irrigation Scheme Development Organisation (SISDO)**

SISDO was registered as a microfinance institution in 1971 under the Ministry of Agriculture to provide credit to farmers and create a sustainable revolving loan fund. It targets smallholder crop and dairy farmers and more recently micro entrepreneurs with ongoing enterprises that require capital fund for growth.

<sup>a</sup>With farming as the dominant economic activity in Mathira, SISDO pegs its objectives <sup>on</sup> the need to uplift the fanning standards of the area through capital provision. The



credit schemes, therefore seek to promote the mobilisation of savings among the clients. It also provides business training to target clients through a cost sharing arrangement aimed at developing their capacities.

Despite its noble objectives, this organisation for a long time remained largely unknown necessitating the move to credit provision to the micro enterprise sector. The constraint to achieving their objectives came from fierce competition from the other dominant MFIs in the region, formal credit institutions such as the co-operative banks and societies as well as the suspicion held by farmers towards government sponsored institutions. However their ability to target both men and women, and numerous loan products for different sectors has seen the organisation achieve relative growth over the last three years.

## **Loan Products**

### **1. Group Based Loans**

#### a) Agricultural Loans (Kilimo)

##### i. General farm loan - Ukulima

Ukulima is a Swahili word denoting farming activities. This credit scheme therefore targets small-scale farmers to meet their credit needs of farming such as farm inputs, infrastructure, labour and water pumps among others. The first loan is up to a maximum of KShs.20, 000, second and subsequent loans depend on appraisal. Loan repayment is within a period of between 3 and 6 months.

##### ii. Zero Grazing Loans (Mkopo wa ufugaji)

This loan scheme targets full time farmers mainly to purchase high quality dairy cows. The first loan is given up to a maximum of KShs.50, 000. The second and subsequent loans are subject to appraisal and attract a repayment period of a maximum 18 months.

#### <sup>h</sup>) Business Loans (Biashara)

##### Business Uplift Loans (Inua)

Targets small and micro entrepreneurs to provide business working capital. In Swahili, the word inua means literally to uplift. Therefore this loan intends to uplift upcoming entrepreneurs towards attaining their entrepreneurial goals. The first loan under this scheme is disbursed up to a maximum KShs. 20,000, with the second and subsequent

loans being upon appraisal. The repayment duration in this scheme is up to a maximum of 12 months period.

ii. Business Uplift Loan (Daraja)

Daraja is Swahili word for a bridge. In essence this loan serves to bridge the capital gap for entrepreneurs wishing to move up from small to medium enterprise levels. This scheme provides working capital and technological improvements for medium entrepreneurs among other services. The borrower here can benefit from credit of between KShs. 50,000 and KShs. 100,000 with the second and subsequent loans being pegged on appraisal. The loan attracts a one year repayment period.

c) School fees loan (Elimu)

Education or elimu in Swahili is seen as an important aspect of development both for the member as well as the dependants, whose financing often poses challenges for most people. When a member utilises a business loan to cover for his or her dependants' educational needs, arrears and defaults are likely to occur. Through this loan scheme therefore, SISDO targets her existing members with school going dependants in a bid to lessen their school fee burden. The initial loan is based on the school fees structure and is up to a maximum of KShs.50, 000 with loan repayment duration of 26 weeks.

d) Development Loan (Maendeleo)

Maendeleo loans are for members seeking to literally develop themselves in terms of social and economic growth. This targets employees of legally registered enterprises in the formal and informal sector. The loan awarded in this scheme amount up to four times ones savings to a maximum of KShs. 100, 000 with a repayment period of 12 months. In practise however this scheme seldom attracts clients. This is because people in the target organisations often save in savings and credit co-operative organisations (SACCO) that perform similar credit functions and at often cheaper interest rates than MFIs.

## **2. Individual Loans**

Individual loans are provided to SISDO's existing members who outgrow the group lending schemes or new clients with established enterprises. However as a result of

withdrawal of members, stiff competition from other lending institutions as well as low amounts of loans often borrowed by existing members, no member as at the time of this study had outgrown the group lending schemes. This scheme follows the individual minimalist model whereby the borrower is required to give proof of his or her ability to repay the loan through the provision of fixed assets as a basis for collateral. The amount and duration of repayment in this scheme is based on appraisal mechanisms within the organisation.

In practice however, this scheme is too similar to the commercial banks to be of use to the small-scale farmers or entrepreneurs. Further more the target beneficiaries are large enterprise owners, who hardly make use of informal formal credit. For most borrowers, the growth of an individual from group lending signals the need to change camp to other more established MFIs or to commercial banks.

#### **4.4.2 Kenya Women Finance Trust (KWFT)**

Professional Women in Banking and Law founded the Kenya Women Finance Trust in 1981 as an affiliate of the Women's World Bank. Its aim is to provide women with credit and technical assistance as a means of facilitating their integration into development.

In her objectives, KWFT aims at ensuring that women entrepreneurs access credit and other non-financial services that work to promote mobilisation of savings as an important component of capital accumulation. However it has been argued that over emphasis on women as a sole client serves to enhance socio-cultural impediments to repayment since men, who are major decision makers on the household finances are left out.

KWFT commands a large following in Mathira making it the largest MFI in the area. However, the schemes only target women in business thereby leaving out a rather large population of women in fanning. Though targeting female entrepreneurs is an important move towards achieving economic independence for women, lack of credit towards their farming needs often causes women to channel their loans into fanning and other domestic needs; a factor that contributes to the repayment problem.

This was also found to cause double enrolment where women who are both entrepreneurs as well as farmers join more than one MFI scheme in order to benefit from both types of loans. This causes repayment problems especially when serving more than one loan causes financial difficulties and is likely to cause default in two different organisations.

## **Loan Products**

### **1. Biashara Lending Scheme**

This scheme gives loans to individual members through their respective groups to a range of between KShs. 10,000 and KShs. 50,000. The loan repayment duration is one year with subsequent loans being pegged on the organisation's appraisal of the applicant by both the group and loan officers.

As the name implies, the Biashara scheme targets businesswomen to meet their capital needs. Eligibility depends on being over 18 years of age and above, a Kenyan citizen holding a national ID card and belonging to a KWFT loan group alongside having something in common with other members of the group such as similar economic activity or business location. In addition, the individual must be willing to meet and save on a monthly basis and must agree to use savings as collateral for the group and the individual members loan.

Though membership into groups is neither automatic nor compulsory, certain social and economic rules are applied in vetting members. The Biashara loan groups for instance only embraced members of the medium and large enterprises, thus forming a socially homogeneous group. This also applied to Imani group, which consisted of only small-scale traders. Members of Biashara group secured larger loans of between KShs. 100,000 - KShs 500,000 as opposed to Imani's KShs 15,000 - KShs 50,000. Being of a higher social status than Imani, Biashara group members tended to secure more than one loan at any given period and from different lending institutions.

### **2. Uaminifu Credit Scheme**

Uaminifu is Swahili for trust, a basic ingredient for group based lending. Trust is important in aspects of collateral and guarantees whereby the group lends to the individual based on the trust that the person will repay the loan in full without



compromising the group's savings or collateral. In this scheme, credit is disbursed to a group and the group lends in turn to its members. The group savings and the co-guaranteeing system of members provide security for the loan.

In order to benefit from this scheme, one is required to be in a Uaminifu designated area of operation and have members who are running small and micro enterprises. Eligibility also entails the group to be registered with the Ministry of Culture and Social Services as a self-help group that has existed as a group and operated a merry-go-round for at least one year.

Trust is also important since members must agree to save agreed amounts of money - minimum KShs.200 on a monthly basis, which can be used as collateral for the group and the individual members loan. This means there must be trust among the individuals that each member will indeed contribute as well as pay the loan to prevent the use of collateral due to defaults. Additionally, members must be willing to meet on a monthly basis. .

### **3. Barclays bank of Kenya Credit Line Scheme (CLS)**

For members not wishing to borrow through groups or for those who out grow group lending, the CLS loans are provided in collaboration with Barclays Bank of Kenya. KWFT provides management skills, training and other technical services to clients while the bank meets the credit needs. Compared to similar schemes in other lending organisations, this scheme attracts a fair amount of clientele especially among individuals who favour formal lending institutions.

Eligibility for this scheme therefore depends on a borrower being a member of KWFT and having 100% ownership of the business. The borrower must also be running the business on a full time basis in a permanent building (rented premises must have a lease to cover the loan repayment period). This means that the legal requirements as pertaining to trade licenses and registration of the business must be met. In addition to the above

requirements, the borrower must have been in operation for more than one year, as well as be easily accessible to both KWFT staff and bank officials.

#### **4. Special Loans Schemes**

Out of the realisation that other factors cause repayment problems, MFIs often engage in loan disbursement for other special needs other than those purely relating to business capital needs. The special loan scheme is aimed at alleviating effects of unforeseen circumstances on the KWFT clients. The amount applied should not at any time exceed the value of the last loan taken by the applicant. The following classifications constitute special loans:

- a) Hospitalisation of the client or her immediate family members. (Immediate family members in this case refer to husband and the children),
- b) Fire on the business or her residential premises. Evidence and proof is required before the loan can be processed,
- c) School fees

To qualify for the special loans one needs to have been in any of the KWFT programmes for a minimum of two years, have a clean repayment record for the two years and be a consistent saver. The borrower should also possess a clean record of group meeting attendance and conduct in the group.

##### **4.4.3 K-Rep Holding**

This is a specialized micro finance organisation established in 1984 with the aim of empowering low-income people, promoting their participation in the development process, and to enhance their quality of life. Appropriate financial services are offered as a means of achieving K-Rep<sup>1</sup>'s core objective of generating employment and increasing incomes among poor communities, which in turn goes towards the alleviation of poverty.

K-Rep is also a dominant micro finance organisation in Mathira that strongly embraces group lending through supporting grass root organisations involved in micro finance development. Through involvement in research and training, the organisation has remained relevant in the region and Kenya at large. However, a need translate research into practical products and practices at the local level as well as the need to promote

technical training at the group level was found to exist. A gap exists on the level of training on sound business practices at the group level.

Another shortcoming of the loan products can be seen in terms of the target client. While K-Rep lends to men and women, its major target are people involved in business enterprises. For a dominantly farming population, more loan products targeting farmers are required.

## **Loan Products**

### **1. Group Based Loans**

#### **1. Juhudi/Chikola Loans**

These follow the group lending model but targets already existing groups such as ROSCAs and ASCAs that are involved in entrepreneurial activities. However, members of community-based enterprises can also benefit from this loan scheme. The loans disbursed vary from group to group but usually target minimum amounts of KShs.15, 000 to finance small-scale business people and entrepreneurs within a group set-up.

#### **II. Katikati Loans**

In an effort to reach medium and large entrepreneurs, Katikati loans are advanced. These loans are usually group based targeting members who outgrow group lending in this case individual entrepreneurs within the group who own viable businesses whose credit needs are above KShs.100, 000. However, in instances where lending is based on the individual minimalist model, the loan attracts an asset-based collateral.

### **2. Individual Loans**

This scheme offers retail loans. As the name suggests, retail loans target individuals in retail trade. These are individual minimalist loans and are given to given to individual businesses and various amounts depend on the viability and need of each particular case

#### **4.4.4 Fiiilu Kenya**

Faulu Kenya was started in 1991 with the aim of targeting female-headed households. However, in 1996 this focus changed to embrace both men and women in the small-scale sector. The main objective of this organisation is to facilitate the access of capital for the rural and poor communities through creation of employment and mobilising savings and alleviate poverty.

#### **Loan Products**

##### **a) Fanaka Plus Loan Schemes**

Fanaka is Swahili for prosperity; this scheme therefore targets people of medium to large enterprises needing to move to a higher capital and income level. It enables smaller groups of business people to enjoy personalised service and flexibility that accommodates ones individual needs. It s available to groups of 5 to 10 people and attracts an 18 months repayment period. The minimum loan that is granted in this scheme is ICShs.100, 000 per person.

##### **b) Elimisha Loan Schemes**

As the name refers, this credit facility allows an already existing member to take out an educational loan for school and college fees for the member or immediate family. The loan is disbursed directly to the educational institution and is repayable in a 12 months period. The amount of loan varies depending on the member's fee requirements.

##### **c) Mara Moja Scheme**

Mara moja denotes unforeseen situations that call for emergency intermediation, which if unresolved, may compromise the loanee's timely repayment of other existing loans. This credit facility therefore is designed to help Faulu's members meet financial emergency needs, especially funerals and sudden hospitalisation of the member or the immediate family. Due to the varied nature of the needs, the amount and repayment period varies.

##### **d) Simu Yetu Loan Scheme**

A loan facility for the acquisition of communication payphones from the local telephone operators (mainly Kencell communications). This scheme targets both Faulu's members

and non-members. The loan granted is equivalent to the cost of the payphone plus other administrative costs. The repayment period in this scheme is stretched to cover a period of between 1 to 12 months.

#### **4.5 The Target Population**

Loan schemes in Mathira target the "economically active" portion of the population. These are mainly drawn from the rural people engaged in either farming or small-scale trade. With the expansion of microcredit schemes and the largely inaccessible formal credit, people in formal employment and in big business ventures are also becoming a target for the MFI loan schemes

Due to their high levels of cohesiveness and lower incidents of interpersonal conflict often experienced in new groups, existing groups were found to be also a target of MFIs in Mathira. Prior to joining MFI schemes, these groups reportedly were involved in other development related activities such as ROSCA and ASCA, farming activities like goat keeping and zero grazing ventures, social welfare activities of tree planting, HIV/AIDS awareness, Maendeleo-ya-Wanawake (women welfare organisations), rural electrification and rural water services. Presence of rural industrial movements was also noted with some individuals belonging to a fat processing group.

An already existing group, on being co-opted into the MFI loan systems, may refocus its role and activities to suit the lending institutions' objectives while still conducting the previous activities. Such a group is favoured by both the lending organisation as well as existing members for its ability to stimulate social interaction between members where ideas and information are shared. Belonging to a group is therefore perceived as important for acquisition of property, savings and borrowing, providing social security for members and creating a forum for empowerment through the resultant networks.

#### **4.6 Summary**

Loan products available to borrowers in Mathira are diverse thereby attracting different categories of clientele, however it is clear that the loans attract only the economically active portion of the population be they farmers, civil servants or micro and small

entrepreneurs. Due to the secrecy act or the need to protect their clients' confidentiality, lending organisations will seldom reveal the rate of repayment performance more so for those loans linked to financial institutions such as banks. However, discussions held with loan officers revealed a less than satisfactory repayment performance with some loan schemes having as high as 27 - 35% default rate.

Most affected loan schemes are the SISDO's schemes with as much as 35% default rates in the business loans. Other institutions too agreed that the business loans targeting the small scale enterprises also had higher default rates than other categories, however in terms of actual amounts lost, the larger Biashara loan schemes cost the lending institutions more in the event of a default, mainly due to the large loan amounts transacted.

The Sirnu Yetu loans were experiencing the least default with no default recorded in the region. This was attributed to the newness of the particular scheme. The scheme being less than a year in Mathira is still considered very popular hence low levels of repayment fatigue among borrowers. However, this like all other schemes was experiencing repayment arrears among borrowers.

Though all lending organisations do indeed document objectives aimed at ensuring microfinance services reach the target clients, the extent to which the objectives were accomplished was less than satisfactory. In practice most MFIs seldom earned out the objectives especially those touching on training. Training for start-up groups aimed at educating members on the working of the schemes does indeed take place, however training towards educating members on sound group practices such as bookkeeping and leadership is seldom done. This contributes to the repayment and leadership problems as well as low rates of group survival problems.

Replicating of lending models from one region to the other is common among MFIs whereby the success of a model and loan products in one region is assumed to mean the automatic success of the same in another region. Based on success of lending to the enterprise sector, a major target of all organisations with the exception of SISDO is for

instance the micro enterprise sector. This appears to succeed in Karatina, which boasts of a relatively large micro enterprise sector unlike the credit needs of other sub-locations that are dominantly agricultural based. Further more the enterprise owners often combine farming alongside the given economic activity.

In order to satisfy their farming as well as enterprise credit needs, individuals tend to join more than one group as well as borrowing from different MFIs, a factor that compromises repayment performance of the borrower. This also happens in instances where MFIs fail to or inadequately provide loans that militate against emergency situations that often eat into the borrower's income and compromise repayment

Although hardly any MFI has yet ceased operations in Mathira due to loan repayment problems, the presence of less than satisfactory rates of repayment in all loan products necessitate an analysis of the socio-cultural factors influencing this phenomenon; the main objective of this study.

## **CHAPTER FIVE: STUDY FINDINGS**

### **Introduction**

This chapter analyses the socio-cultural factors that influence loan repayment and categorised them as age, religion and ethnicity, gender, marital status and education. However, in order to provide a thorough understanding of their role in loan repayment, an analysis of social hierarchy, power relations and group leadership was carried with the aim of investigating their relationship to group composition, loan repayment and group survival. The analyses lay a basis for the acceptance or rejection of the premise that socio-cultural factors influence loan repayment.

### **5.1 Profile of Respondents**

The total number of respondents interviewed consisted of fifty (50) borrowers, twenty (20) non-borrowers and fourteen (14) group leaders. Respondent groups consisted of between 11 and 20 members with an average age group of between 30 and 40 years. Female respondents' (68%) were more than male respondents' (32%). As relates to marital status, 80% of the respondents were married forming the majority as compared to 12% single, 6% widows and only 2% respondents divorced. Farming was found to be the dominant economic activity above small-scale enterprises, and other clerical jobs. Additionally, secondary level of education had the largest number of respondents followed by primary level and lastly university education. This profile also forms the key variables of the study, which are used to analyse loan repayment and other aspects of group governance and management.

### **5.2 Relationship between Socio-cultural Factors and Group Membership**

#### **Social Status**

Members' socio-economic status was perceived in terms of occupations and economic well being. As can be seen from table 1, 80% of the sample were farmers, 12% small-scale traders 2% being civil servants, 4% owned large enterprises and 2% were veterinary doctors or extension officers. On the other hand, the non-borrower groups had 84% of respondents being farmers but had fewer small-scale traders (7%). These disparities point to the profile of individuals who seek microfinance services. Microfinance is largely perceived as a service for the informal sector such as the farming sector. However due to



the largely agrarian set up of the community, three-quarters ( $\frac{3}{4}$ ) of the respondents undertook the given occupational engagements alongside farming.

**Table 1: Respondents by Occupation**

Occupation	Borrower %	Non-Borrower %
Farming	80.0	84.0
Small-scale trading	12.0	7.0
Formal employment	2.0	4.0
Medium & large enterprises,	4.0	2.0
Vet/Extension workers	2.0	3.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

*Source: Survey Data, 2004*

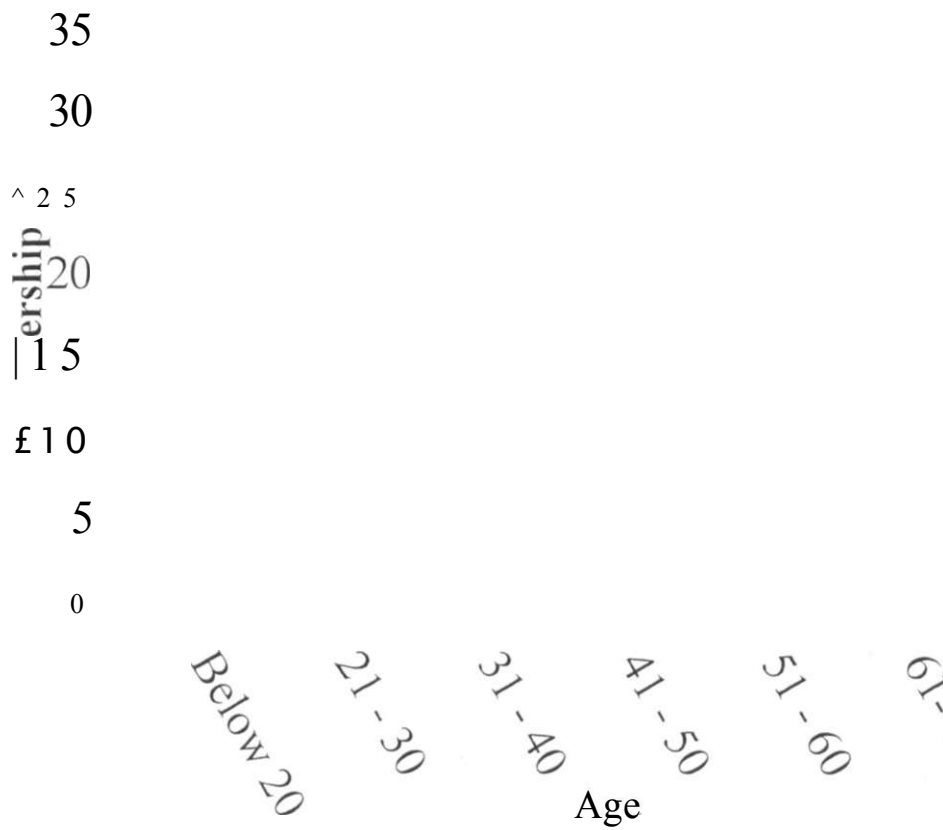
The degree of social integration of an individual was seen to be dependent on his or her occupation. This would therefore imply that esteem, prestige and a person's influence in the community were evaluated based on the perceived status of his or her wealth and one's material acquisition judged from other socio-cultural factors such as education and family status. An individual's personal income is however discussed as a third party subject with most members opting not to openly discuss personal wealth status.

Focus group discussions yielded the view that shared business interests and friendships among people served as a tool for vetting members into a group, thereby creating membership barriers. People formed groups with others of shared business interests, status and income as opposed to those of different status. The respondents felt that this had the effect of creating socially distinctive groups whose members were of similar social status.

## Age

As shown in the bar graph, the membership age was between 19 years and 70 years with the 31 - 40 years age group taking up 32% of the sample. These were followed by the 41 - 50 years group with 28%, 51-60 age group bore 14% of the respondents, 20-30 years constituted 12%, 61-70 years were 10% and those below 20 years of age coming last with only 2% membership. For the non-borrower groups the 41-50 years age group came top with a 35% membership while those below twenty years of age had no representation.

**Figure 1: Respondents by Age and Membership**



Source: Survey Data, 2004

The 31-50 years age group was reported as possessing vigour and have productive minds. Indeed 2/3 of the respondents felt that this age symbolises maturity of the individual and that it is during this period that people settle into marriage. They were thus found to engage in economic activities in order to provide for their dependent families.

### **Religion and Ethnicity**

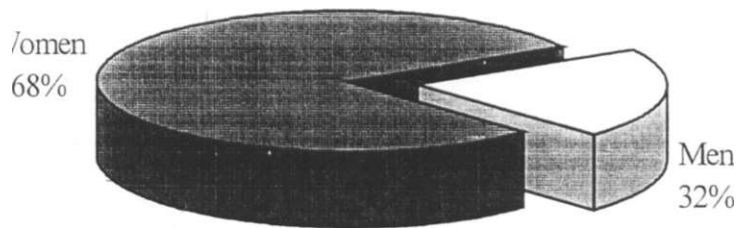
According to Okullu (1978), the pattern of earlier missionary activities in Kenya, saw a lot of catholic missionaries set camp in central province regions such as Nyeri district thereby resulting in more catholic converts than any other religion. Of the population studied, 23 (46%) were Catholics, 10 (20%) were Protestants, 11 (22%) were members of African religions including Pentecostal churches and only 6 (12%) expressed no religious affiliations. Though religion is highly regarded in the community, for the majority in loan groups however, it seldom played any part in one's group attendance and savings activities except for church based groups such as the Anglican Church's women's gild and the Catholic Church's 'Jumuhia'.

Of the respondents, 10% were non-Kikuyu mainly of the Luhya tribe. These specifically expressed the view that, ethnicity influenced group membership as was captured by one Luhya respondent residing in Karatina, *"so as to remain strong as a minority tribe in Karatina, we had to join a group that was reflective of our interests. Therefore by joining one group, we Luhya people are able to unite and support each other as no one else here would do so "*

### **Gender**

In both borrower and non-borrower groups, men formed 32% of the respondents while women formed the remaining 68% as summarised in the pie chart. Gender according to Rahman (1999), is a critical factor in discussing the role of socio-cultural factors in loan repayment. It was found to greatly affect participation, borrowing, savings and leadership in the group

**Figure 2: Gender representation in group membership**



*Source: Survey Data, 2004*

Gender plays a role in investment patterns and hence in the formation of microfinance organisations. Overall men were fewer in micro finance groups than women especially so for MFI based groups. Men for instance are found in the formal employment sector, own resources and therefore, access credit from the formal sector (Browne, 1983). Women on the other hand are largely found in the informal sector where challenges of inadequate capital, poor technology, few marketing opportunities, poor security and infrastructure, poor reading and writing skills and excessive demands on their work time due to other reproductive and productive roles dominate (Njeru & Njoka, 2001; Rahman, 1999; Yunus 1994).

Of the women interviewed, 66.7% reported joining organisations in partnership with family and friends. This was on the basis of friendship, sympathy and trust (Yunus, 1984) as well as the biblical concept of 'you are your brother's keeper'. This aspect of trust as a basic group ingredient was viewed as providing security and assurance by 89.3% of women. This concurs with Njoka & Njeru (2001) that a person's kin played an important role in determining one's social affiliations.

As expressed by 72% of the female respondents, women were the beneficiaries of group efforts and the money received from the group goes towards family welfare. This also supports the widely held view that financial benefits gained from the group bring more qualitative benefits to family welfare than the earnings of men (Yunus, 1994)

For 85% of women, regular group attendance was important as compared to 53% of men in these groups. Yunus (1994) and Rahman (1999) indeed posit that the development of collective consciousness and group solidarity through regular attendance of group meetings is in fact found to be more practiced in women groups opposed to male groups.

### **Marital Status and Kinship Ties**

Married women's submissive nature was viewed by 1/3 of the female respondents as being a positive factor as it works well with group meeting attendance thereby enhancing trust and predictability among members. Male domination at the household however was reported to interfere with membership, as 2/3 of the married women reported experiencing initial resistance from spouses prior to joining the groups. 55% of respondents affirmed that a woman needed to first seek the permission of her spouse before joining a group. This is corroborated by Njeru & Njoka (2001) who argue that a man may sanction his wife from attending a given group if he feels that the group members are not the ideal friends for his wife.

The above findings suggest the presence in society of hegemonic ideologies and their role in women's involvement in microfinance organisations. Rahman (1999) argues that a spouse may for instance prevail upon the wife to join credit groups to supplement the family income or to finance the man's business ventures.

### **Education and Group membership**

As summarised in table 2, majority (44%) of borrowers had secondary education while 26% had primary, 24% college training and only 6% being university graduates. In terms of training, 62% had received some form of training. Training ranges from agriculture-

related courses (16%), technical training (45%), teacher training (10%), secretarial studies (9%), driving (13%) and computer training (9%)

**Table 2: Respondents by Education**

Level of education	Borrower		Non-borrower	
	Frequency	Percentage	Frequency	Percentage
Primary	13	26.0	5	20.0
Secondary	22	44.0	9	45.0
College	12	24.0	7	10.0
University	5	6.0	4	20.0
Total	<i>t</i>	100.0		100.0

*Source: Survey data, 2004*

The education status of an individual plays a role in determining the group he or she joins. This was evidenced by 40.6% of individuals with primary level of education who reported regularly attending meetings and were satisfied with the group. This forms a majority followed by 33.3% of respondents with secondary level of education, 20.0% college training and only 6.7% of university graduates. This suggests that groups are not only a basis for social satisfaction but also act as a safety net, more so among those with primary level of education.

The highly educated respondents were found to be fewer in MFI groups than were in the non-borrower groups. In fact 6% of university graduates were found in the borrower groups as compared to 9% in the non-borrower groups.

Though 71.5% of all respondents belonged to more than one group, this varied with education status with 15.2% of primary school leavers being in more than one group as compared to 51.5% of secondary, 27.3% college and 6.1% among university graduates.

### **5.3 Relationship between Socio-cultural Factors and Loan Repayment**

#### **Age and Loan repayment**

The pattern of borrowing and loan repayment also differed with age, the most significant being the 41 - 50 year olds who borrowed larger loans than all other groups at an average of KShs. 100,000 per person. These were followed by the 51 - 60, while the 11 - 20 year olds borrowed the least, KShs. 20,000

Discussions held with loan officers' revealed that there were fewer incidents of default among the 41 - 70 year olds as compared to the 11 - 40 year olds. The highest default rates occurred among the 20 - 40 age group, who went as far as three times the acceptable 3% default rate. The officers associated this with their levels of mobility in terms of business and residence. This view is supported by Browne (1983) who argues that when a region is limited in the opportunities for acquiring wealth, upward mobility for the residents are rigidly confined. This forces those desiring to improve their lot in life to leave the system either permanently or temporarily so that they can re-enter it at a higher level.

Focus group discussions upheld the view that the younger members were more likely to be socially and physically mobile than the older settled members. In such instances, the group is faced with problems of tracing the defaulters for purposes of loan recovery. However, repayment problems were felt across all age groups though the younger borrowers were seemingly more vulnerable as they also had young and struggling businesses.

#### **Religion and Ethnicity and loan repayment**

Though no member cited religion as determining his or her ability to repay loans, religious beliefs appeared to influence loan repayment since members (including those with no religious affiliations) tended to regard God as being behind their continued success. Indeed all respondents tended to believe that it was Godly to repay a loan. However no member who was experiencing difficulties in repayment quoted religion as being behind their difficulties.

It is worth noting that the group bearing non-Kikuyu members was not only Luhya in ethnicity but a combination of both Kikuyu and Luhya people. The Luhya felt that they had to work harder to save and repay loans in order to survive in the region. Among them there was a show of solidarity as evidenced by their willingness to bail each other out in times of loan repayment difficulties. No default was recorded amongst the Luhya.

### **Gender and loan repayment**

Men borrowed larger loans averaging at KShs. 130,000. This is almost twice as high as women's average of KShs. 75,000. Women were also noted to secure numerous small amounts of loans from different organisations. Of the respondents, 1/3 of the women reported having more than one loan as at the time of the study compared to 1/5 of the men interviewed. Women faced more repayment difficulties at 44% as opposed to 31% of men. The reverse is true for default where more men 15% of men were reported to have defaulted as compared to 8% of women.

As summarised in table 3, some of the reasons advanced for causes of repayment problems include:

**Table 3: Causes of repayment problems**

<b>Problem</b>	<b>Men</b>		<b>Women</b>	
	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>
Sickness	1	15.0	5	17.9
Family commitments (food, housing, etc)	2	10.0	9	32.1
Mismanagement/disorganisation	5	25.0	4	14.3
Lack of money	7	35.0	8	28.6
School fees	1	15.0	2	7.1
<b>Total</b>	<b>20</b>	<b>100.0</b>	<b>28</b>	<b>100.0</b>

*Source: Survey Data, 2004*

Women were reportedly better in making group contributions, which suggests a need to maintain the trust and reciprocity as well as to avoid the group's sanctions that failure to



pay up induced. This factor is corroborated by a study on the Grameen bank, which found out that when a woman fails to make her contributions on time, she experienced humiliation through verbal aggression from fellow group members (Blanchet, 1984)

### **Marital status and loan repayment**

From loan records, marital status was found not to influence the level of savings. This is mainly because the group sets out the amount of savings that one requires in order to access a loan. However, group discussions portrayed the single women as being better savers mainly because, being in charge of her economic decisions, and is therefore able to decide on making larger savings. The single women who own assets were also viewed as presenting better collateral than the married who have to engage spouses as guarantors so as to use the family's assets.

Repayment is higher for the married woman with only 15% cases of women undergoing repayment difficulties in the groups interviewed. Due to the shared collateral, non-payment means that the woman is held responsible for the loss of family assets, which in extreme cases was believed to cause divorce or separation.

### **Education and Loan Repayment**

Borrowing patterns differed with education levels. University graduates tended to borrow on average more (KShs. 156,000) compared to all other levels of education. These were followed by borrowers who had secondary level of education, the primary school level of borrowers while those with tertiary college level education were found to borrow the least amounts as seen in table 4.

**Table 4: Average amounts of Loan Borrowed by Borrowers' level of Education**

<b>Level of education</b>	<b>Frequency</b>	<b>Average amount borrowed (KShs.)</b>
Primary	13	55,000.00
Secondary	22	98,000.00
College	12	49,000.00
University	3	156,000.00

*Source: Survey Data, 2004*

Discussions held with loan officers revealed that default was more likely to be experienced among borrowers with primary school level of education. This they attributed to the types of businesses the group engages in and their high relocation rates. Primary school leavers were cited as engaging in small-scale businesses, which were also noted to experience high closures. Due to this phenomenon, the group also was reported to favour relocations either in search of new business ventures or simply to run away from debts, making it a higher defaulting group.

While agreeing with the view that primary school leavers were more likely to default through relocation, focus group discussions further cited this group's ability to apply aggression among their fellow members as a barrier against high default rates. University graduates were viewed as the group least likely to default due to what the discussions termed as the need to protect their high status in society. This was however not corroborated by loan officers since not much factual data was available on the rate of default in relation to a borrower's level of education.

#### **5.4 Relationship between Socio-cultural Factors and Leadership**

##### **Age and group leadership**

Of the respondents, 52% in both borrower and non-borrower groups responded in the affirmative to the question on whether age influences leadership. Older group members were viewed as making better leaders than the younger members. The underlying perception here was that the older citizens are stable in character and minds. Having been longer in business or purely by virtue of being older citizens, they are looked up to as

having the necessary experience to head groups. However, it was also held that not every older citizen automatically qualified to lead since other factors other than age also applied in choosing a good leader.

Cross tabulation of age of respondent and leadership position held by the respondent as at the time of the study revealed that the 31 - 40years cohort sponsored the most number of leaders (17.1%) followed by the 41 - 50 age group with 14.6%. The 19 - 20years olds sponsored no leader and were perceived as being too young and erratic to lead. The 61 - 70 years group were seen as suitable for advisory roles as opposed to active leadership. This group was viewed as being trustworthy and was relied upon for wisdom and guidance, as well as arbitration of disputes among members. A summary of the cross tabulation of age of respondent against the leadership position held is given in table 5.

**Table 5: Cross Tabulation between Age of Respondent and Leadership Positions**

<b>Response</b>	<b>Do you hold any leadership position in your group</b>					<b>Total</b>
	<b>21 - 30yr</b>	<b>31 - 40yr</b>	<b>41 - 50vr</b>	<b>51 - 60yr</b>	<b>61 - 70yr</b>	
Yes	9.1%	31.8%	27.3%	18.2%	13.6%	100%
No	12.2%	36.6%	26.8%	12.2%	12.2%	100%

*Source: Survey Data, 2004*

From the foregoing age of a member is significant to leadership. However, age alone does not affect who ascends into group leadership positions. This means that age would only influence leadership in the presence and through the effects of other related variables.

**Religion and Ethnicity and group leadership**

Issues of leadership were found not to be influenced by religion but ethnicity played a role. Group discussions yielded a lot of scepticism when leaders were asked about the prospects of recruiting people of a different ethnic group into leadership positions. The Kikuyu expressed a desire for leaders of similar ethnicity while the Luhya too felt that



they preferred a fellow Luhya in leadership, as he or she would have their mutual interest at heart as opposed a leader of a different ethnic affiliation.

### **Gender and group leadership**

As summarised in table 6, four of the five groups interviewed had male chairpersons, while the fifth, being a woman's only group had a chairlady. Only two groups had a woman vice-chairperson, three had female treasurers, two had female secretaries, one had a female vice-secretary and only one group had the bearer of the discipline master/advisor's office being female. The reasons advanced for the above patterns were diverse. Some respondents felt that men were better leaders, as they were able to share ideas and spearhead development better than women were. Over half of the respondents (58%) felt that women would make poorer leaders than men because they tended to take a back seat and shied from responsibilities especially in male dominated groups.

Women were viewed as making better treasurers as they were seen as faithful and trustworthy, qualities key in a treasurer. The groups that opted for male treasurers argued that men were more level headed than women, who at times were forced by family circumstances to channel group funds to other uses, including bailing out husbands in other business ventures.

**Table 6: Cross tabulation between percentage of leadership positions held and Gender**

Position	Indicate leadership position held			
	Male		Female	
	Frequency	Percentage	Frequency	Percentage
Chairperson	4	80.0	1	20.0
Vice chair	j	60.0	2	40.0
Treasurer	2	40.0	3	60.0
Secretary	3	60.0	2	40.0
Vice secretary	4	80.0	1	20.0
Discipline master	4	80.0	1	20.0
Total	20	66.7	10	33.3

*Source: Survey data, 2004*

The above signifies a strong association between the leadership position held and gender. This means that gender as a variable may affect the leadership position that an individual can hold in the group. Explicitly, gender influences leadership in the absence of and not through the effects of other related variables.

### **Marital Status and leadership**

In terms of leadership positions, 67.8% of married women were either holding leadership positions in the group or had held positions previously. This was found to be more than 7.1%» single, 4.5%) windowed and 2% of the divorced. This suggests that marriage could contribute to ones ascension to a leadership position.

All the five group chairs were married, as well as two vice chairs, three secretaries and one vice secretary as summarised in the table below. This suggests a relationship between ones marital status and leadership positions. Group discussions revealed that a married person was perceived as a better leader than an unmarried person. Marriage itself was viewed as instilling leadership qualities in a person since the union itself requires tolerance and maturity; which were perceived as significant in leadership.

**Table 7: Cross tabulation of marital status and Group leadership**

<b>Marital status/Count</b>	<b>Do you hold any Position in your Group</b>	
	<b>Yes</b>	<b>No</b>
Married	88.4%	94.7%
Single	9.1%	.
Widowed	4.5%	5.3%
Total	100%	100%

*Source: Survey data, 2004*

Table 7 signifies a weak relationship between marital status and leadership. Though groups viewed marital status as important to leadership, it does not work in isolation to other variables. Meaning that marital status only influences leadership in the presence of other related variables.

### **Education and Leadership**

Though education is viewed as important to leadership, only less than half (48%) of the respondents agreed that education played a role in determining who ascended into power. This however varied with the office in question whereby 82% felt that some form of literacy was required especially for the post of secretary and treasurer. For the chair and vice chair, group discussions revealed that other leadership qualities were sought after other than purely ones level of education. A highly educated chair was for instance

viewed as likely to get removed from the realities on the ground, thereby inadequately articulating the needs of the members effectively.

### **5.5 Power hierarchy, Group Behaviour and Loan Repayment**

All groups interviewed had official leaders though it emerged that non-formal leaders also existed. The latter were people perceived to have influence in the group based on certain socio-cultural and economic status such as wealth or high levels of education. The power an individual wielded in the group was measured through his or her ability to mobilise resources and achieve group goals. Indeed one respondent aptly put it; *"one has power if he can get things done, is concerned with the well being of the group itself and accomplishes the tasks and goals "*

From observation, two kinds of power systems were evident in all the five groups. These were categorised in terms of legitimate basis to hold power over the others based on the members' recognition as rightful or not. The first kind of power was positional power, which was observed as coming from the leadership position itself. For instance all chairpersons of the groups exercised power over the members and were considered rightful since it arose from the position held and not from the individual. Due to the power vested in the office, group chairpersons were considered free to for example reward or punish members.

The second kind of power was personal power wielded by certain individuals in the group. This was an informal sort of power whereby the person in question assumed power based on certain personal attributes. This suggests that an individual's personality has the potential to render him or her powerful in the eyes of his or her fellow group mates. A person who could convince and inspire others, experts in certain fields, a well socially connected person, and one with access to information easily attained this sort of power in the group.

While groups tended to integrate personal power in matters of decision making and discipline, loan officers were observed to rely heavily on the legitimate (positional)

power that was at times seen as too partisan for the led, more so in times of disciplining a member.

One observation on influence of power on group behaviour was through group conformity to the views of the powerful individual(s). Persons wielding personal power were observed to cause more conformity especially during group discussions and thereby influencing members' attitudes and behaviour. Conformity in decision making processes was for example seen whereby the pressure to go along the power bearer's views led to members' ignorance of their ways of thinking to go along the leader's view.

While no respondent cited a powerful group member as causing his or her falling in arrears, 24% felt that the flow of power and authority in the group was likely to cause these problems. Though members may consider a 'powerful' person in arrears as setting a bad precedence, they hardly questioned the offender for fear of being perceived as opposed to the particular individual. In such a group therefore, social pressure and aggression was not perceived as being effective in safeguarding against poor loan repayment rates. This suggests an indirect relationship between power, loan repayment difficulties and default.

## **5.6 Leadership and Group Survival**

All borrower groups interviewed had a chairperson, vice chairperson, secretary, vice-secretary, treasurer, discipline master/advisor and committee members. These leadership positions with the exception of position of the discipline master were also found among non-borrower groups. The discipline master is mainly charged with maintaining compliance of group rules. In some cases, the discipline master also acted as group advisor and other times as an arbitrator between members while committee members were also elected in some groups. The role of committee members was mainly in group decision making.

The leadership hierarchy was such that each office has authority over one or more lower-level offices, and each in turn is responsible to a higher-level office. The office of the chairperson being the highest was seen as answerable to the group members. This



therefore assumes that the higher one is in the group, the more people he or she can give orders to.

For the borrower groups, elections are conducted annually, in compliance with the lending institutions' rules. For the non-borrower groups however, though (71%) of members expressed a need to hold annual elections, the reality was that elections are held as per the need such as death of a leader, misuse of office or withdrawal of a leader from the group. Cumulatively, 52% of those interviewed expressed a need for annual elections, 4% advocated for bi-annual elections, 8% felt elections should only be held when need arises and 20% felt that leadership should be either voluntary or on rotational basis so as to nurture individual talents.

### **Leadership Qualities**

Respondents unanimously agreed that to ascend to leadership one had to exhibit certain good qualities. A good leader was described as a person of integrity (52%), good personality (36%) and an arbitrator (22%). A person of integrity should be beyond reproach in handling both the group's and personal affairs. Integrity being a broad term was interpreted as good reputation, accountability, transparency, justice and fairness.

Secondly, a leader should in his/her personality embody personal discipline both at the group activity levels and in his/her personal life. A good reputation at the community level was also viewed as important in leadership. Good reputation here was interpreted to mean family and community perception, for instance the reputation of a man was judged through the success of his family, *"behind every successful man is a wife and children"*; his interaction with neighbours and the community at large. Similarly, one's personality was interpreted through factors such as punctuality in meeting attendance and loan repayment as well as attributes such as cleanliness, good communication skills, business acumen and the ability to inspire others.

The ability to arbitrate between members of the group and the community was also seen<sup>as</sup> a key factor in a good leader. This would presuppose previous leadership record

whereby the individual excelled in bringing together people of differing opinions. An arbitrator is equally just or democratic and tolerant to different divergent issues.

Among the borrower respondents, 76% felt that the leaders had in one way or the other displayed these qualities. However, it is worth noting that for the borrower groups, the excellence or lack of by a leader was judged more in the narrow confines of the group's survival and loan repayment record. This means that all other attributes were excusable if the leaders managed to keep the group together and steered it out of default problems.

### **Group Survival**

As compared to 32% of non-borrowers, 22% of borrowers reported having known a person who had allegedly quit the group due to leadership differences. The presence of a working constitution for the borrower groups was noted to help in minimising differences among members. Presence of leadership differences reportedly existed in two groups as at the time of this interview.

On being asked to describe their groups' leadership vis-a-vis group survival, 38% felt it was very good, 44% good, 16% average and 2% poor as summarised in table 8. However, 62% felt that the leaders could do more to strengthen the group. In relation to strengthening the groups' survival, respondents felt their leaders ought to introduce other group/ income earning activities, upgrade the group through training such as book-keeping skills training for all members, recruit more members, strengthen existing rules/ constitution especially those touching on matters of default and arrears as well as exhibiting greater commitment to the survival of the group.

**Table 8: Description of Groups' Leadership**

<b>Leadership</b>	<b>Borrower</b>		<b>Non-borrower</b>	
	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>
Very good	19	38.0	7	35.0
Good	22	44.0	10	50.0
Average	8	16.0	2	10.0
Poor	1	2.0	1	5.0
Total	42	100.0	20	100.00

*Source: Survey Data, 2004*

In terms of group's sustainability, 96% of borrowers felt that the groups would survive beyond two years as opposed to 71% of non-borrowers. In order to ensure group survival, respondents cited the need to keep rules and records, faithful attendance of meeting and punctuality, strict rules on fining latecomers and people in arrears, accountability, honesty and discipline among members as well as proper policies regarding enrolment of new members especially in issues of previous loan records.

It was noted by 24% of respondents that loan repayment problems and defaults had affected the running of the groups. For these members, leaders were not handling the issue of default well and therefore contributed to the default and repayment crises. The leaders according to these respondents did not work hard enough to convince members to pay back loans.

To surmount the problem, 40% of leaders felt that the group members would do more by exposing the defaulter at the community level. Another way was seen as through supporting the group's bid at repossessing the defaulter's property. Some members were noted to be sympathetic to defaulters to the extent of alerting them of the group's intentions towards loan recovery.

Through sound bookkeeping leaders, according to members were in a better position to detect potential defaulters. The leaders, they argued would be able to tell people likely to default by looking at their repayment records and engaging the support of members in

sanctioning the culprit long before the actual default takes place. This was well elaborated by one respondent, whose group as at the time of the interview was battling with a rather strenuous default crisis:

*"We are currently paying for one lady KShs. 300 per person per week for the next several months. This is because she took off without paying a KShs 150,000 loan. We have tried to trace her but she has totally gone underground. We understand she has left town since she took away her children and husband with her. What angers me is that she joined our group while being indebted in other groups, yet one leader (who is an in-law to the defaulter) knew this but chose to keep quiet. We even suspect that the leader may have known that the lady was going to run away from us but kept quiet. We now have to bear the burden of repaying the loan. I personally feel the leaders failed by accepting the lady into the group and when this is over and I have repaid my loan, I will leave this group. Further more it is made up of relatives and the same may recur. "*

The above respondent, may well be one outspoken voice, but mirrors the silent feelings of the other members of the group who feel it is not morally right for leaders to abet defaulters at the expense of other paying members.

## **CHAPTER SIX: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

In this chapter we first present a concise summary of the analysis and major findings of this study. Secondly, draw conclusions based on the analysis and the issues addressed and finally, provide policy recommendations and present suggestions for further research.

### **6.1 SUMMARY**

The study set out to investigate loan repayment among MFI borrower groups, with a focus on the socio-cultural factors that affect repayment. The thrust of the analysis was therefore the effects of these factors in terms of their relationship to the existing power hierarchy, leadership, group survival and actual repayment trends experienced in the borrower groups. At the practical policy level, a major concern of the study is to enhance an understanding of the key aspects of the community norms that have a bearing on loan repayment.

Data collection made use of both primary and secondary sources in Mathira division of Nyeri district using both qualitative and quantitative techniques. Primary data was collected using structured questionnaires, focus group discussions as well as key informant interviews. Secondary data on other hand was collected from relevant bodies such as the Lending MFIs, social welfare offices within and outside Mathira and literature from various acknowledged authors pertaining to the field of study, all which provided in-depth information that greatly enriched the study. The data was further analysed and clustered where upon descriptive analyses were carried out. This was done using frequency and cross tabulations.

Social capital and the New Economic Sociology analytical approaches were adopted in the study. The social capital theory facilitates the identification and understanding of the factors that influence formation of groups and networks. In this view, groups are formed based on who a person knows, thereby facilitating collective capital accumulation. Participation in groups is therefore, influenced by one's social relations. Networks are therefore important for capital exploitation by individuals in a community. The resultant relationships are important in explaining trust and reciprocity, which are crucial to group formation, leadership, loan repayment and subsequent group survival.

The New Economic Sociology paradigm is useful in conceptualising the underlying institutions in the networks that shape interactions. It is not the case that all institutions arise purely out of the bargaining of economic agents. Rather as sociologists have asserted certain norms, networks and social capital peculiar to each community, are important institutions even in commodity markets. For instance in typical loan groups, people have formed MFIs based on previous relationships and networks. The group often incorporates aspects of trust and reciprocity principles in the activities of savings and credit. Other socio-cultural norms and factors such as gender, marital status and education though not part of formal rules are also used in groups as social collateral to enforce but can also discourage repayment.

## **6.2 FINDINGS**

Local culture, norms, values and institutions were found to in reality have important implications for loan repayment practices. First our study found out that there is a relationship between participation and membership in loan groups and socio-cultural background. People for instance join groups based on similarity of status such as occupation. This is seen through the engagement of members of a group in similar socio-economic activities.

Gender and marital status form noteworthy relationships between participation and socio-cultural factors. More women were found to participate in loan groups than men do. Women for instance engage more in small-scale enterprises than formal employment and also lack access to formal credit much more than men. To overcome the challenge of lack of capital and formal credit, more women than men therefore join MFI loan groups.

Education status of borrowers affects group membership. An analysis of the patterns of membership into the given groups revealed that there were more members with secondary and primary levels of education as compared to the illiterate, college or university graduates. This can be seen through the kind of economic activities that education status opens up for an individual whereby primary and secondary school leavers are more likely to join the informal sector thereby necessitating the use of informal credit and savings services.

Another broad finding was on the relationship between socio-cultural factors and loan repayment. A borrower's age was found to be important in savings, borrowing and default. For instance, the older one is the more money he or she is likely to borrow and the less likely to default. The reverse is true for the younger members. This is explained by the higher relocation experienced in both residential and business premises among the younger borrowers as opposed to the older members who are both stable in terms of physical dwellings and income.

The middle age group was recorded as having most leaders unlike the young and older members. This group was viewed as being stable both in character and minds as opposed to the young who were perceived as being erratic, while the old were seen as better in advising than active leadership due to the rigours that leadership brought.

Gender was found to relate to loan repayment whereby men were found to borrow nearly two times more than women, who borrow many small loans and from different organisations. However, the reverse occurs in repayment whereby women though facing more repayment challenges than men, exhibited less incidents of default.

For the married woman, permission to join and attend group meetings has to be granted by the spouse. This means that she may be limited to joining only those groups that the husband views as appropriate. While marital status portrayed no significant influence on group savings, singles tend to save more than the married, divorced or widowed. Singles were described as being able to independently make economic decisions that support their ability to save more. Marriage clearly influenced leadership, as most leaders were married. It is argued that the ability to successfully handle a marriage makes one a superior candidate for leadership.

Finally, as relates to the role of power hierarchy in group behaviour, loan repayment as well as in group survival, the study found the presence of two kinds of power structures existing in the groups; the positional and personal power structures. The former is based on the legitimate leadership position a person holds in the group that gives him the power over the other group members. The latter however, suggests informal exercise of power

based on an individual's characteristics such as superior communication skills, education or social status among others.

### **6.3 CONCLUSION**

The study arrives at the following conclusions. First that social hierarchy in a given society influences aspects of group formation, savings and even loan repayment with groups being homogeneously constituted by people of similar social categories

Secondly, one may conclude that the problem of unsatisfactory repayment rates is much more than a problem of poor economic conditions experienced by borrowers. It also cannot evidently be confined to poor management and administrative problems of the lending institutions. Rather, the study concludes that socio-cultural factors such as age, gender, marital status and education greatly determine loan repayment. These factors do indeed undermine loan recovery mechanisms of the lending institution and therefore should be taken into consideration by lending institutions seeking to improve their recovery portfolio.

Thirdly, power relations influence leadership and group survival. Poor leadership was found to constitute the biggest barrier to the survival of groups for both the borrower or non-borrower samples. Given that the survival of the group is determined by the exercise of power in the group, it is inevitable for both the group and lending MFI to be cautious on the exercise of power within the group. The study posits that if effective leadership styles were enforced, greater loan repayment and group survival would occur. This can be accomplished by adopting more democratic leadership styles and encouraging the participation of all members in decision-making processes of the group.

### **6.4 POLICY RECOMMENDATIONS**

This study makes recommendations on how to strengthen the relationship between socio-cultural factors and loan repayment, along the lines of devising means of incorporating the socio-cultural factors and institutions into groups in order to achieve greater participation, effective leadership and satisfactory loan repayment rates. Default caused by socio-cultural factors can be lessened if borrowers undergo adequate training on how



to overcome these socio-cultural challenges and thereby improve their repayment records. This should not seek to shun a people's culture in totality, rather to integrate the positive aspects of culture into the microfinance arena.

Secondly, partnership between the borrower and lender and between the lending MFIs is called for so that the flow of information is maintained to ensure that people with default tendencies do not move from one group or one organisation to the other. This will prevent the spread of the problem as the defaulter is deterred from exploiting numerous groups and institutions and serves to warn others against falling into default out of fear of being black listed in all lending organisations.

Finally, to accomplish the challenge of capital accumulation, local people need to be encouraged to participate and benefit from group efforts such as micro finance units. To do so, positive cultural norms and institutions need to be understood and integrated into the development arena. This can be effectively done through participatory approaches to development, which facilitate the involvement of people in contributing, co-ordinating and controlling their own development agendas. This should also entail a deliberate effort to have constraints that hinder loan repayment addressed not only at the organisational level but also at the community level.

## **6.5 FURTHER RESEARCH**

In view of the influence of socio-cultural factors in loan repayment, further research is required on ways and means of strengthening loan repayment rates in MFIs and groups. Specifically, it is important to look into ways of appropriately integrating culture into savings and lending procedures.

## BIBLIOGRAPHY

Adams, D. W. (1990), *"Taking a Fresh Look at Informal Credit "* in Callier, P. (eds. 1990) "Financial Systems and Development in Africa" EDI seminar Series, Nairobi, World Bank

and Canavesi de Sahonera, (1988), *"Rotating Savings and Credit Associations in Bolivia "* Economic and Sociology Occasional Paper No. 1417. The Ohio State University: Department of Agriculture Economics and Rural Sociology

Adera, A. (1995), *"Instituting Effective Linkages Between Formal and Informal Financial Sector in Africa: A Proposal"* Savings and development, 1/1995: 5-22

Akong'a, J. (1988) *"Culture in Development"* in Ahmed, S. I (eds. 1988), *"Kenya: an Official Hand Book"* Nairobi, Ministry of information and Broadcasting

Alila, P. O. (2003), *"Community Wellbeing: The African Indigenous Institutions in Local Level development"* Paper presented on the symposium on "Wellbeing and Social Development - Focus on the Role and Possibility of Local Communities" Japan Society of International Development, Nagoya, Japan.

(2001), *"Micro and Small Enterprises: Policies and development"* in Alila, P. O and Pedersen, P.O (eds. 2001), "Negotiating Social Space: East African Micro Enterprises". Asmara; Eritrea, African World Press: Inc.

(1992), *"Informal and Formal Credit in Rural Kenya: A Case of Western Kenya Grassroots Borrowing and Lending in an Institutional Development Perspective "* Occasional Paper No. 62, Nairobi, Institute for Development Studies.

(1990), *"Institutionalising Rural Credit in Kenya "*, Working Paper No. 473, IDS. University of Nairobi.

Akong'a, J. (1988), *"Culture in development"* in Salim, A (eds.) Kenya: An Official HandBook, Nairobi, Ministry of Information and Broadcasting

Appelbaum, R and Chambliss, J. (1998), *"Sociology"* HarperCollins College Publishers, New York, USA

Aryeetey, E. and Gockel, F. (1991), *"Mobilising Domestic resources for Capital Formation in Ghana: the role of Financial Sectors "* AERC Research Paper No. 3

A.S.A. (1997), *"Causes of Default in Microcredit: Study by the Association for Social Advancement"* Bangladesh

Astone, Et al (1999) *"Family Demography, Social Theory, and Investment in Social Capital"* Population and Development Review Papers

Atieno, R. (2001), *"Formal and Informal Institutions' Lending Policies and Access to Credit by small-Scale Enterprises in Kenya: An Empirical Assessment "*. AERC Research Paper 111, Nairobi

Bass, L. (1997), *"Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?"* World Bank, Washington DC.

Bastelaer, T. (1999), *'Does Social Capital Facilitate the Poor's Access to Credit?"* Social Capital Working Paper #8, World Bank

Bauman, F and Hospe, S. (1994), *" ROSCAs and ASCAs: beyond the Financial Landscape "*, Westview Press, Boulder

Berg-Schlosser, D. (1984), *"Traditions and Change in Kenya: A Comparative Study of Seven Major Ethnic Groups "* Ferdinard Schonigh at Paderbon, Germany

Blanchet, T. (1984) *"Women, Population and Marginality: Meanings and Rituals of Birth in Rural Bangladesh "* University Press, Dhaka

Briggs, X. D. (1998) *"Housing mobility and the Multiple Faces of Social Capital"* Paper presented on the Housing Policy Debate.

Browne, D. L. (1983) *"Women's Programmes in Tetu: A case Study"* IDS working paper, university of Nairobi.

Clague, C. (1997) (ed.). *"Bureaucracy and Economic Development: Growth and Governance in Less Developed and Post Colonialist Countries"* Baltimore: John Hopkins University Press.

Coleman, J. (1998) *"Social capital and Poverty"* Social Capital Initiative Working paper No. 4. World Bank, Social Development, Washington D.C. Processed

Cooney, G. (1999) *"Introduction to CIDA's Organisational Performance Assessment Framework"*, Universalia.

Dondo, A. (1994) *"Credit to the Informal Sector Approaches and Models Experienced in Kenya "* K-Rep Occasional Paper NO. 27, Nairobi

Dole, R. P. (1971) *"Modern Co-operatives in Traditional Communities"* in Peter Worsley ed., *"Two Blades of Grass"*. Manchester: Manchester University Press.

Ensminger, J. (1992), *"Making a Market: Institutional transformation of an African Society "* New York: Cambridge University Press

Evans, P. (1996), *"Government Action, Social Capital and Development"*. World Development review paper

Eicher, K. and Baker, C. (1982), *"Research on Agricultural Development in Sub-Saharan Africa: A Critical Survey."* Michigan State University, International development paper 1.

Field, A. J. (1984), *"Microeconomics, Norms, and Rationality"*, Economic Development and Cultural Change

Fisher, J. (1973), *"The Anatomy of Kikuyu Domesticity and Husbandry "*

Gitell, R. & Vidal, A (1998), *"Community Organising: Building Social Capital as a Development Strategy"* Newbury park, Calif: sage Publications.

GoK. (1986), *"Nyeri District Social Cultural Profile"* Ministry of Planning and National Development. Nairobi, Government Printers

(2001), *" The 1999 Population and Housing Census: Counting Our People for Development"*, Vol. 1, Central Bureau of Statistics, Ministry of Finance and Planning

(2002), *"District Development Plan Nyeri District "* Central Bureau of Statistics, Nairobi, Government Printers.

Granovetter, M. (1985), *"Economic Action and Social Structure: The Problem of Embeddedness "* American Journal of Sociology

Hedricks, C. (2003), *Investing in all the people: Educating Women in Developing Countries.* Washington, D.C: World Bank EDI Seminar paper No. 45

Hulme, D. and Mosley, P. (1996), *"Finance Against Poverty"* Vol. 1, London, Routledge

i

Isham, .I. (1999), *"The Effect of Social Capital on technology Adoption: Evidence from Rural Tanzania"* paper Presented at the Annual meeting of the American Economic Association. New York, Processed

Johnson S. (2004), *"Milking the Elephant"* Financial Markets as real Markets in Kenya. In development and Change 35 (2): 247 - 254

(2001) *"Financial Landscapes Revisited: An Institutional Approach to Roots and Branches"*. Working paper No.533. University of Nairobi, Kenya.

K-Rep, (1992), *"Monitoring Data Digest"*. K-Rep Holdings. Nairobi, Kenya

(1991), *"savings in the Context of Microfinance"* Circular No. 2 1991, K-Rep Holdings. Nairobi, Kenya

KWFT, (1996), *"Annual Report of Microfinance Activities in Mathira Division, Nyeri District"*.

Kanoga, E. (1978), *" Informal Credits in Mathira Division in Nyeri district, central Kenya "* M.A Thesis. Department of Economics, University of Nairobi

Karega, R. G. M. (1995), *"Rural Women in Small Business: Entrepreneurial Group Activities in Kitui District, Kenya"* PhD Thesis Submitted at the University of Reading, UK

Killick, T. and Martin, M. (1990), *"Financial Policies in an Adoptive Economy"* ODI Working Paper No. 35

<Linyanjui, K. (2002), *"Poverty reduction: What is the Role of Microfinance?"* Paper presented at the regional consultation "Towards an African Strategy for the UNESCO Director for Social and Human Sciences" Nairobi, Kenya

edgerwood, J. (1998), *"Sustainable Banking with the Poor: Microfinance Handbook - an Institutional and Financial Perspective"*. Washington D.C, The World Bank

(1999), *"Microfinance Handbook: an Institutional and Financial Perspective"* Washington, DC, WorldBank

Levin, M. D. (1984), *"Accountability and Legitimacy in Traditional Co-operatives in Nigeria "* University Press, Nigeria

Maalu, J., Alila P et al (1998), *"Baseline Study Report: Micro and Small Scale Enterprises Financial Services Project"* REME Project, IDS, Nairobi

McCormick, D., Alila P. O, et al (1996), *"Kenya Women Finance Trust Borrower Profile "* IDS, Nairobi

McKinnon, J. (1973), *"Rural Financial Markets and Institutions in developing Countries "*. Oxford University Press, London.

Mittullah, W. V. (2003) *"Local Governance and Citizen's Participation: An Overview"* Paper presented on the 8<sup>th</sup> African Training course on Local and Regional Development Planning and Management. AICAD: Nairobi, Kenya.

Moser, C. (1996), *"Confronting Crisis: A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities"* Environmentally Sustainable Development Studies and Monographs Series 8. Washington, D. C: World Bank

Mrak. M. (1989), *"The Role of the Informal Financial Sector in the Mobilisation and Allocation of Household savings: The Case of Zambia "*, savings and Development, No. 1

Narayan, D. (1999), *"Bonds and Bridges: Social Capital and Poverty"* Policy Research Working Paper 2167. World Bank, Poverty Reduction and Economic Management Network, Washington, D. C. Processed.

Ngau, P. M. (1987), *"Tensions in Empowerment: The Experience of the Harambee (Self-help) Movement in Kenya "*. Economic Development and cultural change journal Vol. 35, No. 3 Nairobi

Njeru, E. N. and Njoka, J.M. (2001), *"Women Entrepreneurs in Nairobi: The Socio-Cultural Factors Influencing their Investment patterns"* in Alila, P. O and Pedersen, P.O (eds. 2001), *"Negotiating Social Space: East African Micro Enterprises"*. Asmara; Eritrea, African World Press: Inc.

North. D. C. (1990), *"Institutions, Institutional Change, and Economic Performance"* New York: Cambridge University Press

Okullu, J. (1978) *"Church-State Relations: The African Situation "*, in World Council of Churches, *"Church and State. Opening a New Ecumenical Discussion, World Council of Churches, Geneva.*

Otero, M. (1999), *"Bringing Development Back to Microfinance"* Journal of Microfinance - Practitioner and Development Perspective, Vol. 1. No. 1

Pamela, D. E. (1986) *"Differential Social Impacts of Rural Resource Development"*. West View Inc. New York.

Portes, A. (1998), *"Social capital: Its Origins and Application in Contemporary Sociology"* Annual Review of Sociology

Putnam, R. (1993), *"Making Democracy Work: Civic Traditions in Modern Italy"* Princeton, N.J: Princeton University Press

(2000), *"Bowling Alone: The Collapse and Revival of American Community"* New York: Simon and Schuster

Rahman. A. (1999), *"Micro-Credit Initiatives for Equitable and sustainable Development: Who pays? "* Great Britain, Elsevier School Limited



REME Project (1998), *"Baseline Study Report on Micro And Small Scale Enterprises Financial Services Projects "* IDS, Nairobi

Rubio, M. (1997), *"Perverse Social Capital: Some Evidence from Colombia"* Journal of Economic Issues Vol. 31

Rutherford S. (1999) *"The Poor and Their Money: An Essay about Financial Services for the Poor People"*. Institute for Development Policy and Management, **University** of Manchester, Manchester.

(1996) *"A Critical Typology of Financial Services for the Poor"* Working Paper No.1

Sanderatne, N. (1978), *"Analytical Approach to Small Farmer Loan defaults"* Savings and Development, No. 11

Smelser, N. J. and Swedberg, R. (1994), *"The Handbook of Economic Sociology"* Princeton, NJ: Princeton University Press

Stearns, K. (1991), *"The Hidden Best: delinquency in Micro-enterprise credit programs "* ACCION International, Discussion paper Series No. 5.

Tripp, R. (2001), *"Seed Provision and Agricultural Development: The Institutions of Rural Change"* ODI: Heinemann, Portsmouth

UNDP, (1999), *"Human Development Report"* New York; Oxford University Press.

(2003), *"Third Kenya Human Development Report: Participatory Governance for Human Development "* Nairobi. Kenya

(2004), *"The Global Human development Report 2004: Cultural Liberty in Today's Diverse World"*, UNDP, Newyork, USA

Von Pischke, J. D. (1975) *"A penny saved: Kenya's Co-operative Savings Scheme and Some related Aspects of rural Finance"* Institute for Development Studies, university of Nairobi, Working paper no. 204

Williamson, O. (1993), *"Calculativeness, Trust and Economic Organisation"* American Journal of Law and Economics

Woods, G. and Sharif, I. (1997), *"Who Needs Credit? Poverty and Finance in Bangladesh "* Dhaka, University press Limited.

Woodworth, W. & Woller, G. (1999), *"Journal of Microfinance Practitioner and Development Perspective "* Vol. 1. Marnot School, Brigham University

Woolcock, M. (1998), *"Social Capital and Economic development: Toward a Theoretical Synthesis and Policy Framework"* Paper review in Theory and Society

Women World Banking, (1999), *"Report of the 1999 Asia Regional meeting and Best Practice Workshop for Microfinance Practitioners "* New York.

Yunus, M. (1994), *"Banking on the Poor. "* Grameen Bank, Dhaka

Zeller, M. (1994), *"Determinants of Repayment performance in Credit Groups: the role of program Design, Intergroup Risk pooling and Social Cohesion"* Economic development and Cultural Change, Vol. 46, No. 3: 599 -620

## APPENDIX 1: SURVEY QUESTIONNAIRE

My name is Jacqueline Wawira Mbogo, a postgraduate student at the Institute for Development Studies, University of Nairobi. I am carrying out a study for my M.A Development Studies project paper on *Micro Finance Institutions: An Analysis of the Socio-Cultural Factors in Loan Repayment*. The focus of the study is on social and cultural factors that are key to a proper understanding of willingness and/or constraints to repayment of loans. My interest is to learn from microfinance loan recipient group members the extent to which loan repayment is influenced by the socio-cultural factors. I would appreciate if you are kind enough to spare a few minutes and share with me some of your thoughts, based on your own experience regarding my topic. Your responses will be treated with strict confidentiality.

### A. Questionnaire Log book

1. Questionnaire Number.....;
2. Date of interview
3. Group Name
4. Group size (Number of members)
5. Contact

### B. Respondent's Background

6. Age in years
7. Marital Status
  - Single
  - Married
  - Q Divorced/Separated
  - Widowed
8. Main Occupation?
9. Education level?

- Primary level
- Secondary level
- A-level
- University

10. Have you had any other training?

- Yes
- No

11. If yes, specify type and length of training

12. Religion

- Catholic
- Protestant
- <sup>1</sup> • African Religions (specify)
- None

13 Are you a member of any other group?

- Yes
- No

13b). If yes,

<b>Group</b>	<b>Activity</b>
<b>1.</b>	
<b>2.</b>	
<b>3.</b>	

**C. Group Details**

14. How long has the group been in operation?

15. For how long have you been a member of this group?

16. What is your Position in the group?

17. What Activities are the members involved in? (List in order of dominance)

- Small Scale Trade
- L) Farming
- Formal Employment
- Other (specify.....)

IS. Name the microfinance institution(s) that lend(s) to this group and if possible the amount of loan the group has received in each case?

<b>Institution</b>	<b>Amount</b>	<b>Year</b>
<b>1.</b>		
<b>2.</b>		
<b>j.</b>		

**D. Group management**

19. How are Leaders chosen?
20. How frequently are they chosen?
21. How often do you hold group meetings?
22. In your own view, what are the qualities of a good leader?
  - a
  - b
  - c
  - d
  - e
23. Do the current group leaders display any of these qualities?
  - Yes
  - No
24. Please explain your answer
  - (a) Yes

(b) No

**E. Access to Credit and Loan Repayment**

25 Have you obtained a loan?

- Yes
- No

26. If yes, explain

<b>Institution</b>	<b>Amount</b>	<b>Year</b>
1.		
2.		
3.		
4.		

27. Did you have any collateral on the loan?.

28. If yes, what form?

**29. What was the source of the collateral?**

- Personal savings
- Group leaders
- Group members
- Family sources
- Others (specify)

b). Please explain your answer.

30. Briefly describe the arrangements for loan disbursement?

31. Have you had difficulties in receiving loans?

- Yes
- No

b). If yes, explain?

32. Are there members of the group who have had difficulties in paying back loans?

- Yes
- No

b) If yes, approximately how many as a percentage of the total number of members?

- a) 100% (all)
- b) 75% (3/4)
- c) 50% (1/2)
- d) 25% (1/4)
- e) Negligible (Below 25%)

33. What do you think were the main reasons for this? (list them)

- a)
- b)...
- c)

34. Have you had difficulties in paying back loans?

- Yes
- No

b). If Yes, explain?

35. Have loan repayment problems affected the running of the group?

- Yes
- No

36. As an individual, did this affect your relationship with members of the group?

- Yes
- No

b). Please explain the outcome thereafter.

At group level

At individual level

37. In your view, do leaders of the group play a role in convincing members to repay loans?

- Yes
- No

38. Please explain your answer

(a) Yes

(b) No

39. Have there been incidences of loan defaults in the group?

- Yes
- No

40. How was the issue handled by:

a) Leaders

b) Other group members

41. In your opinion, how best should the issue have been handled?

42. Have you had any leadership inadequacies in respect to the group's loan repayment performance?

- Yes
- No



- b). If yes, what were they?
- c). How did they affect the group?
- d). What remedial actions were taken?

**F. Group Sustainability**

43 In your view, do you envision the group to survive for some time?

- Yes
- No
- b) If yes, Number of years?.....Explain
- c) If no, explain

44. What do you think should be done to ensure the survival?

- (a) At individual level
- (b) At group level
- (c) At community level

**G. Socio-Cultural Factors**

45. Are there customs, norms or values in your community that influence ones involvement in microfinance activities?

- Yes
- No

b) If yes, briefly explain these norms

i

iii

46. How does your community view your involvement in business enterprise?

- Positively
- Q Negatively

b) Please explain

47. How does this affect business undertakings?

a) At individual level?

b) At community level?

48. Do you think values and expectations from your family have affected your loan repayment performance?

- Yes
- No

c) Please explain

49. Has your being a member of the group been an asset or liability?

- Asset
- Liability

b) Please explain

50. Do you think cultural beliefs and customs affect loan repayment?

(a) Yes

(b) No.

51. What specific cultural norms would you say have affected your group?

1

2.

3.

52. What strategies have you adopted to handle these norms to your advantage? As

<b>Individual</b>	<b>Group</b>

53. What is your overall assessment of your group's loan repayment record?

- Excellent
- Good
- Average
- Poor

54. What would you recommend for the improvement of loan repayment record?

55. In summary, what would you say are the main cultural beliefs and practices that have made this community perform well in relation to loan repayment?

## **APPENDIX 2: IN-DEPTH INTERVIEW SCHEDULE (FOR KEY INFORMANTS)**

### **SECTION ONE: GENERAL INFORMATION**

Name of the respondent

Occupation

Marital status

Approximate age

Sex

### **SECTION TWO:**

#### **MEMBERSHIP**

1. Does gender determine membership in micro finance groups? How?
2. Does marital status determine membership of micro finance groups? In what ways?
3. Does age determine membership into such groups? What is the age bracket of the members in these groups? Please explain.
4. Is membership dependent on kinship ties or does kinship ties determine membership?
5. What role does social status play in membership? Please explain.

#### **LEADERSHIP**

6. In micro finance groups that have both men and women, does gender play a role in determining who becomes a leader? Please explain in details.
7. In case of groups that have men in leadership positions, can women question or raise suspicion about the leaders? Why? How?
8. Does style of leadership of a group depend on group composition? Please explain your answer.
9. Does marital status determine who comes into leadership position in such groups? How? Why?
10. Does the nature of marriage determine who comes into which leadership position? (Nature of marriage, e.g. stable family, polygamy, monogamy, polyandry, nuclear, extended, etc.). Please explain in details.
11. Does age determine who gets into leadership position? How? Why?

12. Is leadership influenced by social status? Explain your answer.
13. Does an individual's social status influence their ascension into leadership position?  
Please give details.

#### **SAVINGS AND BORROWING BEHAVIOUR**

14. How do gender roles influence ones' savings behaviour?
15. How does gender roles influence ones' borrowing behaviour?
16. Does marital status determine one's borrowing and saving behaviour? In what ways
17. Does marital status play a role in loan repayment? How?
18. Which is the most active age group in borrowing and savings within the groups?  
Why?
19. Does social status determine saving and borrowing behaviours of members? How?  
Why?

#### **PARTICIPATION**

20. How do gender roles influence participation in micro finance group's activities? (In terms of membership, attendance of group meetings, leadership positions etc)

UNIVERSITY OF NAIROBI  
I.D.S. LIBRARY