

**INFLUENCE OF REVOLVING LOANS AMONG SELF HELP GROUPS  
IN FINANCING HOUSEHOLD PROJECTS IN LAIKIPIA EAST  
DISTRICT, KENYA**

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**A Research Project Report Submitted in Partial Fulfillment of the Award  
of Master of Arts Degree in Project Planning and Management, University  
of Nairobi**

**2012**

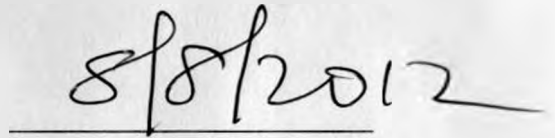
## DECLARATION

I declare that this is my original work and it has not been presented in any university or any other institution of higher learning for examination.



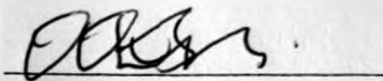
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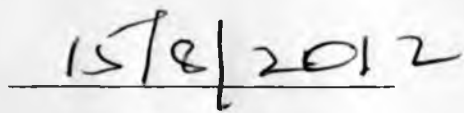
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This project report has been submitted for examination with my approval as the university supervisor.



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Date

## **DEDICATION**

This research report is dedicated to my wife Wanjiru, daughters Wambui, Nyokabi and Wanjiku and son Murigu for being my greatest blessing.

## ACKNOWLEDGEMENT

I wish to first and foremost thank the University of Nairobi for having granted me an opportunity to be one of its students pursuing higher learning more so in my area of interest. I also acknowledge Dr Lillian Otieno-Omutoko the Resident Lecturer Nyeri Centre who has advised and supported me as my supervisor while working on this project. Her continued guidance and quick response have greatly made what looked as difficult and impossible look easy, understandable and hence possible.

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Figure 1-An Illustration of Relationships between Variables.....31

CAAC..... Environmental Accounting and Communication Practices

EMU..... Environmental Management Components

MSA..... Management of Financial and Social Responsibility

SCC..... Sustainability of Supply Chain

SPM..... Sustainable Marketing Practices

SRP..... Sustainable Resource Practices

STC..... Stakeholder Trust Capital

SCM..... Supply Chain Management Organization

DFC..... Family Business Case Orientation

PVA..... Process Environmental Value

ELV..... Employee Green Value

WVOC..... Workforce Environmental Value Orientation

MEP..... Multinational Green Enterprise Program

WVFC..... Workforce Green Practice

WVET..... Workforce Environmental Training

## ABBREVIATIONS AND ACRONYMS

<b>BRWA:</b>	Belize Rural Women Association
<b>CEDI:</b>	Community Empowerment and Development Initiative
<b>DDC:</b>	Downtown Development Corporation
<b>DG&amp;SD:</b>	Department of gender and Social Development
<b>DYD:</b>	Department of Youth Development
<b>FOSA:</b>	Front Office Service Activities
<b>MFI:</b>	Micro Finance Institution
<b>MOYA:</b>	Ministry of Youth Affairs
<b>NGO:</b>	Non Governmental Organization
<b>PEC:</b>	Poverty Eradication Commission
<b>PEF:</b>	Poverty Eradication Fund
<b>RLF:</b>	Revolving Loan Fund
<b>SACCO:</b>	Savings and Credit Cooperative Societies
<b>SMEP:</b>	Small and Micro Enterprises Program
<b>WEF:</b>	Women Enterprise Fund
<b>YEDF:</b>	Youth Enterprise Development Fund

## ABSTRACT

The revolving loan is an important component in financing of projects and it's therefore important to assess how it influences financing of household projects in Laikipia East District. Revolving loans have been implemented in various countries including America through the Green Revolving Loans, in Bangladesh through the Grameen Bank and also in Belize through the Belize Rural Women Association in Central America. In Africa it includes South Africa through the Eastern Cape smallholder support Project. In Kenya revolving loans is also being implemented through various funds like the Women Enterprise Fund, Poverty Eradication Fund and Youth Enterprise fund among others.

The researcher in this study therefore sets out to establish how revolving loans generated by individual members in groups and not that which is borrowed from externally can influence financing of household projects in the district. These social groups in Kenya are not registered under any law in Kenya other than the Presidential decree of 1964. The objectives of this study were establishing how revolving loans in groups, choices of project by borrowers, source of funds and default of the loans influence financing of household projects in Laikipia East District. The study also tried to answer to what extent does revolving loans, choices of projects, sources of funds and default of revolving loans in self help groups influence financing of household projects in Laikipia East District.

The study intended to identify benefits and risks and how to manage them, increase awareness, investments and accessibility. This would increase more community participation and revolving loans and projects sustainability.

Questionnaires with both closed and open ended questions were used to collect data from the respondents. Observation and interview methods were also be applied in the process. The study also used both primary and secondary data available for the purposes of acquiring information and for triangulation. In analyzing the data it was refined and cleaned to eliminate any unwanted information, then coded and classified into categories. Findings were then presented in tables and figures and then interpreted.

The study revealed that revolving loans, choices of projects, sources of funds did really to a great extent influence financing of projects unlike the default of loans which only influenced only to a certain extent as default was ably controlled.

The study recommends that there is need for a policy to regulate groups' formation and management as groups were found to be very important channels for revolving loans delivery to ensure revolving loans are well managed for project implementation, profitability and sustainability. The study further recommends that further studies can be done to explore how the devolved structures of the new government as proposed in the new constitution will affect formation and management of self help groups and hence the revolving loans in the groups. it is also important to study how capacity building in groups can affect management of revolving loans in self help groups and hence identify how it will influence financing of projects.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Revolving loans are a gap financing measure primarily used for development and expansion of small businesses. It is a self replenishing pool of money utilizing interest and principal payments on old loans to issue new ones, American Council for Development Finance Agencies (CDFA) (2011) article. These loans are either provided by banks, microfinance institutions or raised as savings by group members in form of shares owned by each member of the group. The revolving loans in groups have been seen to have influence on financing of projects but this has not created enthusiasm to many people to borrow from such schemes despite the fact that the conditions for issuance are presumed to be less stringent as compared to those of the commercial banks.

In the establishment of Grameen Bank in Bangladesh serving about 2.5million people, it was found out that one of the strategies that helped the people overcome poverty was one of offering people tiny loans for self employment Yunus (1997).

The choice of projects for funding under the revolving loans is also critical and also expected to influence the financing of household projects. This is so because some of the projects might be unviable in terms of their sizes or level of funding. In Belize the women funded under the Belize Rural Women Association revolving loan programme overproduced art and craft articles such that marketing of the products became a challenge. This led to the loss of profits as middle men started exploiting the women, Gabriel S (1990). In such a scenario apathy to implement certain projects may creep in and this may lead to the household abandoning or adopting certain projects as per the prevailing conditions.

Sources of funds are another major factor expected to influence financing of projects at the household level. Groups due to their inability to raise enough funds to finance their projects

opt to source for funds from external sources. In America a revolving loan was introduced known as Green Revolving Loan whose major objective was to fund energy and carbon crediting projects for university and college students, Bolt and Herder (2007). This means that any project not within the packages detailed in the financing procedures of the donor may not be funded. It's hence evident that what is being funded may not be priority of the household and therefore will influence the financing of household projects.

After Kenya attained independence in 1963 the commercial banks became the main source of loans. However these major commercial banks had and still have stringent conditions that are not friendly to the small entrepreneurs who do not have collaterals to offer. Their high interest rates, usually pegged to Central Bank of Kenya (CBK) lending rates, have also been a major barrier for the small entrepreneurs and investors in accessing credits from these banks. This has generally locked many people out especially the youth and the women who do not own land title deeds from accessing credit. Groups in Kenya have been revolving loans within themselves, Mwaura, Ruth (2011). The funds that build this loan is raised through members mobilizing own savings in form of shares and through it build a kitty through which members borrow funds from. In the above study which aimed at identifying differences in credit management techniques employed by commercial banks in micro credit it was established that groups also raise their own finances for loaning purposes. In order to encourage members to raise enough finances to build the loan kitty social groups peg whatever amount a member wants to borrow to the amount of savings one has saved with the group either two or more times the savings, Department of Gender and Social Development Nanyuki. Through this method members are enthusiastic to save more in order to borrow more for their projects.



These loans lead to financing of projects without occasioning any strain on the investor of the project. These cheaper loans in groups however face the challenge of default in repayment. Default is usually caused by poor projects planning, excessive household needs, diversion of finances to the unintended projects, and inadequate markets for the products, Wabukala (2007). Default can easily cut short the revolving loan cycle and hence affect financing of household projects.

In Kenya the revolving loans are being implemented through funds introduced by the government such as Women Enterprise Fund, Poverty Eradication Fund and Youth Enterprise Development Fund and also through savings raised by individual self help groups. This study will focus mainly on the savings raised by members to form the loan fund that members use as the basis for the revolving loan. Such loans are built through encouraging members to save more through incentives such as bonuses calculated against ones savings or dividends accrued from individual members shares, Ministry of Gender, Laikipia East. It is estimated that revolving loan portfolio within self help groups in Laikipia East to be over 10 million shillings which has been raised through members' savings only. DG&SD Laikipia East District

In Laikipia East district several other revolving loans are being administered to groups. For example Women Enterprise Fund has loaned to groups an estimated total of 2.3 million shillings with a repayment rate of 84% according to the Regional Women Enterprise Fund Coordination office for Central Kenya quarterly report for the period ending March 2012. According to Taifa SACCO Ltd a micro financial institution operating in the district social groups had absorbed a total of 3.94 million shillings during the last one year with a repayment rate of 62%. Youth groups in the district have also borrowed from the Youth Enterprise Development Fund 2.1 million shillings with a repayment rate of 52.1 % (District Youth Office, Nanyuki)

## **1.2 Statement of the Problem**

The revolving loan usually carried out in groups, is one of the important components in financing of household projects in Laikipia East District, District Development Officer (DDO) Nanyuki, Laikipia East.

Revolving loans activities have been implemented and various studies conducted in trying to address their effectiveness and accrued benefits. In Bangladesh the revolving loan schemes were used to fund the poor through the Grameen Bank which provided accessible loans, Yunus (1997). In this study Yunus focused more on credit access to the poor with more focus on how funds provided by Central Bank of Bangladesh through the Grameen Bank. This study did not focus on such loans managed at the group level.

In America the revolving loans has been used to finance energy, environmental and income generating projects in institutions of higher learning through a Green Revolving Loans Project, Council of Development Finance Agencies (CDFA), 2011. This study's objective was to evaluate the success of an energy programme in colleges and learning institutions hence left out the benefits of such loans at household levels in the community these colleges were in.

In Kenya an impact study of microfinance on rural poor households' income and vulnerability in Makeni District, Mueni (2007) mainly focused on the officially formalized funds with little focus on the money raised by individual members in groups as a source of funds for financing projects. This study also did not focus on household projects.

The literature reviewed revealed that there was an information gap on how revolving loans in self help groups influenced financing and implementation of household projects. In addition revolving loans have not been embraced well by most Kenyans as a source of finance for implementation of projects especially through self help groups many people still preferring to take loans individually, Taifa Savings and Credit Cooperative Society (SACCO), Nanyuki.

This study therefore aimed at establishing how the group based revolving influence the financing of household projects in order to recommend strategies of how more Kenyans can be brought on board to access this form of what appears to be easily accessible and convenient loans.

### **1.3 Purpose of the Study**

The purpose of this study was to assess revolving loans among self help groups in financing household projects in Laikipia East District.

### **1.4 Research Objectives**

The objectives of this study were;

- i. To establish how revolving group loans influence financing of household projects in Laikipia East District.
- ii. To assess how choice of projects influences financing of household projects in Laikipia East District.
- iii. To establish how source of funds affects financing of household projects in Laikipia East District.
- iv. To investigate how default in revolving loans influence the financing of household projects in Laikipia East District.

### **1.5 Research Questions**

The study set out to answer the following questions:

- i. How do revolving groups' loans influence financing of household projects in Laikipia East District?
- ii. How does members' choice of projects in revolving loans influence the financing of household projects in Laikipia East District?

- iii How does source of funds influence financing of household projects in Laikipia East District?
- iv Does default of revolving loans affect financing of household projects in Laikipia East District?

### **1.6 Significance of the Study**

This study will be expected to bring out the importance of revolving loans operated by groups as a major component in financing of household projects. This would prompt the stakeholders to develop strategies to make them more available and accessible to those who deserve. It will also assist in coming up with legislation and policies on self help groups as they are not covered under any law in Kenya as they are important channels for revolving loans delivery.

### **1.7 Limitations of the Study**

The area of the study was found to be wide considering that Laikipia is an arid and semi arid area covering an area of 3424.9 sq km. The district is vast and sparsely populated as it has 56 persons per sq km as it lies to the leeward side of Mt. Kenya hence requiring one to move long distances between groups. The district has also very poor road network with only the Nanyuki-Nyeri highway with tarmac. There are about 200 groups that are involved in revolving loans schemes in Laikipia East district (District Gender and Social Development Office, Nanyuki). Getting the 200 groups therefore to participate was therefore found to be a difficult task and hence difficult to interview all the 200 groups undertaking revolving loans in the district considering the financial implication hence sampling had to be done.

### **1.8 Delimitations of the study**

To overcome the anticipated limitations, the study was carried out among self help groups with revolving loans activities in loan fund either raised internally through members' savings

or raised externally from government programmes or from micro financial institutions. The scope of the study was also reduced through sampling taking a sample of the whole population and ensuring that the sample is truly representative of the target population in Laikipia East District to counter the challenges of time and finances. This therefore meant using 30% sample of the targeted population hence interviewing about 68 groups, 3 chiefs from the total target of 7, 3 officials from MFIs, 1 official each from the Ministries of Youth and Gender. This sampling put geographical distribution factors and the population distribution into consideration. Research assistants were also engaged to ensure a thorough data collection from the sample.

### **1.9 Assumptions of the study**

This study assumed that the variables would remain constant during the whole period of the study. It also envisaged that the respondents would give accurate information and all the information was therefore reliable. The study also assumed that most of the questionnaires if not all would be returned duly filled as anticipated.

## 1.10 Definition of Significant Terms

<b>Choices of Projects:</b>	These are the projects members of the groups will identify to fund using the loans. Size, nature or viability may determine its completion, profitability or sustainability
<b>Default of Loans:</b>	This is the inability of the group members to repay the loans. If this is rampant the revolving loan cycle breaks hence the collapse of the scheme.
<b>Household Projects:</b>	These are the projects that are implemented at the family level by the members of the groups through revolving loans including water, dairy goats, poultry and education projects among others
<b>“Loanable” Funds:</b>	Funds that is available in the group for lending to potential borrowers. Usually sourced from members as contributions, repayment of loans or sourced from without
<b>Men Groups:</b>	These are self help groups with only men as members
<b>Micro Financial Institutions:</b>	Smaller than banks financial institutions which offer small scale loans or micro credit depending to the requirements of the borrowers They usually target groups as the security to the loans through members co guaranteeing one another
<b>Mixed Groups:</b>	Groups which allow membership from either sex
<b>Revolving Loans:</b>	A loan scheme usually practiced in self help groups where members within the group borrow money at an interest and repay the same to lend again to another or the same member
<b>Self Help Group:</b>	A small group of people with a membership of about 10 to 30 people who have come together with a common interest. However some groups outgrow this number

**Sources of Funds:** Refers to the source of the loans used in the revolving loan fund. This is either money raised by group members, grants or loans from the government or from commercial money lenders like micro financial institutions or banks.

**Table Banking:** A system used in groups operating like a bank where members deposit their cash, withdraw or use the savings to acquire loans. It derives its name from the table where the money is usually placed after members contribute.

**“Unbankable”:** This is the section of the populations who are not able to access banking services either because of distances from the banks or cannot afford to raise enough savings to take to the bank.

**Village Banking:** This is similar to table banking but it involves more than one group in the village or its base is usually the village away from the formal banks.

**Women Groups:** These are groups formed specifically with women as the members.

**Youth Groups:** These are groups formed by members of either sex below 35 years of age.

## **1.11 Organization of the Study**

The study was organized into sections and chapters. The first section is the preliminary which include the declaration, dedication, acknowledgement and the executive summary of the study. In the following section it is divided into five chapters. Chapter one of the study is the introduction and background of the study. It also include the statement of the problem the significance research objectives and questions the study tried to answer. The limitations and delimitations of the study are also addressed. Chapter two covers the literature review related to the area of the study while chapter three covers the methodology the study applied to attain the results. In chapter four data analysis, presentations and interpretation is covered while chapter five covered the summary of findings, discussions, conclusions and recommendations of the study.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter covers the following areas: history of revolving loans, default in repayment of revolving loans, choice of projects in groups with revolving loans and ends with sourcing for funds for revolving loans. The chapter ends with identifying the gaps in the reviewed literature that prompted this study.

#### 2.2 History of Revolving Loans

Revolving loans have been practiced and used to improve livelihoods in various countries. Yunus (1997) in his book *Banker to the Poor (Micro-lending and the Battle Against World Poverty)* and who also contributed heavily towards the establishment of the Grameen Bank in Bangladesh with an aim of fighting poverty among the people of Bangladesh says that in his efforts to develop strategies that would help the people overcome poverty he found out that one of the strategies that worked well was the one of offering people with tiny loans for self employment. This idea of micro lending became the basis for the nationwide "bank of the poor" serving 2.5 million people in Bangladesh.

Yunus realized that the revolving loans scheme or the Grameen Bank approach could achieve objectives such as extending banking facilities to poor men and women, eliminating the exploitation of the poor by money lenders, creating opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh, bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves, and reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

The United Nations (UN) General Assembly recognized this approach through a report written by the Secretary-General of the UN through General Assembly general resolution 52/194 of 18 December 1997. The report gave prominence to the successes achieved in the success of small-scale lending programmes such as the Grameen Bank of Bangladesh. This was evident on lending to small enterprises in agriculture, distribution, crafts, trading and similar activities. The participatory nature of these projects, together with the emphasis on women entrepreneurs and employment creation, had raised hopes of reducing poverty through the approach.

The report exhibited surveys on current experiences and highlights the strengths and weakness of the microcredit approach, including the administrative difficulties and limited linkages with other services for the poor. The report also contains suggestions for strengthening operations, and makes a particular plea for ensuring that microcredit projects are established in a broader context of support to the small enterprise sector.

Revolving loan funds share many characteristics with microcredit, micro-enterprise, and village banking, namely providing loans to persons or groups of people that do not qualify for traditional financial services or are otherwise viewed as being high risk. Borrowers tend to be small producers of goods and services — typically artisans, farmers, and women who have no credit history or access to other types of loans from financial institutions. Organizations that offer revolving loan fund lending aim to help new project or business owners in becoming financially independent and eventually to become eligible for loans from commercial banks. The fund gets its name from the revolving aspect of loan repayment, where the central fund is replenished as individual projects pay back their loans, creating the opportunity to issue other loans to new projects.

Microfinance has become very important in global poverty reduction debates. The popular assumption is that enabling poor households access to credit helps households begin

microenterprises which would enable them improve their incomes and eventually escape poverty, Joy Mueni (2007). This was also found to be evident in the area of the study by the researcher, Ministry of Planning, National Development and Vision 2030, Nanyuki office.

Creating a business in Kenya was realized to be more difficult for women than it is for men due to the inability of women to access credit, Majorly Vreeken (2007). In the study she established that through revolving loans targeting women they were able to initiate projects and small enterprises on their own. In Laikipia East district the researcher found many projects had been started using such loans, Women Enterprise Fund Regional Coordination Office, Nyeri.

Micro financing has led in the capacity building through training of the rural poor, Razia Chemjor (2008), in the study Effect of microfinance Interventions on Empowerment of Women Entrepreneurs in Mogotio Constituency in Kenya. She revealed that once the capacities were built such people were able to initiate their own enterprises and initiated and implemented projects with ease. Women Enterprise Fund through its volunteer workers have been using capacity building as a condition for qualifying for the loans and this has seen the women successfully implement their projects, WEF Regional Office, Nyeri.

### **2.2.1 Green Revolving Loan**

This revolving loan was practiced in American university colleges with its main focus being environmental management through carbon crediting.

The purpose of the fund was to provide financial assistance in the form of loans to projects within the downtown Urban Renewal Area established in 1976 and last amended in 2004 (URA) that are consistent with the Downtown Billings Improvement Plan (Framework Plan) that was to; assist in the economic revitalization and stabilization of the URA, attract and retain a stable clientele population within the URA; Stimulate private investment within the URA; Generate additional property tax revenues within the URA, and encourage and

facilitate in the remodeling and restoration of historically significant structures within the URA. Since independence groups have applied revolving loan strategies to implement and generally raise their won livelihoods through constructions of houses, purchase of livestock, home improvement and educating their children. Ministry of Gender Children and Social Development, Central Province, Nyeri.

It was established that Green Revolving Funds (GRF) can invest in a wide variety of projects and have supported projects that impact a university's carbon footprint or local environment. Examples of these projects implemented included: installing technology that conserves water and electricity; improving campus recycling rates; instituting a campus composting program; increasing campus waste diversion from landfills; replacing a fuel source (for example converting campus plants to burn biomass or biodiesel instead of traditional fuel sources); and introducing behavioral change programs that raise student awareness of individual resource use.

Bolt & Thomas (2007) says that all revolving loan funds operate on a fairly simple premise: An initial sum of money is set aside for the fund. The fund then finances sustainability projects that have a quantifiable monetary savings or return, such projects abound in the realms of renewable energy, energy efficiency, and energy conservation. A portion of the returns from these projects is reinvested into the fund until the project has been paid off. The money is then reused for more projects. Some loan funds are designed to grow over time, so they can provide ever-greater benefits. These funds require that projects return slightly more money to the fund than what was borrowed as principal. This makes group revolving loans funds more attractive than bank loans, Faulu Kenya, Nanyuki Office. The success in the study was institutional based and hence it was necessary to measure how groups applied this kind of loans in financing their household projects. The environment was also different as GRL was very formal as compared to the informal nature of the self help groups.

### **2.2.2 Belize Rural Women Association Revolving Loan**

This revolving loan focused on empowering women in trying to ensure that they could generate incomes to boost their families' livelihoods and Kenya also has tried to do the same through the Women Enterprise Fund, Ministry of Gender, Children and Social Development. Belize Rural Women's Cooperatives (BRWA) was formed in early 1985 to provide rural women with both an independent advocacy organization in Belmopan, the capital, and to provide health education for rural women, Gabriel 1990. The assumption was that poor health was a primary impediment to solving the other social problems faced by rural women. BRWA quickly expanded its focus, however, to include leadership training and support for the creation of cooperative business ventures among the 24 local member groups of BRWA. Women were supposed to borrow from the fund and then repay to create a revolving loan for others to borrow from.

The United Nations Development Fund for Women (UNIFEM) provided the seed money that BRWA needed to launch the RLF. The RLF was thus originated and has been utilized in financing an array of cooperative business ventures planned and implemented by the member groups of BRWA. These projects have included such activities as cassava production and processing, livestock rearing, fruit preservation and craft production. Investment in craft production is the most advanced and provides the basis for much of the analysis here of the early implementation of the RLF. Women engaged themselves in income generating activities that ensured that they gained financially. This is a good example of how revolving loans can be a good source for financing of projects. However this study dealt more on a loan built on external funding by the government and hence there was need to carry out a study on loans built through members own savings which this study tried to achieve by focusing on such loans. The loans were built using members shares and other savings unlike the Belize fund which was financed through the Central Bank of Belize.

### 2.2.3 Eastern Cape Smallholder Support Project

In Africa the case of Eastern Cape Smallholder Support Project in South Africa was initiated in 1999 and completed in June 2004, Richard Ewbank (2004). The project worked with seven smallholder Farmer Associations situated in the central eastern part of the province. Out of the seven, six had access to rain fed agricultural land and one in an irrigation scheme, which during the 1990s had ceased to operate. The specific objectives of the project were to optimize the community management of natural resources through a number of activities. FARM-Africa initiated revolving funds in the farmer Associations at the seven sites essentially as a means of providing material support in the form of investment credit to farmers in parallel to capacity building activities.

Revolving fund activity began in December 2000 with the issue of grants to Qamata (Section 2) and Mtshabe, with a further 11 grants issued up to December 2003. The revolving funds attracted additional investment from both the Agricultural Research Council and Chris Hani Municipality, together contributing nearly R268, 000 or 35 per cent of the capital provided. Rules to guide the operation of the revolving fund and its management by the umbrella committee are developed in a participatory way with the community. The basic guidelines were that funds could only be lent to members of the Farmer Association, a joining fee of R10 per member is required, each borrower must belong to a credit group of a minimum of five members, each credit group must have a constitution and membership list, the group must fill in an application form, repayment schedule for the amount their members are borrowing and submit their bank book, the group must submit a business plan approved by the relevant extension officer and business plans must be based on agricultural activities. The other conditions were that the loan is repayable in equal installments, an additional three per cent will be charged on the capital amount if a credit user fails to repay their monthly

installments, a group will not be eligible for a new loan until all its members have repaid existing loans. It is the group's responsibility to ensure that all its members repay their loans. The maximum loan is R500 per individual within the group and the group members will submit all the loan applications to the group head, who will then call in the extension officer to approve their consolidated business plan. This experience from South Africa is a good example of how groups can counter default in loans as default was found to be a major challenge in implementing revolving loan funds. Wabukala (2007).

The study above focused on agricultural related projects which had an effective extension support but this study intended to focus on the whole range of household projects implemented with or without any extensional support.

### **2.3.0 Revolving Loans in Kenya**

In Kenya interventions of revolving fund loans schemes have also been witnessed either through the public sector or the private sector. The Public sector or the government programmes have been through funds such as Poverty Eradication Funds (PEF), Women Enterprise Fund (WEF) and Youth Enterprise Fund (YEF). The private sector has mainly been carrying out this activity through Micro Finance Institutions (MFIs).

#### **2.3.1 Women Enterprise Fund**

The Women Enterprise Fund (WEF) was conceived by the Government of Kenya in 2006 and officially launched in 2007, Ministry of Gender, Children and Social Development 2012. The principal objective of the fund is economic empowerment of women. Women Enterprise Fund loans reach the target beneficiaries through our partner financial intermediaries and directly through Constituency Women Enterprise Scheme (C-WES). The fund is expected to assist the government realize the 3rd Millennium Development Goal

(MDG) on "gender equality and empowerment of women". In recognition of the critical role women play in socio-economic development, the WEF has been identified as a flagship project under the social pillar in the Vision 2030. It is expected that the fund will play a catalytic role in mainstreaming women in the formal financial services sector. WEF further states that although women constitute 52% of the total Kenyan population, majority of them have been excluded from the formal financial services like for example, few have bank accounts, can access loans, money transfer services among others. The rural women are more disadvantaged than their urban counterparts.

The fund is designed to address the perennial challenges women face in their desire to venture in income generating activities (enterprise development), namely the cultural factors that do not allow women to own assets which are required by banks as collaterals, high bank transaction costs that prohibit women from owning bank accounts, myths about banks that they are for the rich, auctioning of assets by banks on loan default and the general marginalization women face. The loans are usually administered through appointed Micro Finance Institutions which loan money to individuals and through what is referred to as Constituency Women Enterprise Scheme (C-WES) administered through Department of Gender and Social Development mainly targeting women in groups. The fund gets its finances from the Treasury receiving an annual allocation of Kshs 1 billion. The amount is then channeled through the MFIs which receive Kshs 680 million whereas C-WES receives Kshs 210 million annually. According to WEF (April, 2011) statistics so far the Fund has released an estimated Kshs 407,488,930 had been disbursed through C-WES to 8,167 groups with a loan absorption rate of 61%. The total amount paid by then was Kshs 123,930,825 and Kshs 257,216,864 was due for payment.



Women through this programme have been able to initiate several projects at the household level including small enterprises like retail shops, groceries, cereals, dairy goat farming, and poultry farming among others thus increasing household capacity to raise finances for repaying loans creating a loan basket for continued loaning.

While the above study focused on women as beneficiaries this study focused on all the self help groups regardless of age or sex.

### **2.3.2 Poverty Eradication Fund**

There is also the Poverty Revolving Loan Fund which is managed by the Poverty Eradication Commission. According to its Chairman (1999) the commission is in the process of improving the Revolving Loan Fund Strategy, which is financed by the government of Kenya, to assist low-income earners who cannot access credits from banks or the microfinance institutions. "A revolving loan fund." according to Marianne Huey of Ohio State University, "is a source of money from which loans are made for small business development projects. The repaid funds are the base from which other loans are borrowed from. The Poverty Eradication Commission was formed in 1999 and operates under the Office of the President. The commission is in charge of coordinating activities of donors, NGOs, and the Kenyan government to combat poverty. The program uses the groups through which funds are loaned to the groups for members to borrow money from. Groups are loaned funds between Kshs 50,000 to maximum of Kshs 250,000/= which they revolve amongst its members for a whole year with a grace period of three months. Once the groups pay back they qualify for a higher funding than what was loaned them.

It's therefore evident that revolving loan funds provide critical financing when credit access is limited, supporting the development and expansion of local businesses and other special initiatives. While a revolving loan fund cannot finance projects on its own, it is an integral part of the small business loan package. Borrowers benefit from flexible and favorable terms,

and financial institutions enjoy lower overall risk. The results include new jobs, new businesses and a healthier local economy.

In its efforts to strengthen revolving loans in groups borrowed from the Poverty Eradication Fund, (2011) states that PEC is now piloting on a district based revolving loan which brings on board groups with revolving loans scheme together under one umbrella known as District Table Banking Services (DTBS). The districts being piloted are Thika, Bondo and Siaya districts. This has already been going on in Rongai and Imenti North Districts which PEC also intends to upscale. The main objective is to increase the loan base or portfolio in order to increase loan access to members of the umbrella group at the district level and also improve on mobilization of resources. This in itself shows how revolving loans are important that the Ministry of Planning is trying to come up with a formal way of carrying out revolving loans. District Development Office, Laikipia East.

This study revealed that self help groups received funds from the government to revolve among themselves while the study that the researcher intended to carry out was to focus on loans built on funds generated by the members themselves to loan to themselves in a revolving manner.

### **2.3.3 Youth Enterprise Development Fund**

The Youth Development Enterprise Fund (YDEF) is very similar to the WEF. The WEF was created on the foundation of YDEF. The main difference is that as WEF targets the women YDEF target is the youth. In Kenya the youth policy defines the Youth as any person aged between 18 to 35 years. The Youth Enterprise Development Fund (YEDF) was conceived by the government in June 2006 as one of the strategies of addressing youth unemployment. The Fund was officially launched by His Excellency President Mwai Kibaki on 1st February 2007.

According to the Ministry of Youth Affairs and Sports for a group of youth to access the fund some conditions have been set especially for 1 disbursed through the Constituency Youth Enterprise Scheme (C-YES).

Members of the group should be aged 18 to 35 years; in case of mixed group, at least 70% of the members are aged 18 to 35 years and 100% of group leaders are within the preferred age bracket. The group is supposed to be registered with the Department of Social Services or the registrar of societies at least three (3) months before applying for the loan; The group must also be physically be operating within the Constituency; The group is undertaking/proposing to carry out business oriented activity and also operating an active bank account. The account is usually necessary as funding is through cheques which must be deposited in the account. Applying group will collect a proposal form from their Divisional Youth Officer, the District Youth Officer, or from the MOYAS or Youth Fund website; the group loan applicants submit completed business proposal forms to the Divisional Youth Enterprise Development Fund Committee (YEDFC) within the set deadline; The Divisional YEDFC will screen and assess the proposals received in line with the guidelines provided and within the set time period; The Divisional YEDFC will then forward the recommended proposals in the order of merit to the District YEDFC; The District YEDFC validates and approvals the proposals in line with the guidelines provided at both Divisional and District levels; The District YEDFC forwards details of groups to be funded to the Fund Headquarters where cheques are processed and sent to beneficiary groups through the District Youth Officer.

According to September 2011 Fund status report the Fund had advanced loans worth Kshs. 5.2 billion to 144,000 youth enterprises. Out of this amount Kshs. 545.3 million had been advanced to 12,407 group projects while Kshs. 54.2 million had been disbursed to 2111 individual enterprises at the constituency level. Through financial intermediaries the Fund

had financed 129,385 group and individual enterprises to the tune of Kshs. 4.6 billion which was targeting youth groups to initiate income generation projects enabling them to raise funds to repay the loans to revolve to other groups

The above study focused on women as beneficiaries this study focused on all the self help groups regardless of age or sex and establish how the loans influence financing of household projects.

#### **2.4 Revolving Loans in Groups**

Groups in Kenya have been revolving loans within themselves, Mwaura, Ruth (2011). The funds that build this loan is raised through members mobilizing own savings in form of shares and through it build a kitty through which members borrow funds from. In the above study which aimed at identifying differences in credit management techniques employed by commercial banks in micro credit it was established that groups also raise their own finances for loaning purposes. In order to encourage members to raise enough finances to build the loan kitty social groups peg whatever amount a member wants to borrow to the amount of savings one has saved with the group either two or more times the savings, DG&SD Nanyuki. Through this method members are enthusiastic to save more in order to borrow more for their projects.

The amount of savings or shares a member has also determines the share of the dividends members receive by the end of every year. These groups also encourage borrowing through offering bonuses to borrowers, Community Empowerment and Development Initiative, Nanyuki. These bonuses are usually pegged to the size of the loan a member has borrowed from the group. The bonuses are calculated through a formula that allows a borrower to take a certain percentage of the interest chargeable from a loan as an incentive. This means that if a loan attracts 10% interest over the principal loan the member can get 20% up to 60% of that

interest depending with the group. This usually varies from group to group and the types of projects being implemented by the group members, Taifa SACCO, Nanyuki.

Through this approach savings grow faster hence creating a viable revolving loan base which provides for loans for financing household projects in the district by members contributing a certain amount of money periodically as agreed between the group members alongside the loan repayment installments. These loans have seen groups implement various projects at the household level from income generation, education to health projects, Maendeleo ya Wanawake Organization (MYWO), a national women NGO, Nanyuki. The organization further says that borrowers find this arrangement convenient as they are the ones who decide the amount of money one can borrow, the amount of interest chargeable the repayment period and also the securities or collateral for the revolving loan unlike the banks where everything is done commercially without considering the status or conditions of the borrowers.

Members use their savings to guarantee other members, loans and through their bylaws has provisions for a member forfeiting their savings if a guaranteed member defaults. They also first establish the credit history of the borrower by knowing whether the applicant for the loan is a member of another group and if he or she has an outstanding loan. The loan applicant is also expected to have the application form countersigned by a close family member. The guarantor is also made aware that they cannot qualify for a loan in case somebody they guaranteed has defaulted and the amount in default is equivalent or more than the guaranteeing members' shares, District Poverty Eradication Committee Laikipia East, Nanyuki.

The researcher in this study wanted to establish the effectiveness of this kind of revolving loans arrangement and how they influenced the financing of household projects.

## 2.5 Choices of Projects by Group Members

Projects identified for funding through revolving loans differ depending with what the group members agree upon during group formation stage or even later due to emerging issues as groups grow and develop. Projects choice is also at times left to individual members to freely choose what they feel is their felt need and will go a long way in alleviating their problems. Size of the loan received from the revolving loan may also determine the type and size of the project to be implemented. Some donors or development partners also predetermine the type of projects that will be implemented as they also put conditions on type and size of projects that they will fund hence forcing group members to undertake projects that were really not their top priority unlike when they would have been left alone to implement what they would preferred, CARITAS Nyeri (an Non Governmental Organization). The choice of the project depends on how the members of these groups are involved. This is particularly important since projects that have higher levels of community participation have been shown to have a greater likelihood of proper operations and maintenance over the full life of the project' (World Bank, 2003).

Project type is perceived to influence financing of projects through revolving loans because the group management may fail to get adequate finance for the projects. Some projects like the income generating projects may be easier to implement as they are also expected to generate income which can also be ploughed back for developing or expanding the project. Social projects on the other hand may be completed using the revolving loans but may not generate income to enable the borrower to repay the loan and once the borrower defaults in the repayment of the loan this may lead to the failure of the group management to advance other loans to other qualified members thus stalling the revolving aspect.

The group management must therefore ensure that the type of projects chosen will not lead to default of loans and hence will create sustainability for the revolving fund as revolving loans do not necessarily have collaterals. The Belize Women's cooperatives Revolving Loan Fund has developed a Criterion for Making Loans safe of default according to Satya (1990) the RLF does not require tangible collateral, such as material or financial assets. If it did so, there would be few loans made, since the targeted population, rural women, is largely property less. Instead, the RLF makes loans based upon intangible collateral, the "goodwill" or trustworthiness of the women who are members of the group requesting the funds. Thus, the building of mutual trust within and between member groups is crucial to the success of the RLF. Members must view the RLF as theirs and must take personal responsibility for its success.

To ensure this it is important that projects identified by members, groups or even the donors are thoroughly deliberated upon to ensure they are implemented to completion and are also viable and sustainable to ensure that they will also sustain the revolving loan fund so that the revolving cycle is not broken. This can be done by ensuring that all the stakeholders fully understand the requirements of each project and the expected benefits to be accrued from the project. It is important to use a judicious mix of awareness methods and the benefits have to be explained to local people through local medium and in a language they can easily comprehend, Taneja, (2006). As observed by Thomas and Thomas (2007), enhancement of community participation requires a clear understanding of the baseline and the expected target of achievement after a certain period of time. Because of lack of clarity in the concepts of participation, most people find it difficult to define the levels of achievement as they progress with the project. This lack of clarity leads to confusion and the ultimate project abandonment since roles and individual expectations are not spelt out. People who are busy

and with limited resources will not invest their time and money for a cause they are not sure of and if they do they might fail miserably.

It's also important members and groups develop project work plans that will be used as a tool for sourcing of funds and also an implementation guide to ensure maximum control of resources for optimum achievement of desired goals. BRWA for example requires its member groups to develop project plans. These plans must demonstrate the following: i) that the products and/or services the group will provide match local needs; ii) that the members' have a working knowledge of the type, cost and quantity of the means of production and skills required to provide such products and/or services; iii) that the group will generate sufficient revenues to repay the loan and other operating costs to keep the projecting ongoing (equivalent to meeting the positive net present value criteria in standard finance methodology, but recognizing that alternative uses of funds, within the stated constraints, may be severely limited). BRWA provides its members with technical assistance in constructing these project plans.

Faulu Bank, Taifa and Laikipia Teachers' Savings and Credit Cooperative Societies which are MFIs operating in Laikipia East District and DG&SD among other stakeholders who have direct interaction with groups carrying out revolving loans scheme emphasize on groups developing proper mechanisms to prevent and manage loan defaults. They do this by ensuring that before groups and their member's access any loan they have first to indicate what kind of projects they would want to undertake or want funded. To ensure that the revolving loans are well used they also encourage groups to develop project action plans which the members will use to implement their projects once loans are acquired.



## **2.6 Sources of Funds for Revolving Loans**

The main source of funds for most projects is either through owner's equity or borrowed funds commonly known as debt. In groups undertaking revolving loan schemes members either raise the revolving loan kitty by mobilizing savings from group members until enough money is raised to ensure that there is adequate funds for members to borrow from. Savings are raised either through an agreed amount of money per an agreed time period. This could be daily, weekly or monthly depending on how group members earn their income. Debts are usually raised through borrowing cash from MFIs or NGOs that loan them money at a cost commonly referred to interests. Some NGOs offer projects or materials for construction of projects which is then valued in monetary terms and then groups and their members are expected to pay back at a subsidized rates within an agreed time period.

A good number of Kenyans also rely on Savings and Credit Cooperative Societies (SACCOs) as a source for financing projects. This applies to both the formally employed, farmers and even business people who have formed such SACCOs to enable them mobilize savings to facilitate taking of loans by their members. These SACCOs have been formed across many sectors including transport, farming, business enterprises, employees in various sectors and those others working in the informal sector commonly referred to as the "Jua Kali" sector.

Yunus (1997) in his book on how the Grameen Bank was founded in Bangladesh gives an account of how this revolving fund can be raised through own capital and externally borrowed or supported by banks. Yunus shows how the bank grew with members own savings and the support the bank received from the Central Bank of Bangladesh to form the Grameen Bank which aimed at providing revolving loans to the poor.

Groups use various methods to raise savings especially equity. They encourage their members to raise savings by indicating to them through their bylaws that one can only get a loan which is three times the value of the savings a member has saved. This encourages their

members to save more in order to qualify for high value loans. Savings are normally done periodically depending on the group bylaws. Since most groups are formed by members with common interest those that earn income daily e.g. hawkers, those working in the transport industry like drivers, conductors and hand cart pushers prefer to save on daily basis while other traders would prefer weekly savings. The salaried persons usually peg their savings on monthly basis.

Groups also encourage savings through paying bonuses and dividends annually pegged on the amount of money saved. Those with high savings usually have high bonuses and dividends depending on the amount of money one have saved. Savings are also realized from the interests chargeable, fines for loan default and other fines for non conformity to group's constitutions and bylaws. Group's own capital is the most preferred since it also provides cheap loans and also it's more sustainable.

On the other hand groups may not have adequate funds to loan to its members to finance their projects and hence have to go for debt funding. This debt may include cash to boost their revolving loan fund. This is the most common form of debt financing. The funds are usually borrowed from either micro finance institutions or set up funds by the government. Currently the government is running several funds designed to boost groups to achieve the desired loan portfolio. Such programmes include Women Enterprise Fund, Youth Enterprise Development Fund and Poverty Eradication Fund. According to the DG&SD groups are usually loaned funds through Constituency Women Enterprise Scheme (C-WES) administered through Department of Gender and Social Development mainly targeting women in groups. The fund gets its finances from the Treasury receiving an annual allocation of Kshs 1 billion. The amount is then channeled through the MFIs which receive Kshs 680 million whereas C-WES receives Kshs 210 million annually. According to WEF (April, 2011) statistics so far the Fund has released an estimated Kshs 407,488,930 had been disbursed through C-WES to

8,167 groups with a loan absorption rate of 61%. The total amount paid by then was Kshs 123,930,825 and Kshs 257,216,864 was due for payment. Youth groups also have a similar programme under MOYA. According to the ministry each group is loaned money to undertake projects that are income generating in nature. The ministry receives 1 billion shillings per year to be loaned to groups. Another fund targets groups is the Poverty eradication Fund. Laikipia East received Kshs 4 million to be loaned to groups in Laikipia during the 2011-2012 financial years (District Development Office, Nanyuki). Both WEF and YEDF charge an annual interest rate of 8% while the PEF charges 7% annually.

The other method group's use in form of loan administered through the revolving loan scheme is the approach whereby they go for loan in form of complete projects or partnering with an agency to implement a project to repay in form of loan. According to the District Youth Office, Nanyuki the ministry has partnered with a private company to provide projects to the youth in groups.

In this programme Youth Enterprise Development Fund (YEDF) and Amiran Kenya Ltd have partnered to support young farmers in acquiring a tailor made Amiran Farmers Kit (AFK) designed specifically for what is being referred to as the AgriVijana Loan. YEDF has started the AgriVijana Loan to help youth, who are in groups, to get involved in Agribusiness by purchasing the special AFK's each with 2 greenhouses and a large irrigated area. This example shows how groups can source for funds and also how a partner can influence choice of project by members.

## **2.7 Effects of Defaults in Repaying Revolving Loans**

Default of loans is usually occasioned by various factors in groups and they usually vary from group to group or region to region. Some of the reasons identified as cause for default include poor governance, financial mismanagement and inadequate skills in managing the

revolving loans. Wabukala (2007). Others include choice of projects, markets, diversion of funds to other unplanned for activities, donor or development partner conditions and also natural calamities.

A review of various revolving loans being implemented in Kenya showed various loan uptake levels compared to the loan repayment levels. WEF reports indicate that loans disbursed through C-WES nationally since 2008 as per April 2011 31% which was equivalent to an estimated Kshs 257,216,864 was in default.

Rose Wabukala (2007) established that the default rate for the loans in the district were 31.2% with a loan repayment delay rated at 31.4%. She established that some of the factors contributing to the loan defaults include the borrower having very many family dependants, closure of business, and diversion of the funds, poor business performance, theft or robbery and tenancy problems among others..

It is estimated that about 200 groups are actively involved in revolving loan scheme with an estimated loan portfolio of about Kshs 250 million which has been mobilized through members' own savings or finances borrowed from MFIs, WEF or YEDF. DG&SD Laikipia East District (January 2012). Repayment rates according to the department have been well above 75% for the most groups. The loans are mostly used to finance domestic water, horticulture, livestock and construction projects for the members. This therefore means that the default rates averages about Kshs 65 million or close to 25% of the loans issued to the members of these groups.

In view of the above it is evident that despite the fact that all those funds are quick to provide periodical reports on the implementation of the revolving loans they have not really identified in depth the real factors contributing to the effective recovery of the loans or the factors leading to default. Furthermore the loans mentioned here were formalized with set out criteria for issuance and consequent recovery unlike in the self help groups. This study therefore

intends to identify those factors in order to come up with strategies to curb default and also come up with those that can be replicated to enhance recovery and continued disbursement to sustain the revolving loans for effective financing of household projects.

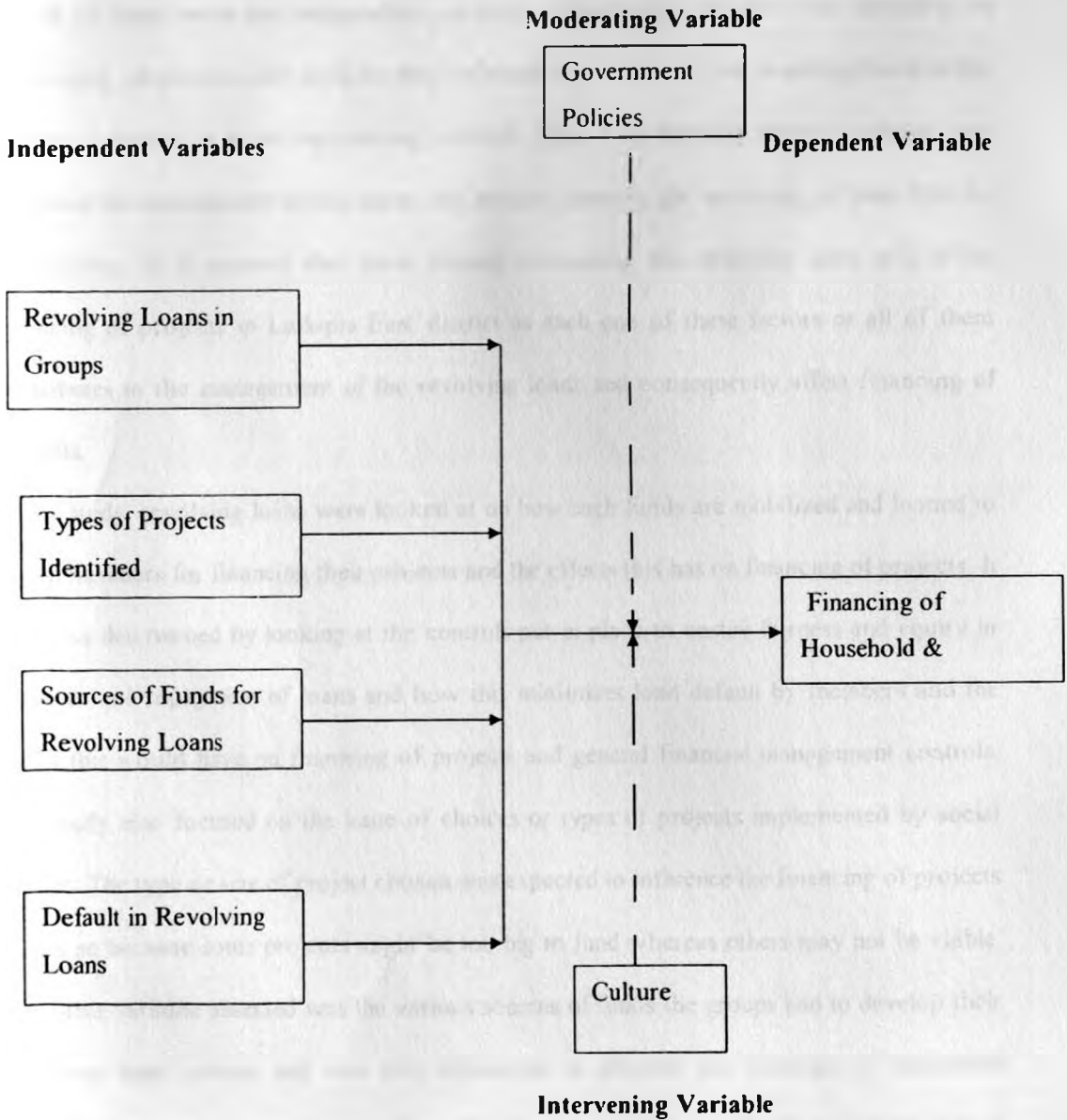


Fig 1: An Illustration of Relationships between Variables

## **2.8 Conceptual Framework**

The financing of projects here was conceptualized in this study as the dependent variable while the revolving loans generated through members savings in groups, choices of projects identified for funding and implementation, sources of funds for the revolving loans and default of loans were the independent variables. Government policies were looked at as moderating variable as such policies may influence the running of the revolving loans while culture is looked at as an intervening variable. This is so because people's culture may influence the management of the loans like attitudes towards the borrowing of loans like the loan phobia. It is assumed that these factors surrounding the revolving loans will affect financing of projects in Laikipia East district as each one of these factors or all of them contributes to the management of the revolving loans and consequently affect financing of projects.

In the study, revolving loans were looked at on how such funds are mobilized and loaned to group members for financing their projects and the effects this has on financing of projects. It was also determined by looking at the controls put in place to ensure fairness and equity in issuance and repayment of loans and how this minimizes loan default by members and the effect this would have on financing of projects and general financial management controls. The study also focused on the issue of choices or types of projects implemented by social groups. The type or size of project chosen was expected to influence the financing of projects this is so because some projects might be too big to fund whereas others may not be viable. The other variable assessed was the various sources of funds the groups had to develop their revolving loan scheme and how this influenced or affected the financing of household projects. This study also established how default as a variable would affect the financing of the same projects. Government policies were studied as a moderating variable as the groups had no control over them and were assessed to establish how they also affected the financing

of projects. The intervening variable in the study was culture. Culture has a major influence over a people's attitudes and how they perceive things like loans is evident among the Muslims who do not charge interests on loans or people who have witnessed borrowers' assets being auctioned. This was addressed to understand how it affected financing of household projects in Laikipia East District.

## **2.9 Summary**

From the above literature reviewed, though it showed success in the revolving loans to a certain extent, it did not clearly tell what factors were responsible for the same. The studies did not highlight issues on groups and did not dwell much on group operations and how this in itself contributes to the success or failure of the revolving loans cited. The studies also did not lay enough emphasis on finances raised by individual members in groups in form of savings as a foundation of their loan fund which this study did. The studies conducted targeted the more on the fund at the operations of the financing agency level than the beneficiaries. It's in the view of this that this study embarked to review how revolving loans in groups raised through members own savings influenced the financing of household projects in Laikipia East District.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter gives an outline of how the study was being carried out. It describes the research design, the target population, the sample and sampling procedure, research instruments, validity and reliability of instruments, data collection and data analysis procedures used.

#### 3.2 Research Design

In the study the researcher used descriptive survey research design. This is a method of collecting information by interviewing or administering a questionnaire to a sample of individual. It can be used when collecting information about people's attitudes, opinions and habits (Orodho and Kombo, 2002). The design was preferred because was able to; ensure proper construction of questions for soliciting the required information; ensure identification of the individuals surveyed; identify the means by which the survey was conducted; and summarizing the data in a way that provided descriptive information.

This study used both qualitative and quantitative methods of data collection. The two were used to ensure that as much data was captured regarding the study and also as a way of triangulating the information gathered.

Descriptive design allows the researcher to describe record, analyze and report conditions that exist in a certain situation, Kothari (2003). In addition Orodho (2003) also is in favor of descriptive design as he recommends that it would assist in gathering information, summarize, present and interpret it for the purpose of clarification. The researcher preferred this as it assisted in collecting the data from different parts of the district and it also allowed for generation of both numerical and descriptive data that was used in measuring correlation between variables. Descriptive survey enabled the researcher to generate statistical



information about how revolving loans influenced financing of household projects in Laikipia East District.

### **3.3 The Target Population**

The study targeted 200 self help groups that are running a self established revolving fund using own funds as the foundation of the loan scheme. The study targeted officials and members from the 200 social groups in Laikipia East District of Laikipia County of what is commonly known as Rift Valley Province though now provinces have been scrapped, The New Constitution, (2010). The groups were women, men; youth and mixed self help groups that revolved loans both through own savings and some which had also acquired loans from the government funds or MFIs in the target area. The targeted groups also had projects that they had implemented or were implementing at household level using the revolving loans. The study also targeted government and private agencies that highly interacted with those groups e.g. 1 officer from DG&SD, 1 officer from MOYA, 3 Chiefs and 3 management level staff from the MFIs.

### **3.4 Sample and Sampling Procedures**

The study applied both probabilistic and non probabilistic procedures of sampling. The study to start with used cluster sampling. This was used in clustering of the two divisions namely Ol Daiga and Central Divisions which were first placed into two clusters. Stratified Random Sampling design and purposive sampling were also applied. Stratified sampling was used while identifying the locations and the groups. The process involved dividing locations into strata which again were purposively identified for inclusion in the study to ensure all stood equal chance of inclusion. The groups in each location were identified and a sample of 30% of the groups included in the study. Stratified random sampling technique is very commonly preferred because stratification produces a gain in precision in the estimates of characteristics

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of the whole population, Cochran (1977). Stratified sampling also ensures inclusion into the sample items which otherwise could be omitted entirely by other sampling methods because of their small numbers in the population are included (Borg & Call, 1989; Mugenda and Mugenda, 1999). The researcher then randomly identified respondents in the groups once the groups were identified through the same procedure. In this case this method ensured that all the divisions, locations, groups and individuals in the district were included in the sampling procedure and hence stood equal chance of inclusion in the study.

Since Laikipia East District is composed of 2 administrative divisions and 7 locations the district was divided into strata. Each stratum in the study was represented by an administration location in each division and the social groups' whether women, men, youth or mixed sex groups. Since there were about 200 social groups in the district 30% of the groups in each location per every location were considered for the study. A sample of 30% of the population is sufficient for a study, Cochran (1977). The researcher was of the same opinion as this ensured inclusiveness and also cut on cost of the study.

Out of the 9 MFIs operating in the district 30% of that was considered to form another category for investigation.

In order to cross-check on the information given by the group officials and members the researcher used the officers from the DG&SD, MOYA MFIs and Chiefs as key informants. The researcher therefore interviewed 1 officer each from DG&SD and MOYA who were identified and 30% of officers working with the 9 MFIs and the chiefs in the 7 locations. Those were found important as they are usually versed with most of the activities people at the grassroots undertake and are also involved in conflict resolution when they arise in groups. This gave the researcher 3 of the 7 chiefs. In total the sampling procedure gave the researcher with a total of 76 respondents who were interviewed.

Purposive sampling was used to identify respondents from DG&SD and MOYA as they were the only departments partnering with the revolving loans groups. Purposive sampling is used when information can only be obtained from a specific source, Mugenda and Mugenda (1999).

**Table 3.1 Sample Size**

<b>Category</b>	<b>Strata (Locations)</b>	<b>Total Population</b>	<b>Target</b>	<b>A Sample Size of 30%</b>
Social Groups With Revolving Loans	Segera	16		6
	Nanyuki	59		20
	Ntrurukuma	37		13
	Mpala	22		7
	Umande	24		8
	Muramati	24		8
	Ethi	18		6
	<b>TOTAL</b>	<b>200</b>		<b>68</b>
Managers of MFIs	District Based	9		3
	District Based	5		2
DG&SD, MOYA officials	District Based			
Chiefs	District Based	7		3
<b>TOTAL</b>		<b>221</b>		<b>76</b>

Source: Ministry of Gender, Children and Social Development, Nanyuki.

### 3.5 Methods of Data Collection

This study used questionnaires for the purposes of getting information from the group officials DG&SD officers, MOYA officers, managers of MFIs and chiefs. Observation and FGD were used to gather information from group members. This involved methods of data collection like focus group discussions (FGD), observations, and interviews. Questions varied from one situation to another. In other words, although the researcher enters the project with a specific set of questions, follow-up questions are developed as needed (Wimmer and Dominick, 2003). Such questions assist the researcher to probe further or explain to the interviewee for better understanding and enable the interviewee give the desired feedback.

The study also used both the primary and the secondary data available. The primary data collected using questionnaires and observations while the secondary data was retrieved from the written reports in MFIs, DG&SD, MOYA and group records. A questionnaire with both open and closed ended questions was used to collect the primary data. Open ended questions were used to gather in depth information in the FGD conducted using the group members.

Questionnaires with guiding instructions for the purposes of understanding the questions were distributed to the identified population by the researcher and the research assistants. The questions were also phrased in a simple and clear language easily understood by the respondents. The respondents who received the questionnaires included managers of MFIs, officers from DG&SD and MOYA, group chairpersons, secretaries, treasurers, and chiefs. The respondents were advised to constantly seek for clarification to the researcher or the research assistants whenever something was not clear to them. In the case of the FGD the researcher agreed with the group the appropriate time such an activity would take place so that the required quorum was raised. Observation took place throughout the study process. The observation assisted in triangulation of the information and also to confirm the projects respondents cited as having been financed and implemented by the groups using the

revolving loan schemes. Where the officials of the groups could write they were issued with questionnaires to fill otherwise the research assistants took them through as they (research assistants) filled in. For the others (officials from DG&SD, MOYA, MFIs and Chiefs) they were issued with questionnaires were later collected at an agreed time.

### **3.6 Research Instruments**

In this study structured or closed ended questionnaires were used which assisted in guiding the respondents in answering the questions. This type of questionnaire is easy to administer as it gives the respondents alternatives in responses, Mugenda and Mugenda, (1999). To allow the respondents more space to respond on certain issues the study also used unstructured or open ended questions in the questionnaires in order to collect more relevant data which was expected to provide more information. The interview schedules were also used to assist in gathering more information that could otherwise have been missed out.

### **3.7 The Pilot Study**

In order to improve validity the researcher ensured that the research instruments in this case questionnaires and the interview schedules were accurate by making the necessary adjustments after conducting a pilot study and ensuring the questions got the required responses. The pilot study was undertaken in Laikipia Central District where the study did not cover. This assisted the researcher to test both the research instruments and the ability of the research assistants to administer the instruments. Groups undertaking revolving loans were sampled and interviewed which enabled the researcher to identify gaps in the instruments. A total of 26 respondents were included in the pilot study.

### **3.8 Validity**

To validate this data the researcher used other methods like comparing this data with existing information in relevant offices or studies. The researcher also sampled a few responses and

visited them to see whether some of items cited did really exist. This was done through crosschecking the information gathered with the already existing data in relevant institutions and also through observation ensuring there was consistency.

### **3.9 Reliability**

In testing reliability piloting of the instruments was necessary. Using the split half method the instruments gave a 0.89 result which was found allowable to continue with the study, Mugenda 1999. In the case that the instruments were found to be resulting in inconsistencies then necessary adjustments were done to ensure that they measured up to the required standards. This was done through simplifying further the language, reframing the questions and also restructuring the questionnaires. Guiding instructions were also introduced or rephrased as was necessary to ensure that the instruments gave reliable information and what was desired in the study.

### **3.10 Data Analysis**

In the data analysis descriptive statistics was applied. The purpose of descriptive statistics is to enable the researcher to meaningfully describe a distribution of scores or measurements using a few indices or statistics, Mugenda (1999). After the data was collected and before the analysis was done, the data was first refined to eliminate any undesired or unwanted information that could have made analysis difficult. This was done through organizing and editing the data to remove any repetitions, inconsistencies, errors and anything not well understood as was presented by the respondents. This was followed by coding the data to establish how possible answers would be treated by assigning to them numerical values. The resultant data was then stored in both soft and hard copies for reference during the analysis process.

Qualitative data generated from questions was organized into themes and categories as the study revealed. This helped in the identification of any information that was found relevant to

the research objectives and research questions. This data was tabulated and classified as per the characteristics observed and then analyzed in its own class using the frequency tables. According to Orodho (2003) the simplest way to present data is in frequency or percentage tables, which summarizes data about a single variable. The data was presented in frequency and percentage tables using Statistical Package for Social Scientists (SPSS) and Microsoft Excel (M-Excel) for analysis and presentation.

### **3.11 Ethical Issues**

The researcher, before the study commenced sought authority from all the relevant authorities for conformity and to ensure that the study would not be discontinued in the process. The researcher sought authority from the University of Nairobi to be allowed to commence on the study and the authority given assisted in seeking the consequent permissions. Permission to commence the study was also sought from the National Council of Science and Technology through an application form designed by the Council. The researcher sought authority from Ministry of Gender, Children and Social Development which is the custodian of registered groups, Ministry of Youth Affairs for youth groups, MFIs, the District Officers Daiga and Central Divisions by visiting their offices and presenting relevant documents required by each one of them. The researcher also sought consent from the chiefs and groups through talking and explaining to them the purpose of the study and highlighting the possible benefits people with revolving loans were likely to get if a policy or legislation on the loans is developed. Confidentiality was also guaranteed and the researcher ensured that participants were not deceived with false promises in order for them to participate. The researcher ensured that all respondents participated on their own volition.

**Table 3.2: Operationalization of Variables**

Objectives	Indicator(s)		Measurement	Measuring Scale	Data Analysis
	Independent	Dependent			
To establish how revolving loans influence financing of household projects in Laikipia East district	No of loans issued No of loans used to finance household projects	No of household projects financed No of household projects under implementation No of household projects completed	% of projects financed under revolving loans % of projects being implemented % of loans used to finance household projects	Nominal	Descriptive Statistics Frequency Mean
To assess how choice of projects influences financing of household projects in Laikipia East District	No of groups with project identification criteria Types of projects chose for funding	No of well financed household projects	% of groups with project choice criteria % of group members with the basic knowledge of identification of	Nominal Ordinal	Descriptive Statistics Frequency Mean



	Types of projects implemented and completed		projects		
To establish how sources of funds for revolving loans influence financing of household projects in Laikipia East District	Number of sources of funds Types of funds No of groups with freedom to choose projects to be funded by a particular fund	No of well financed projects	% of finances as per the source % of interests chargeable as per the source of funds	Nominal Ordinal	Descriptive Statistics Frequency Mean
To investigate how default in revolving loans influences the financing of household projects in Laikipia East district	No of defaulters Size of the loan default Level of loan default in groups	No of projects stalled No of projects not funded		Nominal Ordinal	Descriptive Statistics Frequency Mean

### 3.12 Summary

The methodology aspect of any study is very critical. To ensure that the study was successful the research assistants were taken through training and also participated in the pilot study. This made them familiarize themselves with the research process. The researcher also ensured that the study was actually done by monitoring the whole process. It was also the responsibility of the researcher to ensure that as many questionnaires were filled and returned for the success of the study.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction

This chapter analyses the data that was collected and offers the interpretation of the results from the findings collected from the sampled respondents. The purpose of the study was to make an assessment of how revolving loans in groups affected the financing of household projects in Laikipia East District.

#### 4.2 Response Rate

A total of 76 questionnaires were distributed to the selected respondents in Laikipia East District which were all filled and returned. This was 100% response rate. This was an acceptable rate and was attributed to the fact that the questionnaires were administered during group's public meetings on creating awareness on Poverty Eradication Fund for Laikipia East district and also were physically dropped to the respondents and collected at an agreed date. The response rate was as follows:

**Table 4.1: Response Rate**

Category	Targeted Sample Size	Response Rate	% Response Rate
Administration officers	8	8	100
Group officials/members	68	68	100
<b>Total</b>	<b>76</b>	<b>76</b>	<b>100</b>

N=76

This therefore indicates that the response rate was 100% which was the envisaged rate and very critical in the study. This was important as it was expected to give desired results.

### 4.3 Demographic Information

The respondents' demographic information is analyzed as here below as they were drawn from various categories.

#### 4.3.1 Gender Composition and Age Group of Respondents

It was important to establish the age group and the gender of the group members who were interviewed in this study and the results are as shown in Table 4.2

**Table 4.2: Gender Composition and Age Group of the Respondents**

	Age category		
	30-40 years	41-50 years	Over 50 years
Sex			
Female	66.7%	75.0%	100%
Male	33.3%	25.0%	0%
Total	100%	100%	100%

Data revealed that more women than men were interviewed during the study as is indicated in Table 4.2. Out of all the respondents aged 30-40 years, 66.7% of them were females while 33.3% were males. Out of all the respondents aged 41-50 years, 75% were female and the rest males. However all the respondents aged over 50 years were males. This is more so because more women than men form and join groups in Kenya, Department of Gender and Social Development Nanyuki.

#### 4.3.2 Average Number of Members in the Groups

The study revealed that the average number of members in the groups were between 21 and 30, representing 87.5% of the sample. This number was preferred by most groups as the respondents indicated that this number is manageable and is also ideal in mobilization of funds for the loans. This result also showed that there existed cohesiveness in such groups.

The result above as given by the institutions working with the groups was very close to what the group officials and members gave as most of the respondents, 58.8% said that the groups had 21-30 members. About, 25% of the respondents had more than 30 members. Finally, 14.7% of the respondents had 11-20 members. This implied that many groups considered in this study had an average number of members. The reasons given for the size of the groups by these respondents were also found to be similar as those given by the institutions working with the groups that such groups are usually easy to manage. It is therefore evident that this size of group is usually manageable and ideal for achieving group tasks, Kenya Women Finance Trust, Nanyuki.

#### 4.3.3 Gender Composition and Age Group of the Members

It was important to establish the age group and the gender of the group member who were interviewed in this study and the results are as shown in Table 4.3

**Table 4.3: Gender Composition and Age group of the Members**

	Age category			
	< 30 years	30- 40 years	41-50 years	Over 50 years
Sex				
Female	42.9%	90.0%	53.6%	81.8%
Male	57.1%	10.0%	46.40%	18.20%
Total	100%	100%	100%	100%

Out of all the respondents aged 30-40 years, 90% of them were females while 10% were males. Also, out of all the respondents aged over 50 years, 81.8% were female and the rest males. This suggested that there were more female members in the groups in comparison with their male counterparts. The study therefore revealed that women rely more on revolving loans in self help groups to finance their household projects than men do. This is attributed to the fact that many women lack collaterals to enable them access loans from banks and also

since majority of them are unemployed they are not able to join SACCOs as men do, District Development Office, Laikipia East.

#### 4.3.4 Position Held by the Respondents in the Groups

The study attempted to determine the position held by the respondents who were interviewed in the study. The results indicate that 27 or 39.7% of the respondents were officials and 40 or 58.8% were members. At least 98.5% of the respondents responded to this particular question. This analysis implies that more group members participated in the study more than the officials therefore more likely to give a more real picture of the prevailing situation.

#### 4.3.5 Types of Groups

The research emphasized on the type of the groups as shown in Table 4.4. The analysis showed that, 45.6% of the respondents were from women groups and 13.2% were from the men groups. There were 11.8% of the respondents representing youth groups and 27.9% of the respondents came from mixed self help groups.

**Table 4.4 Types of Groups**

Type of Group	Percentage
Women Groups	45.6%
Men Groups	13.2%
Youth Groups	11.8%
Mixed Self Help Groups	27.9%
Total	100%

The result revealed that women groups were more active in revolving loans project in the district followed by mixed self help groups which also include women in their membership. Previous studies suggested that groups/project owned by women groups were more sustainable than those owned by the men, Mueni Joy (2007).

#### **4.3.6 Number of Men and Women in Youth and Mixed Groups**

The study sought to determine the number of men and women found in the groups. The results show that, 4 or 5.9% of the youth groups had 11 men each. Only one group had 12 men. Likewise 4 or 5.9% of the youth groups had 6 women each. Only one group had 13 women, being the highest number of women in the youth groups. This result indicates that there was one group with more women than men. It's evident that two groups had very few women compared to men. The group with minimum men had 7 compared to that of women which had 4 women. In general there were more men in youth groups than women. In the mixed self help groups it was revealed that 5 or 7.4% of the mixed groups had 11 men each. Only one group had 14 men. Likewise, 5 or 7.4% of the mixed groups had 17 women each. Only two groups had 21 women, being the highest number of women in the mixed groups. This result indicates that there were more women than men in most of the groups interviewed. In fact, one group had one man compared to 11 women. The group with minimum women had 11 compared to that of men which had one man. In general, there was gender disparity within mixed groups as most groups had more women 81.80 % than men who were 18.20%. Department Gender and Social Development Laikipia confirmed that this is a common scenario as more women than men form and join groups. In respect to the formation of youth groups in Laikipia East district the study further established that for groups with members below 30 years there were more men than women a scenario attributed to the Youth Enterprise Fund as more young men form groups than women. Young women have a feeling that they are not destined to their tradition homes as they are destined for elsewhere (marriage) and then no need for investments, Ministry of Youth Affairs Laikipia East.

#### **4.3.7 Duration Groups Were Involved in Revolving Loans.**

The study attempted to establish the duration that the groups had been involved in revolving loans. It revealed that majority of the respondents, 29 or 42.6% had been involved in revolving loans for 6-10 years. About, 36.8% of the sample has been involved for more than 10 years. Only one or 1.5% of the respondents had been involved for less than one year. In general, more than 70 % of the respondents had been involved in revolving loans for more than 6 years. This implies that the revolving loans and the projects financed through it was a good motivating factor that was holding the groups together, Vreeken Majorly (2007).

#### **4.3.8 Institutions Working With the Groups**

The research established that there were various development partners or institutions working with revolving loan. The study sought to establish from them how the revolving loans and the groups are managed. The data revealed that 37.5% of the respondents were chiefs with the same percentage for Micro Financial Institutions. The rest 2 or 25% were one each from Department of Gender and Social Development and Ministry of Youth Affairs.

#### **4.3.9 Number of Years the Officers Worked with the Groups**

The study sought to find out for how long the officers mentioned above have worked with revolving loans groups. These results gathered suggest that 50% of the respondents have worked with revolving loans groups for a period of 6-10 years and 37.5% have worked with them for a period of above 10 years. The rest have worked with them for less than 5 years. This implies that the officers have extensive experience in the affairs of revolving loans in the groups through their constant interactions either funding them or arbitrating during conflicts.



**4.4 Revolving Loans in Groups**

The study tried to establish the existence of the revolving loans in groups and how such revolving loans were started in the groups under the study.

**4.4.1 Existence and Starting of Revolving Loans by Groups**

This study attempted to establish existence and start of revolving loans within the groups and the responses are provided in the Table 4.5.

**Table 4.5: Existence and Starting of Revolving Loans by Groups**

	How revolving loan was started			<b>Total</b>
	Through members savings	Through government grant/loan	Through a development partner	
Group have a revolving loan	75.0%	12.5%	12.5%	100.0%
<b>Total</b>	75.0%	12.5%	12.5%	100.0%

The information above is given by the officers working with the groups showing all the groups (100%) had revolving loans and 75% of them started through members' savings, 12.5% through a loan/grant from the government and 12.5% through a development partner. This shows the significant of the groups in case a member wished to implement a household project or undertake any other activity jointly. This information was confirmed by the groups interviewed in the following Table 4.6 where all the groups (100%) had revolving loans and 68.8% of them started through members' savings, 17.2% through a loan/grant from the government and 14.1% through a development partner. This information is quite close to the information provided above by the officers working for the institutions. This although attributed to the fact that sampling process targeted groups with revolving loans it was also

evident that groups have one or more types of revolving loans depending with their nature of projects or activities. The presence of one or more fund in the group would also be as an attempt by the members of these groups trying to close financing gaps as one form of loan may not be adequate to finance a project.

It is also evident that majority of the groups (75%) started the revolving loans scheme through their own members contribution. This scenario is common because even most micro finance or micro credit organizations also prefer groups that have had a revolving fund as they are assumed to have the relevant skills to manage a loan and highly minimize default rates in the social groups. District Poverty Eradication Committee, Laikipia East District.

**Table 4.6: Existence and starting of revolving loans by Groups**

	How revolving loan was started?				Total
	Through members savings	Through grant/loan from GoK	Through a partner	Through a development	
Group have a revolving loan	68.8%	17.2%	14.1%	100.0%	
Total	68.8%	17.2%	14.1%	100.0%	

#### 4.4.1.1 Level of Financing Household Projects from Revolving Loans

The research sought to establish whether household projects were financed from the revolving loans and what percentage was used to finance such projects. This was important because not all groups with revolving loan schemes use it wholly to finance household projects as others would use the same to carry out other types of activities even those activities that are welfare related.

**Table 4.7: Level of financing household projects from Revolving Loans**

Do groups have household projects financed through the revolving loan fund?		
	Yes	Total
How much is used to finance projects compared to other uses of the loans?		
From 51- 75%	25.0%	25.0%
From 76 - 100%	75.0%	75.0%
Total	100.0%	100.0%

The data revealed that according to the officers working for the institutions all the groups (100%) had household project financed through revolving loans fund, Table 4.7 Out of this 75% of the respondents use 76% to 100% of the revolving loans fund to finance household projects. The data further revealed that 25% of the respondents use 51% to 75% to finance household projects. In general more than 50% of the revolving loans fund was used to finance household projects.

On the same question according to group officials and members the results are provided in table 4.8 showing the level at which revolving loans are used in financing household projects. According to the group officials and members all the groups (100%) had household project financed through revolving loans fund. About, 77.4% of the respondents use 76% to 100% of the revolving loans fund to financed household projects. In addition 22.6% of the respondents use 51% to 75% to finance household projects. Generally more than 50% of the revolving loans fund was used to finance household projects. Most of the respondents confirmed that

this is mostly due to the loan agreements made before loans are issued to the members of the groups as one is not allowed to divert funds.

**Table 4.8: Level of Financing Household Projects from Revolving Loans**

	Household projects financed through the revolving loan fund	
	Yes	Total
How much is used to finance <b>From 51% to 75%</b>	22.6%	22.6%
HH projects compared to <b>From 76 to 100%</b>	77.4%	77.4%
other uses of the loans		
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

#### 4.4.2 Adequacy of the Loan for Financing Household Projects

The study intended also to establish whether the revolving loans in self-help groups are adequate in financing of household projects. The ratings were from; not at all, moderately, to some extent and to a great extent as seen by those working with the groups and by the groups themselves as shown in Table 4.9.

This was intended to show the rating at which the loan was found to be adequate in financing household projects as given by the institutions working with the groups.

This result shows that, 87.5% of the respondents said that loan for financing household project was adequate to some extent and 12.5% to great extent. There was no any another rating as shown on the figure above. These results suggest that, the revolving loan fund was mainly meant for the household projects although part of it was used to finance other activities that were not cited by the groups.

**Table 4.9: Adequacy of the loan for financing household projects**

---

	<u>Percentage</u>
<u>Rating</u>	
To a great extent	87.5%
To some extent	12.5%
Moderately	0%
Not at all	0%

---

The same question was posed to the group officials and members. This gave a response very similar to what the respondents working with groups provided, Table 4.10.

The table shows information on the rating at which the loan was adequate in financing household projects as was provided for by the group's officials and members.

**Table 4.10: Adequacy of the loan for financing household projects**

---

	<u>Percentage</u>
<u>Rating</u>	
To a great extent	45.6%
To some extent	45.6%
Moderately	2.9%
Not at all	0%

---

This result shows that 45.6% of the respondents said that loan for financing household project was adequate to some extent and the same percentage to great extent. Only 2.9% rated the same rated it as moderate.

However generally it was realized that the revolving loans were not adequate in financing household projects and hence members had to seek other sources of finances to finance their projects.

#### 4.5 Choice of Projects by the Group Members

The study was also interested to know what kind of projects was mostly preferred by the group members and how their choices would influence the financing of household projects.

##### 4.5.1 Determinant on the Type of Project to Be Financed

The study tried to establish who decides on the type of the projects to be financed using revolving loan in groups and the findings as was provided for by the officers. This analysis indicates that 87.5% of the respondents said that the group members decide on the type of the projects to be financed using revolving loan in groups. This is very significant in the development and sustainability of the groups since decision will be made under terms and conditions set by the members.

**Table 4.11: Determinant on what type of projects to be financed**

<u>Determinant</u>	<u>Percentage</u>
The Lending Institution	0%
The Group Officials	0%
The Group Members	87.5%
The Lending Institution with Consultation with the Group	12.5%

The same study showed that according to the groups as is in Table 4.12, 76.5% of the respondents said that the group members decide on the type of the projects to be financed using revolving loan in groups. This is very significant power in the development and

sustainability of the groups since decision will be made under terms and conditions set by the members. In addition 17.6% of the respondents said that the lending institution in consultation with group decides on the type of the projects to be financed using revolving loan in groups. This suggest that, the group members and the lending institutions had a role to play when decide on the type of the projects to be financed using revolving loan in groups.

**Table 4.12: Determinant on what type of the project to be financed**

<u>Determinant</u>	<u>Percentage</u>
The Lending Institution	4.4%
The Group Officials	1.5%
The Lending Institution with Consultation with the Group	17.6%
The Group Members	76.5%

#### 4.5.2 Types of Projects Financed

Data revealed that according to the officers interacting with the groups the most preferred projects in order of priority were water, followed by dairy goat then poultry, education, farming, health, fish and rabbit farming in that order. The ranking was done by observing how many respondents ranked a certain projects more times than others. For instance, dairy goat was ranked number 2, 6 times or by 6 respondents, hence numbers two in order of priority. The same criteria were used to rank other projects.

The study further showed that as observed by the group officials and members the most preferred projects in order of priority were water projects, followed by dairy goat, then poultry, education , farming, health, fish and rabbit farming in that order. The ranking was done by observing how many respondents ranked a certain projects more times than others.

For instance, poultry project was ranked number 3, having been mentioned 22 times or by 22 respondents, hence numbers 3 in order of priority. The same criteria were used to rank other projects. *See appendix 12.* This shows that both sets of respondents were of the same opinion to a great extent on the types of projects funded.

#### **4.5.3 Level of Members Knowledge in Making Choice of Projects**

The study attempted to investigate the rate of knowledge of the members of the group in terms of making choices for project to be funded and implemented as shown in table 4.13 as given by the respondents working with the institutions. The analysis suggest that all the respondents (100%) rated the knowledge of members of the group in terms of making choices for project to be funded and implemented as very good. In addition, 75% of the respondents rated the effect of the type of the project chosen on loan repayment has high and 25% as very high. This implies that the choice of the projects to be funded and implemented is very critical thus cost benefit analysis need to be undertaken before implementation of the projects. The following table 4.13 is per the responses given by the groups themselves. The rating included very low, low, high and very high as the options for the rating so that it would be easy for the researcher to understand if the knowledge of making choices could influence the type of projects chosen for implementation and hence consequently affect the financing of household projects in the district. As the results indicated members knowledge was critical and this led to appropriate choice of projects that could fit within the revolving loans budget and therefore completion of the projects. This is very important for projects viability, profitability and sustainability.



**Table 4.13: Level of Members Knowledge in Making Choice of Projects (Per the Institutions)**

	Project chosen for funding affect the loan repayment by members		
	High	Very High	Total
Members knowledge in terms of <b>Very Good</b> making choices for projects to be funded & implemented	75.0%	25.0%	100%
<b>Total</b>	75.0%	25.0%	100%

The same question was also posed to the groups officials and their members to determine the level of their members in making choices of the projects to be funded as is shown in the Table 4.14 below;

**Table 4.14: Level of Members Knowledge in Making Choice of Projects**

	Project chosen for funding affect the loan repayment by members		
	High	Very High	Total
Members knowledge in terms <b>Good</b> of making choices for <b>Very Good</b> projects to be funded & <b>Excellent</b> implemented	13.2%	7.4%	10.8%
	76.3%	70.4%	73.8%
	10.5%	22.2%	15.4%
<b>Total</b>	100.0%	100.0%	100.0%

This analysis suggest that majority of the respondents 73.8% rated the knowledge of members of the group in terms of making choices for project to be funded and implemented

as very good. In addition out of all the respondents who rated the effect of the type of the project chosen on loan repayment as high, 76.3% had very good knowledge of making choices for project. This implies that the choice of the project to be funded and implemented is very critical thus cost benefit analysis need to be undertaken before implementation of the projects to avoid default on loans. It's therefore critical for implementers to understand the types of projects in terms of viability for profitability and sustainability.

#### **4.6 Source of Funds for the Revolving Loans**

The study also aimed at identifying the various choices of revolving loan funds available for the group members to source funds for their household projects in order to establish the efficacy of their own build fund through own savings as compared to others.

##### **4.6.1 Main Source of the Funds for the Groups**

The data collected revealed that 50% of Department of Gender , Ministry Of Youth, Financial Institutions and Chiefs said that majority of the groups had their main source of funds from the members' contribution and lenders. In general 37.5% of the respondents mentioned lenders as source of the funds for the groups thus 62.5% of the respondents felt that groups got funds through member contributions. This suggests that the groups will be more sustainable with members' contribution in case lenders withdraw funding, Table 4.15. Though members tended to cite their own savings and that of the lenders as a key source of the funding of their revolving loan schemes it was still evident that their own members savings in the groups still was higher as compared to the borrowed funds externally. This is more so because as it was established the groups revolving loans comprised of over 50% of the total loan portfolio being members own savings. In addition most for the lenders have a tendency of issuing loans to those groups that have already established their own revolving fund. District Poverty Eradication Committee, Laikipia East District. In the consequent table

4.16 the same is observed as given by the group members and their officials. It revealed that out of the 42.6% of the respondents the main source of funds was from the members' contribution and lenders while 28% was from members own savings. It further emerged that 20.6% of the respondents said that they get loans from the micro financial institutions. The data also revealed that 8.8% of the respondents mentioned government programmes as source of the funds for the groups. This suggests that for the groups to attain meaningful growth in terms of implementing household projects they have to combine equity and debts to develop and sustain their projects, Table 4.16.

**Table 4.15: Main source of the funds for the groups**

	Source of Funds				Total
	Through members savings	Through grant/loan from GoK	Through a members contribution and lenders	Through a development partner	
Percentage	25%	12.5%	50%	12.5%	100.0%
Total	25%	12.5%	50%	12.5%	100.0%

The noted difference between the two sets of respondents could be attributed to the fact that the institutions that interact with these groups could maybe not privy to some data the groups themselves have. This therefore indicates that results attributed to the group members and their officials could be more nearer to the prevailing situations that the groups themselves are in. however the data is still in tandem other than the noted variation in terms of the percentages emerging between them.

**Table 4.16: Main source of the funds for the groups**

	Source of Funds				Total
	Through members savings	Through grant/loan from GoK	Through a members contribution and lenders	Through a development partner	
Percentage	28%	8.8%	42.6%	20.6%	100.0%
Total	28%	8.8%	42.6%	20.6%	100.0%

#### **4.6.2 Authority to Spend Finances**

The data further revealed that authority to spend the finances usually emanated from the group members as per the responses from the officers working for the institutions working with the groups, Table 4.17. In every 6 or 75% of the respondents felt that officials in consultations with the members authorize spending of funds while 2 or 25% felt that lenders institution play a role on spending. The analysis below therefore implies that there was evident democracy in most of the groups as revealed by the officials working for the institutions interacting with the groups on determining how group finances are expended in the self help groups. in situations where institutions are involved in the authorization to spend the group funds this is more where a lender had invested more in the group in terms of loans and this was used as a way of ensuring the funds are well spent and hence ensure maximum returns in terms of full projects implementation and possible sustainability. Through this the lending institution was also assured that when loans are properly utilized then default in repayments would equally be minimized.

**Table 4.17: Authority to spend the funds**

	Authorizing agent				Total
	The officials in consultation with members	The officials only	The lending institution	The lenders in consultation with members	
Percentage	75%	0%	0%	25%	100.0%
Total	75%	0%	0%	25%	100.0%

As is seen in Table 4.18 the group officials and members indicated that 49 or 72% of the respondents felt that officials in consultations with the members authorize spending of funds while 19 or 28% felt that lenders institution played a role on spending. The responses given are the same observations which were made by the officers.

**Table 4.18: Authority to spend the funds**

	Authorizing agent				Total
	The officials in consultation with members	The officials only	The lending institution	The lenders in consultation with members	
Percentage	72%	0%	0%	28%	100.0%
Total	72%	0%	0%	28%	100.0%

#### **4.6.3 Estimated Revolving Loans Portfolio**

The study attempted to establish the approximate volume of most groups revolving loan portfolio. The results as was provided by the officers working for the institutions working with the groups indicated that 75% of the respondents had estimated loan portfolio of over Kshs 300,000. The rest 25% ranged between Kshs 100,000 to 300,000.

This analysis suggested that the groups were fairly or above average in terms of being financed hence able to undertake their projects. In answering the same question the group's officials indicated that 63.3% of the respondents had estimates loan portfolio of over Kshs 300,000. About, 23.5% of the respondents had a loan portfolio ranging between Kshs 200,000 to 300,000.

Both responses suggested that the groups were well financed hence able to undertake to carry out most of their activities. It's important to take into consideration that the loan portfolio referred to both own and borrowed finances for financing of the projects.

#### **4.6.4 Interest Rates**

The study sought to find out according to the officials working in the institutions working with the groups, at what interest rates were members charged on revolving loans borrowed externally and internally by the groups. The respondents revealed that 87.5% of the respondents mentioned that groups' members were charged at interest rate of 16-20% on revolving loan borrowed externally. Indeed 87.5% of the respondents said that groups' members were charged at interest rate of 11-15% on revolving loan borrowed from group members' savings. This suggests that members' loans from the group savings was most appropriate for the group members due to low interest rate.

When the same question was administered to the group officials and members the study found that 44.4% of the respondents mentioned that group's members were charged at

interest rate of over 20% on revolving loan borrowed externally. It stated 36.8% of the respondents said that groups' members were charged at interest rate of 11-20% on revolving loan borrowed externally. Likewise 22.1% of the respondents were charged less than 10% of loan borrowed from the group members' savings. Majority of the members said that they were charged between 11-20% interest rate on loans borrowed from the group members savings. This suggests that members' loans from the group savings was most appropriate for the group members due to low interest rate in some groups. It is therefore important to note that loans borrowed from groups own savings are more economical and appropriate as they charge less interest and hence convenient for financing household projects than loans borrowed externally. Externally borrowed loans are usually expensive as they also take into consideration the cost of salaries and other overheads for their personnel working with the groups unlike the own savings by groups which groups manage themselves. Taifa SACCO Ltd, Nanyuki.

#### **4.7 Default of Revolving Loans**

The study also sought to know to what extent default on revolving loans in the groups influenced the financing of household projects.

##### **4.7.1 Members Rate of Repayment for the Loans**

The study attempted to describe the majority of the respondent in terms of loans repayment borrowed from the members own savings and externally. The Department of Gender and Social Development, Ministry Of Youth Affairs, Micro Financial Institutions, and Chiefs provided the information that majority of the group members repay the loan borrowed as promptly. This implies that the group members are efficient and more reliable on loans affairs. In relation to the group officials and the members the analysis indicate that 91.2% of the respondents felt that majority of the group members repay the loan borrowed from the

group savings as promptly. Likewise 88.5% of the respondents mentioned that majority of the group members repay the loan borrowed externally promptly. This implies that the group members are efficient and more reliable on loans issuance and repayment being the foundation of the revolving loan for default can easily lead to the collapse its cycle.

#### 4.7.2 Steps Taken to Recover the Revolving Loan Borrowed Externally

The research attempted to determine the steps taken to recover the revolving loan borrowed externally and the statistics are provided in the table below. When this question was administered to the institutions the study found that 87.5% of the respondents mentioned that assets pledged are usually auctioned. In addition, 75% of the respondents mentioned that defaulters and guarantors savings withheld to recover the loans borrowed. About, 62.5% of the respondents said that group savings were been held as a way of recovering borrowed loans, table 4.19.

**Table 4.19: Steps taken to recover the revolving loan borrowed externally**

No.	Statements	Frequency	%
1	Assets pledged are usually auctioned	7	87.5
2	Seek government intervention	1	12.5
3	Defaulters and guarantors savings withheld	6	75.0
4	Group savings withheld	5	62.5

The research also attempted to determine the steps taken to recover the revolving loan borrowed externally and the statistics are provided in the following table as per the opinion of group's officials and members as indicated in the following table 4.20. The emphasis on auctioning of pledged assets can be seen to be detrimental to the implementation of household projects in case the default rate is high. The other methods could have worked better but since the external lenders are commercial nature this would be expected.



**Table 4.20: Steps taken to recover the revolving loan borrowed externally**

S/N	Statements	Frequency	%
1	Assets pledged are usually auctioned	41	60
2	Defaulters and guarantors savings withheld	43	63
3	Fine members for lateness in repayment	2	2.9
4	Seek government intervention	19	27.9
5	Group savings withheld	28	41
6	Extend repayment period	10	14.7
7	Members pay for the defaulter	19	27.9

In the study found that 60% of the respondents mentioned that assets pledged are usually auctioned as indicated by the group officials and their members. In addition 63% of the respondents mentioned that defaulters and guarantors' savings were being withheld to recover the loans borrowed. About 41% of the respondents said that group savings were being held as a way of recovering borrowed loans.

In both cases the researcher felt that these measures were quite sufficient in ensuring loans borrowed was recovered but did not put the interests of the projects sustainability and this may at times impoverish the borrowers or create loan phobia to potential borrowers.

#### **4.7.3 Steps Taken To Recover the Revolving Loan Borrowed From Members Savings**

The research attempted to determine the steps taken to recover the revolving loan borrowed from the group members' savings and the statistics are provided by the respondents from the institutions in the table 4.21. The intended to establish whether there was any notable difference between how both loans were issued administered and also how they were also recovered through repayments for comparisons in terms of benefits.

**Table 4.21: Steps taken to recover the revolving loan borrowed from the group saving**

S/N	Statements	Frequency	%
1	Fines imposed on defaulted loans	7	87.5
2	Government intervention	1	12.5
3	Loan repayment extended	7	87.5
4	Defaulters' and guarantors savings withheld	2	25.0

In response 87.5% of (Department of Gender and Social Development, Ministry Of Youth Affairs, Micro Financial Institutions and Chiefs) said that imposing fines on defaulted loans and extending loan repayment period help in recovering loans borrowed from the group savings. Only one person mentioned that through government intervention loans were repaid hence no defaulters.

In responding to the same question the group of officials and their members indicated the following as per table 4.22

**Table 4.22: Steps taken to recover the revolving loan borrowed from group savings**

S/N	Statements	Frequency	%
1	Fines imposed on defaulted loans	54	79
2	Loan repayment extended	57	83.8
3	Defaulters' and guarantors savings withheld	46	67.6
4	Auctioning pledged assets	7	10.3
5	Government intervention	8	11.8

According to the 79% and 83.8% of respondents said that imposing fines on defaulted loans and extending loan repayment period respectively helped in recovering loans borrowed from the group savings. Indeed 67.6% of the respondents said that defaulters' and guarantor's

savings were being withheld as a way of recovering the loans borrowed. This was found to be friendlier to the borrower and could be helpful in ensuring projects implementation continued but is risky as members can easily lose their money to defaulters. Most members agreed that their approach was risky however they felt that the approach was preferred as members would eventually complete repaying their loans and still retain their implemented projects hence project sustainability.

#### 4.7.4 Factors Influencing the Financing of Household Project Using Loans

The study sought to establish some of the factors of revolving of loans influencing the financing of household projects in the district and the result are provided in table 4.23.

**Table 4.23: Factors influencing the financing of household project using loans**

	To great extent %	To some extent %	Total %
Revolving loans from members savings	100	0	100
Types of project	50.0	50.0	100
Source of fund for revolving	37.5	62.5	100
Effects of default in loans	25.0	75.0	100

According to all the respondents from institutions working with the groups with groups it is evident that revolving loans from members' savings influence financing of household project to a great extent, table 4.24. In addition, type of projects, source of funds for revolving and effects of defaults in loans affect financing of the household projects using revolving loans to a great extent. In others words the factors had influence to some extent. Group officials and members in the study found that 83.8% of the respondents said that revolving loans from members' savings influence financing of household project to a great extent. In addition type

of projects. source of funds for revolving and effects of defaults in loans affect financing of the household projects using revolving loans to some extent. In others words the factors had influence to some extent

**Table 4.24: Factors influencing the financing of household project using loans**

	To great extent	To some extent moderately	Not at all	Don't know	Total
	%	%			%
Revolving loans from members savings	83.8	13.2	1.5	0	100
Types of project	11.8	83.8	2.9	0	100
Source of fund for revolving	7.4	72.1	16.2	1.5	100
Effects of default in loans	1.5	45.6	44.1	2.9	100

#### 4.7.5 Revolving Loans Greatly Influence Financing of Household Projects

The research further attempted to determine to what extent the revolving loans in groups can greatly contribute to financing of household projects and findings are shown below. The institutions interacting with the groups agreed that revolving loans in groups can greatly contribute to financing of household projects, Table 4.25. This shows that majority of the respondents for these institutions working for the groups were of the opinion that revolving loans within self help groups had a great influence on the financing of household projects as no respondent went for the other three options of disagreeing or rating it as moderate. This was also witnessed in the groups themselves as there were household projects implemented or being implemented hence the motivation to feel that this was important.

**Table 4.25: Revolving loans greatly influence to financing of household projects**

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
	%	%				%
Revolving loans from members savings	50	50	0	0	0	100

On the hand the group officials and their members on determining to what extent the revolving loans in groups can greatly contribute to financing of household projects and finding are shown below in Table 4.26.

**Table 4.26: Revolving loans greatly influence to financing of household projects**

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Total
	%	%				%
Revolving loans from members savings	63.2	36.8	0	0	0	100

The study therefore found out that all the respondents agreed that revolving loans in groups can greatly contribute to financing of household projects.

#### **4.8 Summary**

The study found that the variation between the group members and administration officers was quite small. In this chapter all the objectives were achieved and their results were significant in one way or another. The summary of the major findings are shown in the following chapter.

## CHAPTER FIVE

### SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter gives the summary of major findings, conclusions and recommendations of the study.

#### 5.2 Summary of Major Findings

The study was aimed at making an assessment of how revolving loans among self help groups affected the financing of household projects in Laikipia East District. It was guided by the following objectives; establishing how revolving loans schemes in groups influence financing of household projects, assessing how choice of projects by members of groups with revolving loan schemes, establishing how source of funds and investigating how default of revolving loans in groups influence the financing of household projects in Laikipia East District.

##### 5.2.1 Revolving Loans in Groups

The study revealed that all the groups had revolving loans fund which were started using group's members own savings. The Department of Gender and Social Development, Ministry of Youth Affairs, Micro Financial Institutions and Chiefs rated this at 75% as groups' members and officials rated the same at 68.8%.

The study found that according to the above respondents all the groups had household project financed through revolving loans fund and about 75% of them use 76% to 100% of the revolving loans fund to finance household projects. In fact 87.5% of the respondents said that loan for financing household project was adequate to some extent. Correspondingly group officials and members said that all the groups (100%) had household project financed through revolving loans fund and 77.4% of them use 76% to 100% of the revolving loans fund to

finance household projects. More so 48.4% of the respondents said that loan for financing household project was adequate to some extent and the same percentage to a great extent.

### **5.2.2 Choices of Projects by Group Members**

The findings found that 87.5% of the officers said that the group members decide on the type of the projects to be financed using revolving loan in groups. In the same way 76.5% of the group officials and members said that the group members decide on the type of the projects to be financed using revolving loan in groups. Majority of the officers working with groups rated the knowledge of members of the group in terms of making choices for project to be funded and implemented as very good. Equally the group officials and members rated the knowledge of members of the group in terms of making choices for project to be funded and implemented as very good. In addition out of all the respondents who rated the effect of the type of the project chosen on loan repayment as high 76.3% had very good knowledge of making choices for project. This implies that the choice of the project to be funded and implemented is very critical thus cost benefit analysis need to be undertaken before implementation of the projects to avoid default on loans.

### **5.2.3 Source of Funds for Revolving Loans**

The responses received from the officers working with the groups indicated that over 50% of the groups had main source of funds from the members' contribution and lenders. In general 37.5% of the respondents mentioned lenders as source of the funds for the groups thus 62.5% of the respondents felt that groups got funds through members' contributions. Similarly 76.5% of the group officials and members said that the group members decide on the type of the projects to be financed using revolving loan in groups. This suggests that the groups will be more sustainable with loans built from members' contribution in case lenders withdraw funding in form of issuing loans to the groups.

#### **5.2.4 Effects of Default of Revolving Loans**

The analysis indicated that all the respondents felt that majority of the group members repay the loan borrowed promptly. This implies that the group members are efficient and more reliable on loans affairs. The study found out that 87.5% of the administration officers mentioned that assets pledged is usually auctioned. In addition 75% of the respondents mentioned that defaulters and guarantors' savings were withheld to recover the loans borrowed. About 62.5% of the respondents said that group savings were held as a way of recovering borrowed loans. On the contrary the study found that 60% of the group officials and members mentioned that assets pledged are usually auctioned as a step taken to recover the loan. In addition 63% and 41% of the respondents mentioned that defaulters and guarantors' savings were being withheld to recover the loans borrowed and group savings were being held as a way of recovering borrowed loans.

According to the 79% and 83.8% of the group officials and members they said that imposing fines on defaulted loans and extended loan repayment period respectively helped in recovering loans borrowed from the group savings.

### **5.3 Discussions**

The study found out the following observations as were set out in the objectives of the study which were establishing or assessing how the revolving loans in self help groups, choices of projects by members, sources of funds for revolving loans and effects of default in revolving loans influence financing of household projects.

#### **5.3.1 Revolving Loans in Groups**

The data disclosed that as per all the respondents all groups had revolving loans mostly started using members own savings. The share of the members' savings in the loan portfolio is also very significant as it averaged at 72%. It further reveals that over 75% of the revolving



loan funds were being used to finance household projects. This is very important and encouraging in that it shows members on their own can finance their own projects using their own available resources without heavily relying on the donors. The interests chargeable on the loans borrowed from their own funds were also found to be manageable and cheap as compared to those interests charged by commercial financial institutions. The rates are reasonable and can therefore facilitate and encourage people to borrow more loans for investments and implementation of viable and sustainable projects without occasioning strain on the borrowers.

The study also reveals the importance of working together in groups in order to mobilize savings to create a loan fund or in implementation of joint activities. This therefore indicates that revolving loans in self help groups positively influences financing of household projects.

### **5.3.2 Choice of Projects by the Members**

The study found out that majority of the respondents both the officers working with the groups and the groups themselves were in agreement that it's the members and their officials who have the final say in deciding what type of projects will be financed using the loan. This is very critical in the identification planning and implementation of any project as this also determines its viability, completion, profitability and sustainability. If a project is imposed on the people the above factors will be affected as the project beneficiaries will lack ownership and hence projects will be adversely affected. The projects may again be beyond the capacity of the implementers and hence non completion.

The study therefore revealed that since members were fully involved in the choosing of projects for funding through the revolving loans issued among self help groups the choices of projects for financing through revolving loans in self help groups had a positive influence on financing of household projects in Laikipia East district.

### **5.3.3 Source of Funds**

The data revealed that over 50% of the respondents were in agreement that over 62% of the funds used in revolving loans were sourced from members own savings or contributions. This is valid because even the partners who issue loans to self help groups prefer groups that have an existing revolving loan as they are presumed to have effective default control mechanisms. Taifa SACCO, Nanyuki. This is very encouraging in that the sustainability aspect of the revolving loans can be guaranteed with or without a development partner as the beneficiaries will drive the process as it's seen to serve their own needs. The other positive aspect of the source of fund being mainly own contributions is that the interests chargeable are low and in addition it's their own money they have invested in and hence also accrue benefits from the same in form of bonuses and dividends.

The study therefore indicates that the source of funds for use in revolving loans in groups can influence the financing of household projects

### **5.3.4 Default of Revolving Loans**

The data revealed that the respondents were of the opinion that default of loans is effectively controlled as the repayment rate for the loans borrowed externally was 88.5 % and for those borrowed from members own savings was 92.5%. This was due to the fact that stringent measures were put in place to ensure maximum recovery of the issued loans. There is an emergence of the fact whereas auctioning of pledged assets was preferred by the micro financial institutions in recovery of loans issued to groups from external sources there was a high preference for renegotiating repayment periods by groups over loans borrowed from members own savings.

This is very important information to note in that this shows that whatever a member has acquired or implemented through loans acquired through members own funds will be more

sustainable and beneficial to the beneficiary as there is guarantee of ownership as compared to what was acquired or implemented through loans borrowed from external sources as it can be auctioned and hence no guarantee for ownership until the loan is guaranteed.

This means that it is therefore important to effectively control default of loans for if this is not done the members will lose the implemented household projects through auctioning of assets or it might also break the revolving loan cycle and therefore terminate the issuance of loans and hence non financing and implementation for household projects. the study therefore reveals that default in repayment of revolving loans among self help groups influences financing of household projects.

#### **5.4 Conclusions**

The data revealed that all the respondents working for the groups revolving loans from members' savings influence financing of household project to a great extent. Moreover type of projects, source of funds for revolving and effects of defaults in loans affect financing of the household projects using revolving loans to a great extent. In other words, the factors had influence to some extent. On the other hand, the study found that, 83.8% of the group officials and members said that, revolving loans from members' savings, influence financing of household project to a great extent. In addition, type of projects, source of funds for revolving and effects of defaults in loans affect financing of the household projects using revolving loans to some extent.

#### **5.5 Recommendations**

On the basis of this study, the following recommendations were made:

- 1 Since the respondents said that less than 15% of the revolving loan was provided by the development partners or government as grant/loan, the study recommends enhancement of the loan by the government at minimum interest rates to self help groups so that they may continue initiating and implementing household projects.

2. The study found out that the members of groups were fully involved in the choice of projects to be financed. It's therefore important for the development partners to always involve the beneficiaries in the whole project cycle for effective implementation and for sustainability.
3. That group members should source for the funds from friends, relatives and family members so as to increase the capital base (revolving loan funds) for their groups issued at a low interest rate. MFIs should also reduce their interest rates to encourage groups to borrow from them.
4. Since all the steps taken to recover the revolving loans were not exhaustive, the study recommends, groups should insure the loans taken by members and threaten to black list the defaulters with the credit bureaus. This will guarantee full recovery of the loan awarded to the members.

### **5.6 Suggested Areas for Further Research**

Improvement of revolving loans gives self help groups a sense of direction that helps in focusing on the desired goals. Hence more study can be done to explore more opportunities in the following areas:

1. Investigate the impact of revolving loan funds in the households and establish how the implementation of County Governments Bill will affect the growth of self help groups.
2. It is also important to investigate the impact of capacity building on the management of revolving loans in self help groups.

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## APPENDICES

### Appendix 1: Administrative Units in Laikipia East District

Name of the District	Name of Division	Name of Location
Laikipia East	Central	Segeza
		Nanyuki
		Ntrukuma
		Mpala
	Ol Daiga	Umande
		Muramati
		Ethi

**Source: District Commissioners Office, Laikipia East**



**Appendix 2 Letter of Introduction**

The Chairperson/Secretary

.....  
Self Help Group

Box.....

Town.....

Laikipia East District

Dear sir/ madam.

**RE: Authority to Conduct Academic Research**

I am a student of University of Nairobi pursuing a Masters Degree in Project Planning and Management. I am undertaking an academic study on the influence of revolving loans in groups on financing of household projects in Laikipia East district.

In view of this your group has been identified to participate in providing the necessary information as regards this study. The study in particular will be addressing issues of governance, capacity building and financial management in the application of revolving loans in your group and its influence on financing of household projects. I therefore kindly request to fill this questionnaire as accurate as is possible to ensure the study achieves its intended objective. The information that you will give is confidential and will be used only for the purpose of my academic research.

Thanking you in anticipation,

Yours faithfully,

P.M. Murigu

## Appendix 3: Questionnaire

### (Officials and Members)

#### Instructions

Please answer all the questions below by putting a tick (✓) where appropriate or filling in the blank spaces provided.

#### Section A: Background Information

1. Gender

Male [ ] Female [ ]

2. What position do you hold in the group?

Official [ ] Member [ ]

3. Age.

a. Under 30 yrs

b. 30 – 40 yrs

c. 40-50 yrs

d. Over 50 yrs.

4. What type is your group?

a. Women Group

b. Men Group

c. Youth Group  No of Men  No of Women

d. Mixed Self Help Group  No of Men  No of Women

5. How many members does the group have?

- a. Less than 10
- b. 11-20
- c. 21-30
- d. Over 30

6. For how long has your group been involved in revolving loans?

- a. Less than one year
- b. 1 to 5yrs
- c. 6- 10 yrs
- d. Over 10 yrs

**Section B: Revolving loans in Groups**

7. Does your group have a revolving loan? Yes  No

8. How was the revolving loan started?

- a. Through members savings
- b. Through a grant/loan from government
- c. Through a development partner

9. Does your group have household projects financed through the revolving loan fund? Yes [ ] No [ ]

b) In your opinion out of the total revolving loans fund how much is used to finance household projects as compared to other uses of the loans? Use the percentages given below

a) From 0 % to 25% [ ]

b) From 26 % to 50% [ ]

c) From 51 % to 75 % [ ]

d) From 76 % to 100% [ ]

10. To what extent is the loan adequate in financing of the household projects identified for implementation?

a) To great extent [ ]

b) To some extent [ ]

c) Moderately [ ]

d) Not at all [ ]

### Section C: Choices of Projects

11. Who decides on the type of projects to be financed using the revolving loan fund?

a. The lending Institution [ ]

b. The group officials [ ]

c. The group members [ ]

d. The lending institution in consultation with group [ ]

12. In the spaces given below please indicate the projects that have been funded using the revolving loan raised through member's savings in order of preference by your group. ( Write them down in order of priority i.e. the one chosen by most people should be first) use the given scale 1 being the most proffered and 5 the least preferred [ 1,2,3,4,5,6]

a. Water related i.e. water tanks, shallow wells, piping [ ]

b. Poultry projects [ ]

c. Dairy goats projects [ ]

d. Farming projects [ ]

e. Education projects [ ]

- f. Health projects [ ]
- g. Others (specify) ..... [ ]

13. In your opinion how would you rate the knowledge of the members of the group in terms of making choices for projects to be funded and implemented? Use the rating below:

- a) Excellent [ ]
- b) Very Good [ ]
- c) Good [ ]
- d) Fair [ ]
- e) Poor [ ]

14. Does the type of project chosen for funding affect the loan repayment by members? Use the following ratings;

- a) Very High [ ]
- b) High [ ]
- c) Low [ ]
- d) Very Low [ ]

**Section D: Source of Funds for the Revolving Loans**

15. What is the main source of your finances for your revolving loans?

- a) Members contribution [ ]
- b) Loans from Micro Financial Institutions [ ]
- c) Loans from Government programmes i.e. WEF, YEF, PEF [ ]
- d) Members contribution and lenders named in (b) and (c) [ ]

16. Who authorizes how finances will be spent in the group?

- a) The officials with consultations with the members [  ]
- b) The officials [  ]
- c) The lending institution [  ]
- d) The lenders in consultation with members [  ]

17. What is the approximate volume of your group's revolving loan portfolio?

- a) Less than Kshs 100,000 [  ]
- b) Between Kshs 100,000- 150,000 [  ]
- c) Between Kshs 150,000- 200,000 [  ]
- d) Between Kshs 200,000- 300,000 [  ]
- e) Over Kshs 300,000 [  ]

18. Does your group have rules and regulations guiding the criteria for sourcing of funds for revolving loans? Yes [  ] No [  ]

19. How would you rate your group members in terms of using the revolving loans to finance the agreed upon or the intended household projects?

- a) Excellent [  ]
- b) Very Good [  ]
- c) Good [  ]
- d) Poor [  ]
- e) Very Poor [  ]

20. On average what interest rates do you charge on revolving loans borrowed externally (e.g. from MFIs, WEF, PEC, YEDF) to the members?

- a) 0- 10 % [  ]
- b) 10-15% [  ]
- c) 15-20 % [  ]

d) Over 20% [ ]

21. On average what interest rates do you charge on revolving loans borrowed from group members own savings to the members?

a) 0- 10 % [ ]

b) 10-15% [ ]

c) 15-20 % [ ]

d) Over 20% [ ]

### Section E: Default of Revolving Loans

22. How would you describe the majority of the members in terms of repayment of loans borrowed from members own savings?

a. Pays promptly [ ]

b. Pays after occasional delays [ ]

c. Mostly in arrears [ ]

d. Totally defaulted [ ]

23. How would you describe the majority of the members in terms of repayment of loans borrowed from external sources e.g. MFI, PEC, WEF, YEDF etc?

a. Pays promptly [ ]

b. Pays after occasional delays [ ]

c. Mostly in arrears [ ]

d. Totally defaulted [ ]

24. In order of priority please list down the steps taken to recover the revolving loan borrowed from external source e.g. MFI, PEC, WEF, YEDF etc. when a member defaults.( e.g. seeking government intervention, courts, auction etc)

- a) .....
- b) .....
- c) .....
- d) .....
- e) .....

25. In order of priority please list down the steps taken to recover the revolving loan borrowed from members own savings when a member defaults.( e.g. seeking government intervention, courts, auction etc)

- a) .....
- b) .....
- c) .....
- d) .....
- e) .....

26. The following are some of the factors of revolving loans influencing the financing of household and community projects in Laikipia East District. Please indicate the extent to which they influence the financing of projects using the following ratings.

- 1. To great extent
- 2. To some extent
- 3. Moderately
- 4. Not at all
- 5. Don't know



	1	2	3	4	5
Revolving Loans From Members					
Savings					
Types Of Projects Chosen					
Source Of Funds For Revolving Loans					
Effects Of Default In Loans					

27. According to you to what extent can you agree with this statement: "Revolving loans in groups can greatly contribute to financing of household projects."

- a) Strongly Agree [ ]
- b) Agree [ ]
- c) Not Sure [ ]
- d) Disagree [ ]
- e) Strongly Disagree [ ]

The End

Thank you.

## Appendix 4: Questionnaires

(Department of Gender and Social Development, Ministry Of Youth Affairs, Micro Financial Institutions, Chiefs)

### Instructions

Please put a tick (✓) where appropriate

Use the space provided to fill in your answers.

### Section A: Background Information

1. Gender

Male [ ] female [ ]

2. Age

a) Under 30 yrs

b) 30 – 40 yrs

c) 40-50 yrs

d) Over 50 yrs.

3. What institution do you work for?

a. DG&SD

b. MOYA

c. MFI

d. Provincial Administration (Chief)

4. For how many years have you worked with revolving loan groups?

a. Less than one year

b. 1 to 5yrs

c. 6- 10 yrs

- d. Over 10 yrs
5. On average how many members are there in those groups?
- a. Less than 10
- b. 11-20
- c. 21-30
- d. Over 30

**Section B: Revolving Loans in Groups**

6. Do most of the groups have revolving loans?

Yes  No

7. How was the revolving loan started?

- a. Through members savings
- b. Through a grant/loan from government
- c. Through a development partner

8. Do the groups have household projects financed through the revolving loan fund?

Yes [ ] No [ ]

c) In your opinion out of the total revolving loans fund how much is used to finance household projects as compared to other uses of the loans? Use the percentages given below

- e) From 0 % to 25% [ ]
- f) From 26 % to 50% [ ]
- g) From 51 % to 75 % [ ]
- h) From 76 % to 100% [ ]

9. To what extent is the loan adequate in financing of the household projects identified for implementation?

- e) To great extent [ ]

- f) To some extent [    ]
- g) Moderately [    ]
- h) Not at all [    ]

**Section C: Choice of Projects**

10. Who decides on the type of projects to be financed using the revolving loan fund in groups?

- a. The lending Institution [    ]
- b. The group officials [    ]
- c. The group members [    ]
- d. The lending institution in consultation with group [    ]

11. In the spaces given below please indicate the projects that have been funded using the revolving loan in order of preference by the groups. ( Write them down in order of priority i.e. the one chosen by most groups should be first) use the given scale 1 being the most proffered and 5 the least preferred [ 1,2,3,4,5,6]

- a. Water related i.e. water tanks, shallow wells, piping [    ]
- b. Poultry projects [    ]
- c. Dairy goats projects [    ]
- d. Farming projects [    ]
- e. Education projects [    ]
- f. Health projects [    ]
- g. Others (specify) ..... [    ]

12. In your opinion how would you rate the knowledge of the members of the group in terms of making choices for projects to be funded and implemented? Use the rating below;

- a) Excellent [    ]

- b) Very Good [    ]
- c) Good [    ]
- d) Fair [    ]
- e) Poor [    ]

13. Does the type of project chosen for funding affect the loan repayment by members? Use the following ratings:

- a) Very High [    ]
- b) High [    ]
- c) Low [    ]
- d) Very Low [    ]

**Section D: Source of Funds for the Revolving Loans**

14. What is the main source of funds for the groups that you have interacted with?

- a) Members contribution [    ]
- b) Loans from Micro Financial Institutions [    ]
- c) Loans from Government programmes i.e. WEF, YEF, PEF [    ]
- d) Members contribution and lenders named in (b) and (c) [    ]

15. Who authorizes how finances will be spent in most of these groups?

- a) The officials with consultations with the members [    ]
- b) The officials [    ]
- c) The lending institution [    ]
- d) The lenders in consultation with members [    ]

16. What is the approximate volume of most groups' revolving loan portfolio?

- a) Less than Kshs 100,000 [    ]
- b) Between Kshs 100,000- 150,000 [    ]
- c) Between Kshs 150,000- 200,000 [    ]

d) Between Kshs 200,000- 300,000 [ ]

e) Over Kshs 300,000 [ ]

17. Do most groups have rules and regulations guiding the criteria for sourcing of funds for revolving loans? Yes [ ] No [ ]

18. How would you rate most group members in terms of using the revolving loans to finance the agreed upon or the intended household projects?

a) Excellent [ ]

b) Very Good [ ]

c) Good [ ]

d) Poor [ ]

e) Very Poor [ ]

19. On average what interest rates do groups charge on revolving loans borrowed externally (e.g. from MFIs, WEF, PEC, YEDF) to the members?

a) 0- 10 % [ ]

b) 10-15% [ ]

c) 15-20 % [ ]

d) Over 20% [ ]

20. On average what interest rates do groups charge on revolving loans borrowed from group members own savings to the members?

a) 0- 10 % [ ]

b) 10-15% [ ]

c) 15-20 % [ ]

d) Over 20% [ ]

## Section E: Default of Revolving Loans

21. How would you describe the majority of the members in terms of repayment of loans borrowed from members own savings?

- a. Pays promptly [    ]
- b. Pays after occasional delays [    ]
- c. Mostly in arrears [    ]
- d. Totally defaulted [    ]

22. How would you describe the majority of the members in terms of repayment of loans borrowed from external sources e.g. MFI, PEC, WEF, YEDF etc?

- a. Pays promptly [    ]
- b. Pays after occasional delays [    ]
- c. Mostly in arrears [    ]
- d. Totally defaulted [    ]

23. In order of priority please list down the steps taken to recover the revolving loan borrowed from external source e.g. MFI, PEC, WEF, YEDF etc. when a member defaults ( e.g. seeking government intervention, courts, auction etc)

- a) .....
- b) .....
- c) .....
- d) .....
- e) .....

24. In order of priority please list down the steps taken to recover the revolving loan borrowed from members own savings when a member defaults.( e.g. seeking government intervention. courts, auction etc)

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

- c) .....
- d) .....
- e) .....

28. The following are some of the factors of revolving loans influencing the financing of household and community projects in Laikipia East District. Please indicate the extent to which they influence the financing of projects using the following ratings.

- a) To great extent
- b) To some extent
- c) Moderately
- d) Not at all
- e) Don't know

	1	2	3	4	5
Revolving Loans From Members Savings					
Types Of Projects Chosen					
Source Of Funds For Revolving Loans					
Effects Of Default In Loans					

25. According to you, to what extent can you agree with this statement; "Revolving loans in groups can greatly contribute to financing of household and community projects."

- a) Strongly Agree [    ]



- b) Agree
- c) Not Sure
- d) Disagree
- e) Strongly Disagree

The End

Thank you

Item	1	2	3	4	5	Mean	Standard Deviation
1. Motivation							
2. Chemistry							
3. History							
4. Education							
5. Learning							
6. Health							
7. Values							

**Appendix 5: Projects Funded Using the Revolving Loan Fund (responses from officers working with the groups)**

S/N	Projects	Rank						Priority	Most preferred
		1	2	3	4	5	6		
1	Water related	6	1					1	Water related
2	Poultry projects		1	6	1			2	Dairy goat
3	Dairy goats projects	1	6					3	Poultry
4	Farming			1		6		4	Education
5	Educations				6	1		5	Farming
6	Health projects						7	6	Health
7	Rabbit projects	1						7	Others
8	Fish farming			1				8	

**Appendix 6: Projects Funded Using the Revolving Loan Fund (responses from group officials and members)**

No	Projects	Rank						Priority	Most preferred
		1	2	3	4	5	6		
1	Water related	36	16	5				1	Water related
2	Poultry projects	8	17	22	12	5	1	2	Dairy goats
3	Dairy goats projects	17	27	12	1			3	Poultry
4	Farming		2	7	22	29		4	Education
5	Educations		1	12	22	22		5	Farming
6	Health projects					1	56	6	Health
7	Rabbit projects	2		1				7	Others
8	Fish farming	2							