

**EFFECTS OF MEMBER-OWNED FINANCIAL INSTITUTIONS ON DIVERSIFICATION OF LIVELIHOODS AMONG RURAL HOUSEHOLDS. A CASE STUDY OF FINANCIAL SERVICES ASSOCIATIONS ( FSAs) IN EMBU COUNTY**

**BY**

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**DECLARATION**

This project is my original work and has never been submitted for an award of degree in any other University.

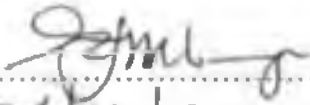
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Last but not least I would like to thank fellow students for their support and encouragement. Working together with them enabled me to know what needed to be improved. This enabled me to keep improving my work and come up with something better. May God bless all those who in one way or another gave me any form of support. Without this support I would have given up. I sincerely appreciate each one of them.

## DEDICATION

This project paper is dedicated to my husband Musau and our two children Lynn and Thome whose encouragement and support gave me the strength to move on. They kept encouraging and giving me all the support they could afford. They sacrificed beyond measure to ensure I succeeded.

## ABSTRACT

The purpose of this study was to evaluate the effects of member owned financial institutions on the diversification of livelihoods in Embu county using financial services associations as the case study. Embu county is known as an agricultural zone with the north side growing cash crops while southern is known for subsistence farming. The study therefore evaluated whether with the implementation of the financial services association there has been either other types of farming and source of income activities started or introduced. Livelihood diversification in this study was used to refer to attempts by individuals or households to expand or find new ways to raise incomes and reduce environmental risks which differ sharply by the degree of freedom of choice and the reversibility of the income..

The main objective of this study was to investigate the effects of member-owned financial institutions on the diversification of livelihood among rural households. The specific objectives focused on finding out whether FSA credit, shareholding, ,business training affect diversification of livelihoods, whether the household savings affect the decision of shareholders to borrow credit and whether diversification of livelihoods contributed to increased income levels.

The study reviewed related literature which included a brief overview of Member-owned financial institutions, Financial Services Association model. Compared to other community – owned institutions the FSA model has the following principal strengths. Challenges faced by FSAs, Livelihoods diversification and Theoretical framework and conceptual framework.

This study applied the survey design which is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables (Mugenda 2003). The survey design seeks to describe the existing phenomena by asking individuals about their perceptions, attitudes and behavior or values. It is a type of descriptive research (Mugenda 2003).

The target population consisted of the active shareholders in the four FSAs under study namely Kigumo, Kithimu, Kevote and Kiritiri. The shareholders comprised of male and female adults of

the particular locations where the FSAs are located. Members of the sample were selected using probability sampling. It ensures that each item of the universe has an equal chance of inclusion in the sample interest from the sample population. The study applied stratified random sampling because the population was not a homogenous group (kothari1990). Systematic sampling was used to select the samples in every stratum.

Questionnaire, key informant interview and focus group discussions were used to collect data. A pretest was carried out on a population similar to the target population in order to assess the validity of the instrument.

Data was analyzed using SPSS (Statistical package for the social sciences) and presented by use tables, pie charts and graphs. The findings were summarized, conclusions and recommendations made from the study.

## TABLE OF CONTENTS

DECLARATION.....	i
ACKNOWLEDGEMENT .....	ii
DEDICATION.....	iii
ABSTRACT .....	iv
TABLE OF CONTENTS .....	vi
LIST OF TABLES.....	viii
LIST OF FIGURES.....	ix
LIST OF ABBREVIATIONS.....	x
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.0 Background information on study .....	1
1.1 problem statement.....	3
1.2 Research question .....	5
1.3 Objectives of the study.....	5
1.4 Significance of the study.....	6
1.5 Scope of the study .....	6
1.6 Limitation of the study .....	7
1.7 Definition of terms.....	8
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>9</b>
2.0 Introduction.....	9
2.1 Member –owned financial institutions.....	9
2.2 FSA Model.....	11
2.3 Challenges faced by the FSAs.....	15
2.4 Livelihoods diversification.....	15
2.5 Theoretical Framework.....	16
2.6 Conceptual Framework.....	18
<b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>	<b>19</b>
3.0 Introduction.....	19
3.1 site description .....	19
3.2 Research Design.....	20
3.3 Target Population.....	21
3.4 Unit of analysis and observation.....	21
3.5 Sampling procedure .....	22
3.6 Data Collection .....	23
3.7 Data Analysis.....	24
<b>CHAPTER FOUR DATA ANALYSIS ,PRESENTATION AND INTERPRETATION OF FINDINGS.....</b>	<b>25</b>
4.0 Introduction .....	25
4.1 Presentation of the findings.....	25
4.2 Analysis and Interpretation of the findings .....	32
<b>CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMMENDATION .....</b>	<b>41</b>
5.1 summary of findings.....	41
5.2 Conclusion.....	43
5.3 Recommendation.....	44
REFERENCES .....	45
APPENDICES.....	47

APPENDIX 1: LETTER OF TRANSMITTAL.....	47
APPENDIX 2: QUESTIONNAIRE.....	48
APPENDIX 3: FGD GUIDE .....	53
APPENDIX 4 KEY INFORMANT INTERVIEW GUIDE.....	55



## **LIST OF TABLES**

<b>Table 2.1: Typology of member-owned institutions</b>	<b>10</b>
<b>Table 3.1: sampling procedure per FSA</b>	<b>22</b>
<b>Table 4.1 Respondents' Age bracket</b>	<b>26</b>
<b>Table 4.2 sex of the respondents</b>	<b>26</b>
<b>Table 4.3 Marital status</b>	<b>27</b>
<b>Table 4.4 distances of households from the FSAs</b>	<b>31</b>
<b>Table 4.5 time of joining the FSA</b>	<b>31</b>
<b>Table 4.6 Purpose of loans</b>	<b>32</b>
<b>Table 4.7 extent of impact /influence</b>	<b>34</b>
<b>Table 4.8 Responses on when the specified indicators of development were undertaken</b>	<b>40</b>

## **LIST OF FIGURES**

<b>Figure 2.1</b> conceptual framework	<b>18</b>
<b>Figure 4.1</b> highest level of education	<b>28</b>
<b>Figure 4.2</b> Distribution of respondents by type of occupation	<b>29</b>
<b>Figure 4.3</b> Households monthly income	<b>30</b>
<b>Figure 4.4</b> Factors motivating respondents' decision to borrow loans	<b>33</b>

## **LIST OF ABBREVIATIONS**

<b>MOIs</b>	:	<b>Member Owned institutions</b>
<b>FSA<sub>s</sub></b>	:	<b>Financial services Associations</b>
<b>SPSS</b>	:	<b>Statistical package for the social sciences</b>
<b>DFRD</b>	:	<b>District focus for rural development</b>
<b>SACCOS</b>	:	<b>Saving and credit cooperatives</b>
<b>ROSCAs</b>	:	<b>Rotating and saving credit loans Associations</b>
<b>VSLAs</b>	:	<b>Village savings and loans Association.</b>
<b>ASCA<sub>s</sub></b>	:	<b>Accumulating savings and credit Association .</b>
<b>K-REP</b>	:	<b>Kenya rural enterprise program</b>
<b>SHG</b>	:	<b>Self help group</b>
<b>IFAD</b>	:	<b>International fund for agricultural development</b>
<b>BOD</b>	:	<b>Board of directors</b>
<b>FAO</b>	:	<b>Food and Agriculture Organisation</b>
<b>KCM</b>	:	<b>Kikundi Cha Mkopo</b>

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 Background of the study

Considering that over 60 percent of the populations in Kenya live in the rural areas (National Development Plan 1997-2000), the importance of rural development cannot be overemphasized. Both national, regional and global policy frameworks (e.g. social summit at Copenhagen 1995, Millennium Development Goals, 2000 and NEPAD 2001) emphasized on poverty alleviation. Like the case of Kenya the Kenya session paper 10 of 1965 declared poverty, illiteracy and diseases as the most prominent enemies of Kenya as a country and the fight against the three enemies began immediately. So many strategies were put in place to combat diseases, illiteracy and poverty. The emphasis of these frameworks left majority of the countries with no option but to embrace development geared to alleviating poverty. The poverty recovery strategy paper (PRSP) prioritized agriculture and rural development as the areas of urgent intervention.

Agriculture contributes 23.9 percent of national Gross Domestic Product (GDP) and 60 percent of the total export earnings. In addition, 80 per cent of the population derives their livelihood from agriculture. In spite of the significant contribution, agriculture has experienced low productivity in the past decade and the rural community has decided to diversify their livelihood. The economic recovery strategy for wealth and employment creation (ERSWEC) identified poor access to farm credit and financial services as the contributing factors to the decline in agriculture

With about 73 percent of Africa's population living in the rural areas and experiencing a high incidence of rural poverty, improved rural finance is crucial in achieving pro-poor growth and poverty reduction goals. However, the development of rural financial systems is hampered by the high cost of delivering the services to small, widely dispersed customers; as well as a difficult financial terrain – characterized by high covariant risks, missing markets for risk management instruments and lack of suitable collateral (Onumah, 2002).

Identifying mechanisms for providing financial services on a sustainable basis in the more remote rural areas of Sub-Saharan Africa remains a challenge. An environment characterized by poor communication infrastructure, low population density, high levels of illiteracy, low profitability, high risk of most rural economic activities and relatively undiversified rural economies, its unattractive to formal financial institutions and hence introduction of Member owned financial institutions as part of rural financing, an initiative in rural areas especially to take care of the financial needs of the farmers.

Different models of rural financing have evolved over time moving from the most ancient and unregistered models to more organized modern models. Member owned financial institutions are institutions owned and governed by members who rightfully become owners. They offer various financial services in remote rural of sub-Saharan Africa where formal banks are not economically viable. They range from savings and credit cooperatives (SACCOS), informal financial institutions (merry go round), limited liability companies to Financial Services Associations (FSAs). Member owned financial institutions have also evolved with time to try and meet the need of every person at her /his level. To reach the poor of the poorest, financial services associations (FSA) model which is the concern of the study was established. In 1964 Kenya rural enterprise program (KREP) was started and the main concern was to provide financial services to the poor in the rural areas. After KREP offering financial services through a micro credit program for sometimes, it came to the realization that there was a group in the rural who could not participate in the micro-credit probably because they could not meet the laid down rules and regulations or otherwise. KREP through the Kenya development agency borrowed from the works of Jazayeri (the founding father of the FSAs) and established the first FSA in Kenya in 1997. Compared to the rest of member owned financial institutions, the FSA concept is relatively new and borrows many of its concept and ideas from other member-owned institutions and group lending micro-finances. The model has since then been used by other development agents to set up FSAs in the various rural areas of Kenya.

These informal and semi-formal financial institutions although have become the major financial providers in the rural Africa, they have weak institutional and managerial capacity and operating in isolation from the financial systems has led some of them to charge steep interest rates.

Rural financial services help the poor and low income households increase their incomes and build the assets that allow them to mitigate risk, smoothen consumption, plan for future, increase food consumption, invest in education and other lifecycle needs. These needs can be broadly categorized into working capital, fixed asset financing, income smoothing and life cycle events. Access to credit and financial services has the potential to make a difference between grinding poverty and economically secure life. In the late 1990's, most mainstream commercial banks closed down some rural branches in order to cut costs and improve profits. The non-traditional financial institutions have emerged to fill the gap created by the mainstream banks which locked out low income and irregular earners.

## 1.2 Problem statement

Access to rural financial services has a potential to make a difference in agricultural productivity, food security and poverty reduction. However, an efficient, sustainable and widely accessible rural financial system remains a major development challenge in most Sub Sahara African countries. The formal Banks have become un-attractive in remote rural areas of sub-Saharan Africa which are characterized by harsh conditions. In the late 1990's, most mainstream commercial banks closed down the rural branches in order to cut costs and improve profits. Since then, a number of non-traditional financial institutions have emerged to fill the gap created by the mainstream banks which locked out low income and irregular earners.

Member-owned financial institutions are known for offering their member owners value propositions that can meaningfully translate into improved lives and at the same time offer a lower-cost and potentially sustainable solution. They are owned and governed by the members who become rightful owners by either registration or buying shares. These institutions are known to thrive in remote rural areas of sub-Saharan Africa which are characterized by harsh conditions. Member-owned financial institutions face three challenges: effective internal management of the operations, monitoring and enforcement of loan contracts and building mutual trust and relationship with the community by offering their member owned propositions that can meaningfully translate into improved lives (Jazayeri 1997-2004)

Different models of rural financing have evolved over time and one of the most recent one is the financial model which the research will be looking at. According to research findings the future scenario of rural financing is that the mainstream banks will concentrate on the niche markets in the urban centers and that the emerging indigenous banks will continue to expand in the rural areas and serving the rural people gradually transform themselves into community based micro-credit units. This will most likely reduce unemployment, diversify their livelihood, increase the income and ultimately lead to poverty reduction in the rural areas.

Livelihood diversification refers to attempts by individuals or households to find new ways to raise incomes and reduce environmental risks which differ sharply by the degree of freedom of choice and the reversibility of the income. It includes both off farm activities which are undertaken to generate additional income to that from the main household agricultural activities.

Illis (1997) defines livelihood diversification as the process by which rural families construct a diverse portfolio of activities and social support capabilities in their struggle for survival and in order to improve their standards of living.

FSA's just like other rural financing models provide the shareholders a chance to access credit, save, business training and become shareholders hence supposed to bring about change in the entire lives of the rural poor by diversifying livelihoods. The purpose of the four FSA's ( Kigumo, Kithimu, Kevote and Kiritiri) in Embu county, being used as the case study for this research, was to impact the lives of the rural people positively through diverse ways. But to date, even after eight years since the first FSA was opened, no research has ever been undertaken to check whether they are meeting the intended purpose.

The researcher therefore tried to look at one aspect through which the FSA's can transform the lives of their shareholders and also decided to concentrate on purely virgin four FSA's by investigating the effects of these FSA's (type of member owned financial institution and the most recent model) on the diversification of livelihoods among the rural households.

### **1.3 Research questions**

The research questions of the study included:

- 1 Does the FSAs credit affect diversification of livelihoods among the rural households?
- 2 Does the level of savings by households influence their decision to opt for credit?
- 3 To what extent does the accessibility of credit, business training and share holding /ownership in FSAs impact on diversification of livelihoods?
- 4 Does diversification of livelihoods lead to increased income levels among the rural households?

### **1.4 Objective of the study**

#### **General objective**

The general objective of the study was to investigate the effects of member-owned financial institutions on the diversification of livelihood among rural households

#### **Specific objective**

The specific objectives of the study included:

- 1 To evaluate the effects of FSAs credit on diversification of livelihoods among the rural households.
2. To examine the relationship between the level of savings by households and the decision to opt for credit for the purpose of diversifying livelihood.
3. To examine the extent to which access to FSAs credit ,business training and shareholding /ownership in the FSAs impact on the diversification of livelihoods
4. To establish whether diversification of livelihoods among households lead to improved income.



### **1.5 Significance of the study**

The study will offer an academic contribution in the area of FSA model and from study findings, long- term policy recommendations may be put in place by the government

Also the findings may be used to guide future researchers in identifying priority areas in which to carry out more research on FSA model and also give professional guidance on how the model can be used in other areas of need especially the area of food security

### **1.6 Scope of the study**

The study main focus was on the effect of the member-owned financial institution on the diversification of livelihoods amongst the rural households and used a case study of the four FSAs in Embu County which included Kigumo ,Kevote, Kithimu and Kiritiri FSAs. The FSAs as organizations or buildings /structures may not have any impacts on the diversification of livelihoods but their activities or services they render to the shareholders will. so the study scrutinized the following services, FSA credit, business training, shareholding and household savings. The shareholders of the four FSAs were the respondents either in their capacities as shareholders or as Board of Directors and employees of the Financial services Association. The target population was 3072 shareholders distributed as follows; Kigumo - 960, Kithimu - 744, Kevote -460 and Kiritiri -908 shareholders as at 30<sup>th</sup> June, 2011. The study also used a sample size of 120 respondents drawn from all the four FSAs. Probability sampling was used to draw up the sample. The study limited itself to questionnaires, key informant interviews, focus group discussions to collect both qualitative and quantitative data. The questionnaires were sent out to 120 respondents selected from all the FSAs using systematic random sampling with the shareholders list as the sampling frame. Two focus group discussions were held in Kigumo and Kiritiri FSAs and eight key informants interviewed namely four chairpersons to the Board of Directors and four managers (employees) of the four FSAs

## 1.7 Limitations of the study

The fact that the study focused only on the four FSAs whose initial support unit was different from others (the four FSAs initial supporter was World Concern International not KREP) , may be limiting and the findings may not be the true representations of all the FSAs in Kenya.

The four FSAs are kilometers wide apart hence a great input of time and finances was required to collect data

FSAs have a calendar of events like when the groups meet, when boards of directors meet and the time for Annual general meeting. The challenge was trying to adjust ourselves to fit in their calendar.

Studying FSAs only, may not be an exact representation of the effects of the entire member – owned financial institutions on the diversification of the livelihood among the rural households.

## 1.8 Definitions of significant terms

**Member- owned financial institutions** – These are institutions owned and governed by members who rightfully become owners either by purchasing shares or registration. They offer various financial services in remote rural of sub-Saharan Africa where formal banks are not economically viable.

**Household**- People living together in one house either in urban or rural areas

**Rural areas** – these are areas which are characterized by poor communication infrastructure, low population density, high level of illiteracy, low profitability or high risky of most rural economic activities ,relatively undiversified economies and little or no access to formal financial services

**Rural household** –this therefore refers to all the people living in one house in a rural setting.

**Financial Services Association**- community owned financial institution through which its members become rightful owners by purchase of at least one share. It mobilizes its risk capital

through the issuance of shares and only those who have bought one or more shares can benefit from its services.

**Livelihood** -According to English dictionary it is something providing money needed to live. It's also defined as job, work or source of income .e.g. paid work

**Livelihood diversification** -It refers to attempts by individuals or households to find new ways to raise incomes and reduce environmental risks which differ sharply by the degree of freedom of choice and the reversibility of the income.

**Effects** – (Result, consequence, outcome, or response) these are all words for a thing that is caused because of something else in this case the implementation of FSAs.

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 Introduction

The chapter reviewed what had been previously written on the area of study. It consisted of a brief overview of the member owned financial institutions and their impacts and a scrutiny of the financial services association as one of the most recently implemented model which forms the case study of this survey. It also highlighted the challenges the FSAs were facing and then briefly talked of diversification of livelihoods and both conceptual and theoretical frameworks.

#### 2.2 Member-owned financial institutions

These are institutions owned and governed by members who rightfully become owners either by purchasing shares or registration. They offer various financial services in remote rural of sub-Saharan Africa where formal banks are not economically viable

MOIs range from neighborhood ROSCAs, self-help groups (SHGs), village cooperatives to cooperative banks with anywhere from a handful to over a million members. MOIs' are mainly classified depending on size as either small or large. Within these two broad categories, other typologies may emerge as shown below.

**Groups that are time-bound:** In these small MOIs, all members participate in all decision-making and periodically disburse all their funds. These groups tend to have a handful to a few hundred members. Peer monitoring is effective.

**Small MOIs that accumulate funds:** In small groups, all members participate in all decision-making. In other small MOIs, members elect representatives to govern, and these volunteers or paid staffs manage day-to-day decision-making. These MOIs are small enough for peer monitoring to be effective. This maximum size will vary by context but would not exceed a few hundred members.

**Medium-sized MOIs:** With several hundred to several thousand members, these MOIs are governed by elected representatives and rely largely on paid staff. MOIs of this size face a

particular challenge. Though too big for peer monitoring to work, they are too small to afford or attract some of the controls that replace it; for example, professional auditors, more skilled staff, and government supervision (Wanjau, 2007).

**Large MOIs:** Elected representatives also govern these MOIs that rely completely on professional management. The costs of skilled staff can be covered due to their economies of scale and they may attract direct or delegated supervision from the government. These MOIs do not benefit from peer monitoring or community oversight. In fact, they may look more like banks than like community-owned institutions.

Table 2.1: Typology of Member-Owned Institutions

Small MOIs		Large MOIs	
Time-bound groups	Accumulating-fund MOIs (groups and other)	Medium-sized MOIs	Large MOIs
ROSCAS, traditional VSLAs, time-limited ASCAs	ASCAS, self-help groups, and some new VSLAs. Small FSAs, SACCOs & village-based MOIs (e.g. CVECAs).	Large FSAs and village-based MOIs. Some SACCOs & LPDs.	Large SACCOs & LPDs. Cooperative banks

### 2.3 Impact of MOIs

Information on the impact of MOIs comes primarily from studies of groups. They suggest that participation is associated with significant social and economic impacts (Puhazhendi & Satyasai, 2000; Seibel, 2004). Whether or not promoted groups hinder formal financial institutions in rural areas is unclear (Nagarajan & Meyer, 2005).

An eleven-state study of Indian SHGs found that member households experienced significant increases in assets, net income and consumption, and on average, a tripling of annual savings compared to pre-SHG levels. Groups facilitated by NGOs experienced the greatest increases

(Puhazhendi & Satyasai, 2000). The evaluation relied on members and did not use control groups (Meyer 2003).

Another SHG study that found similarly positive results attribute these benefits to savings services, especially contractual savings accounts; emergency services; and training and advice (Kaboski & Townsend, 2005). At the village level, the social benefits of SHGs reportedly include greater thrift, financial self-reliance and financial management skills; more self-confidence, awareness of options, and involvement of women in civic affairs; improved school enrolment and women's literacy; more family planning and better health; improved sanitation; and reduced drinking and smoking among men (Seibel & Dave, 2002). According to their members, informal groups contribute to greater savings discipline (Gugerty, 2003), consumption-smoothing, more social interaction (Bouman, 1994), a stronger safety net for members, family and the broader community (Verhoef, 2001), and greater circulation of cash (Sethi, 1995; Ardener, 1964).

#### **2.4 Financial services association model**

FSA is a community owned financial institution through which its shareholders access a range of financial services. FSAs are established at the community level and are owned and managed by community members that buy shares in a particular FSA. The model mobilizes its risk capital through the issuance of shares and only those who have bought one or more shares can benefit from its services.

Unlike other member-owned financial institutions, FSAs emphasize on shares which give members personal voting rights, capital appreciation and greater dividends. FSAs are not registered as cooperatives so can only use share capital or their own retained earnings for issuance of loan but not member's savings.

To address the severely limited financial services available in areas traditionally ignored by commercial banks, Jazayeri (1996) modeled the FSA as a self-reliant, small-scale financial institution catering to a community's niche needs by harnessing local equity capital, thereby releasing the institution from dependence upon the goodwill of external funding agencies Since

1994 FSAs, have been introduced in Benin, the Congo Brazzaville, Mauritania, Uganda, Gabon Guinea, South Africa and Kenya.

FSAs are characterized by simple systems and procedures, a limited range of financial services offered (presently low technology savings and credit products ), lack of complex support structure. These characteristics enable FSAs to maintain low cost organization structures and rely on local government and thus promote the sustainability of the FSA model (Pearce and Helms,2001)

FSAs offer savings and credit services, and rely on member share capital as the main source of funds. FSAs do not yet fit within the regulatory framework of recognized financial intermediaries such as banks or savings and credit cooperatives, and therefore the scope for on-lending from deposits is limited. While savings and credit cooperatives are generally *borrower-driven*, FSAs seem to be primarily *investor-driven*. While credit union and savings and credit cooperative policies tend to be favorable to borrowers, FSAs have relatively high interest rates on loans.

Loan size is linked to size of shareholdings, with predefined upper limits of up to either 10 percent or 15 percent of the total loan fund, or \$200 in the case of FSAs in Benin. Shares in Kenyan FSAs are sold for 300 Kenyan Shillings each, equivalent to about \$4; the smallest loans may fall as low as \$10. Share ownership confers access to loans and savings services. The value of the shares sold generates a loan fund, redistributable amongst members via credit; Average loan sizes are higher, as larger shareholders often receive priority in accessing the limited FSA funds available for lending. The Ugandan FSAs report chronic shortages of loan funds, despite a fairly rapid turnover (four months is a common loan term).

The FSA model was established to focus on the following objectives:

To access financial services to the poor in rural areas thus integrating them into the economies financial network

To develop a sustainable methodology of providing financial services to poor rural communities

To mobilize underutilized financial resources and optimize their use for the development of individuals and their rural communities

To enhance the capacity of grass root organizations deliver financial services to their communities

To enable MFIs reach poorer segments of society with financial services

Compared to other community -owned institutions the FSA model has the following principal strengths which include FSAs being relatively low-cost and efficient, and operate in low income, small or remote rural communities. The scope for introducing a profit-related incentive structure, affecting staff (through wages), board and committee members (through profit-based remuneration), and all members (through dividends), could promote sustainability and good asset management. FSAs presently function with more streamlined support structures than the more complex support networks and apex structures of other financial service models for rural areas (such as savings and credit cooperatives). A link between voting rights and size of shareholding offers the potential to address governance problems often encountered by credit unions and savings and credit cooperatives, which tend to be *borrower-driven* and can suffer from poor governance and unrepresentative management. The FSAs' solid equity base may give them a comparative advantage over many other rural financial service providers in developing linkages with the banking sector. The FSAs offer but not limited to the following services and products: shares, credit, savings and investment in government securities. They also partner with formal banks and other stakeholders.

The supreme body is the Annual General Meeting (AGM) which is a meeting for all shareholders. All FSAs decisions are made by the AGM and have to be passed by a majority vote. At this meeting the shareholders elect a representative Board each year. The board has two wings (the credit and audit wing). The credit wing appraises and approves the loan depending on the FSAs by-laws which allow members to apply for loans up to four times the value of their shareholdings status while the audit wing checks or audits the books and general performance of the institutions. The Board of Directors then hires paid staff members to work at the banking



hall Monetary remuneration of the Board is infrequent, but not prohibited by the by-laws of the FSA.

While individual FSAs are still relatively small, the scale they have achieved stands up well in comparison with similar rural finance models -Self-Managed Village Savings and Credit Associations (CVECAs). In Benin, a total of 47 FSAs have been established in the last four years, while in Kenya the figure is 43 over the same period

Initial reviews of FSAs seem to indicate the following pattern, using a subdivision of village members under the categories rich, upper middle, lower middle, and poor.

**Rich:** Few join the FSA, as they believe that it is not a sound or secure financial institution, and they can afford to take their money to banks in towns. The wealthier village members often demand larger loans than the FSA can provide, so those that do join tend to do so more as an investment with future dividends in mind.

**Upper middle** Need working capital to expand their businesses, and therefore buy shares to access loans but are less interested in savings.

**Lower middle** More interested in savings (or safekeeping of funds) facilities than shares, which are too illiquid to be used in emergencies. Also interested in loans, but may not have the required collateral.

**Poor** Rarely join FSAs, as the need to invest share capital and pledge guarantees to access loans is both demanding and potentially onerous.

A breakdown of the clientele of the FSAs in Benin suggests that 44 percent of small shareholders have accessed loans, while this figure rises to 68 percent of small-medium shareholders, and falls to 29 percent for medium-large shareholders. These data confirm that larger shareholders are more interested in dividends on share investments than in accessing loans, and may help explain the persistence of high interest rates on loans:

In order for FSAs to achieve greater scale and outreach, product diversification is needed, with products more tailored to the needs of the wider FSA membership. This can be achieved in part through improved links with formal financial institutions which could enable FSAs to offer

money transfer services, the payment of pensions and salaries, and other links to banking services

## **2.5 Challenges faced by FSAs**

FSAs face formidable challenges in Kenya, including poor infrastructure, lack of savings alternatives, pockets of politically and economically marginalized populations. Moreover, the promise of decentralized decision-making to obviate information problems, to mobilize local wealth, and to encourage community-based investment can fall prey to power relations that pervade poor communities.

The promise of microfinance, including the FSA model, is undeniable; the reality of its experience nonetheless demands careful scrutiny.

## **2.6 Livelihoods diversification.**

It refers to the attempts by individuals and households to find new ways to raise incomes and reduce environmental risk which differ sharply by the degree of freedom of choice and the reversibility of the income. It includes both off farm activities which are undertaken to generate additional income to that from the main household agricultural activities

Ellis (1997) defines livelihood diversification as the process by which rural families construct a diverse portfolio of activities and social support capabilities in their struggle for survival and in order to improve their standards of living.

In this study therefore diversification of livelihoods was taken to apply to when a shareholder expanded the existing livelihood, started a different livelihood and added to or started a different source of income while sustaining the previous one.

## 2.7 Theoretical framework

### 2.7.1 Social exchange theory

Social exchange theory is a social psychological and sociological perspective that explains social change and stability as a process of negotiated exchanges between parties. The theory posits that all human relationships are formed by the use of subjective cost-benefit analysis and the comparison of the alternatives. Basic concepts in this theory include cost (the elements of the relationships that has negative value to a person such as the effort put into a relationship and the negatives of the partner) and rewards (the elements of the relationships that has positive value). The costs can be time, money, effort etc while rewards can be the sense of acceptance, support and companionship among others.

The social exchange perspective argues that people calculate the overall worth of a particular relationship by subtracting its cost from the rewards it provides i.e.  $(\text{Worth} = \text{reward} - \text{costs})$ . If the worth is a positive number, it is a positive relationship. On the contrary, negative number indicates a negative relationship.

The theory therefore proposes that social behavior is the result of an exchange process whose purpose is to maximize benefits and minimize costs. According to the theory people weigh the potential benefits and risks of social relationships. When the risks outweigh the rewards people will terminate or abandon their relationships. Hence all relationships have a give and take. Though the balance of this exchange is not equal, people compare the give and take ratio. This is applicable to the area of study in that the shareholders in order to join the FSA; they had to weigh the benefits/rewards and costs. The shareholders for example may have looked at the services provided by the FSAs (benefits) and the demands to be fulfilled before enjoying the services (costs). The benefits outweighed the costs in this case and hence joined the FSA. Even as they formed small groups in order to access loans, they normally considered the benefits and risks involved

## 2.7.2 Rational choice theory

Rational choice theory also known as choice theory or rational action theory is a framework for understanding and often formally modeling social and economic behavior. Rationality (here equated with wanting more rather than less of good) is widely used as an assumption of behavior of individuals and it's being applied in the decision making. The notion of wanting more leads to an individual to taking a cautious decision on which action to take.

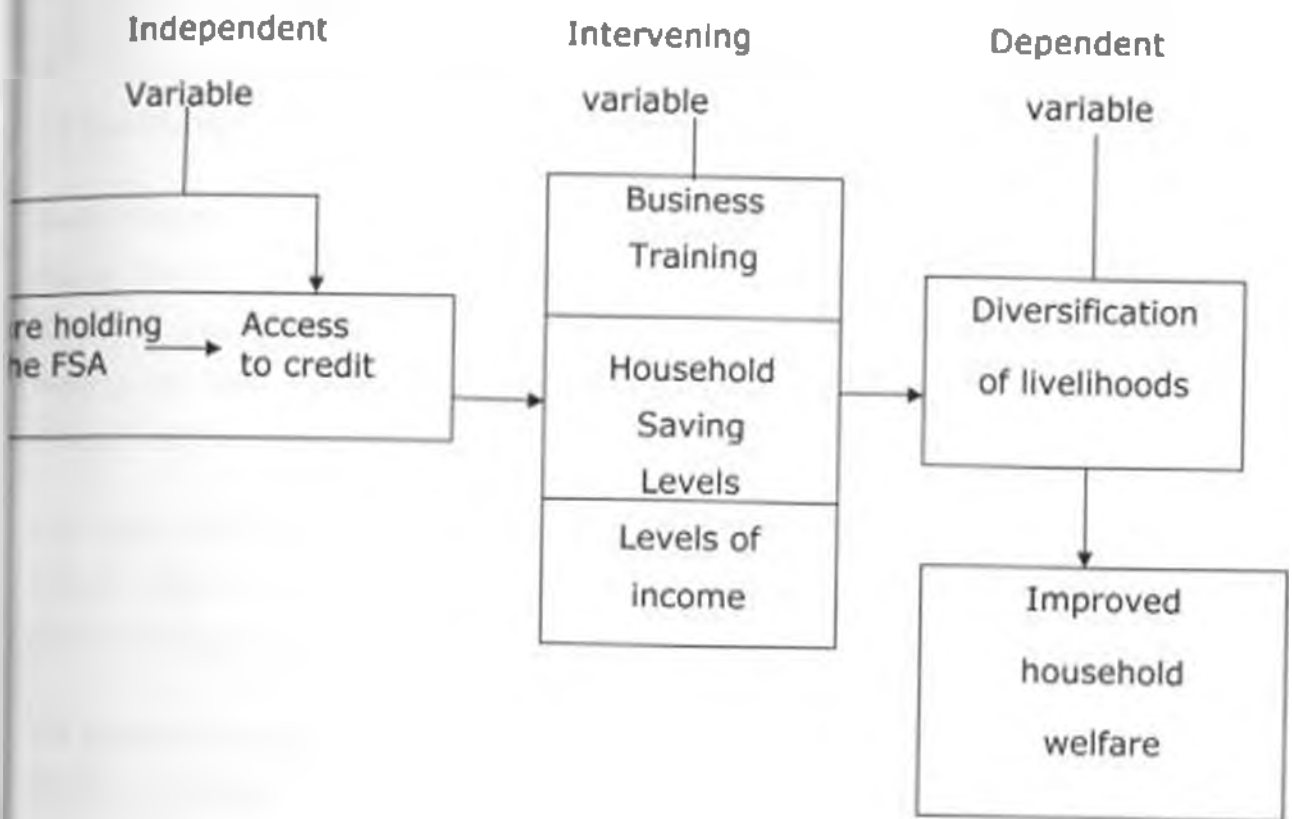
The rational choice theory is a way of deliberating between a number of potential courses of action, in which rationality of one form or another is used either to decide which course of action would be the best to take or to predict which course of action actually will be taken. The theory defines rationality simply to mean an individual acts as if balancing costs against benefits to arrive at action that maximizes personal advantage. RCT aims to look at individual action and interaction within social systems with the aim of building models that can explain larger phenomena perhaps at the societal level.

According to Abell it is only individuals who ultimately take actions and social actions are optimally chosen. Individual's actions and social actions are essentially concerned with their own welfare. The individual as actor has an initial concern only about him or herself and his or her welfare. The individual has several options or choices and chooses the most proffered option.

In the area of study, there are other financial institutions offering services like the ones offered by the FSAs but the individual shareholders compared the many choices and chose to be members of the FSAs. The FSA became the most preferred option among others.

## 2.8 Conceptual framework

Figure 2.1 Conceptual framework



## CHAPTER THREE

### 3.0 RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter included the site description, research design, and target population, unit of analysis and observation, sampling procedure, data collection methods and data Analysis techniques.

#### 3.2 Site description and selection

Embu County is located in Eastern Kenya, approximately 120 kilometres (75 mi) northeast of Nairobi towards Mount Kenya. It borders the following counties; Tharaka Nithi to the North, Kitui to the East, Machakos to the South, Muranga to the South West, Kirinyaga to the West, and Meru to the North West. It constitutes 4 constituencies (Manyatta, Runyenjes, Gachoka and Siakago) and two districts namely Embu and Mbeere

The county area is approximately 2821.9 square kms which is occupied by a population of 516,212 with 49 percent, male and 51 percent female representation. The Population Density stands at 183 people per Km<sup>2</sup> and has 131,683 Number of Households

The temperature ranges from a minimum of 12 °C to a maximum of 27.0 °C. The average annual rainfall is 1495mm. The county is known for growing the best tea, coffee and also practices dairy farming. It also has among the best livestock markets in Kenya (eg ishiara market). Other agricultural products include Maize, Beans, Yams, Cassava, Millet, Sorghum; Bananas etc. The county also hosts the five dams ( Masinga ,Kamburu,,Gitaru,Kindaruma and Kiambere) known for the production of hydro electric power .

The four FSAs are scattered in the county with Kigumo being in Runyenjes constituency , Kevote and kithimu in manyatta constituency and Kiritiri in Gachoka constituency.All of them apart from kiritiri which is to the south are to the north of Embu

Embu County is characterized by diverse demographic, ecological, climatic and economic conditions with the north of the county being highly populated, agriculturally rich because of favorable climates and has vibrant economic activities while the south of the county is the opposite of the North. The FSAs on the other hand are situated across the county (both in the North and south). This allowed the study to have experiences from both sides hence the reason for selecting FSAs in Embu County.

Also the four FSAs in Embu County since initiation by World Concern International had not previously been exposed to any survey and the researcher found it appropriate using them as a case study in this study.

### **3.3 Research design**

This study applied the survey design. A survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables (Mugenda 2003). It is also defined as a method of gathering primary data based on communication with a representative sample of individuals (Zikmund 2002). The survey design seeks to describe the existing phenomena by asking individuals about their perception, attitude and behavior or values. It is a type of descriptive research. It can be used for explaining or exploring the existing status of two or more variables at a given point in time. It was chosen for the study because it is the best method for collecting original data for the purpose of describing a population which is not easy to observe directly.

According to Fraenkel (2000) surveys possess the following characteristics. Information is collected from a group of people in order to describe some aspects or characteristics of the population of which that group is part. Information is collected by asking questions and the answers to the questions constitute the data of the study. Information is collected from a sample rather than from every member of the population.

The survey design was used to gather information regarding the variables. Questionnaires, interview guide and focus group discussion guide were used to collect from the selected sample.

### **3.4 Target population.**

A population is the total collection of elements about which we wish to make some inference (Cooper 2006). It can also be defined as an entire group of individuals, events or objects having a common observable characteristic (Mugenda O. and Mugenda A. 2003). The total population for the study was 3072 which was the total active shareholders in the four FSAs under study as at June 30<sup>th</sup> 2011. The shareholders comprised of male and female adults of the particular locations where the FSAs are located.

### **3.5 Unit of analysis and observation**

According to Baker (1994:102) units of analyses are the social entities whose social characteristics are the focus of the study. Singleton (1993:241) defines a unit of analysis as the entity about who or which a researcher gathers information.

The units of analysis in this study depending on the above definitions therefore was what the study intended to explore which was the effects of member-owned financial institutions on the diversification of livelihood and income levels among rural households.

According to Wikipedia dictionary the unit of observation is the unit on which one collects data. It can also be defined as the objects about which data is collected and organized for statistical analysis. In the study the unit of the observation was therefore the individual shareholders from the four FSAs, from which data was collected by use of questionnaires, focus group discussion and key informant interviews.

### **3.6 Sampling procedure**

A sample in a research study is a group on which information is obtained (Fraenkel 2000). A sampling design is a definite plan for obtaining a sample from a given population. It refers to the technique or procedure the researcher would adopt in selecting a sample (Kothari 1990). The whole idea of sampling is that by selecting some of the elements in a population we may draw conclusions about the entire population (Cooper 2006).



Members of the sample were selected using probability sampling which ensures that each item of the universe has an equal chance of inclusion in the sample. The study applied stratified random sampling because the population was not a homogenous group. The target population was divided into 4 strata and from the four strata a sample of 120 respondents was drawn. The strata were the four FSAs, namely Kithimu, Kevote, Kigumo and Kiritiri. The number of shareholders/target population varied from one FSA to another, therefore the following method was used to come up with the number of shareholders to be interviewed in each FSA.

$$\frac{\text{Total/targeted sample size}}{\text{Total number of shareholders}} \times \text{No. of shareholders in that stratum}$$

The total target population (shareholders) in the four FSAs was 3072.

Table 3.1: Sampling procedure per FSA

n/no	Name of the stratum	Number of shareholders	% population	Sample size	Sampling Interval
1	N1( Kithimu)	744	24.2%	29	26 <sup>th</sup> in the list
2	N2 (Kevote)	460	15.0%	18	26 <sup>th</sup> "
3	N3 (Kigumo)	960	31.5%	37	26 <sup>th</sup> "
4	N4 (Kiritiri)	908	29.6%	36	25 <sup>th</sup> person
	TOTAL	3072	100%	120	

The shareholders list in every FSA was used as the sampling Frame. Systematically sampling was then used to identify the respondents in each FSA. To arrive at this, the total number of the shareholders in that particular FSA was divided by the targeted sample size for the same FSA. For example in Kithimu FSA; every 26<sup>th</sup> person starting with number one in the shareholders list was interviewed.

### **3.7 Data collection tools and methods**

Data collection tools and methods included use of structured questionnaires, key informant interviews and focus group discussions.

#### **(a) Structured questionnaires**

A questionnaire is a set of questions used to gather information in a survey. It's a technique designed for collecting primary data by eliciting written responses from the subject. The questions were pre-determined before the study took off. Both closed ended and open ended questions were included in the questionnaire. The questionnaires were dropped at each FSAs front office for distribution to the 120 respondents as per the previous guidelines. The filled questionnaires were then mailed back for the analysis.

#### **(b) Key informant interviews**

Key informant interviews involve a face-to-face meeting between a trained interviewer and a person selected to represent a certain group whose knowledge, attitudes or practices are being monitored or evaluated. A key informant guide is used and notes taken as the researcher moderated the interview. Interviews yield higher response rates because it is difficult for the respondent to completely refuse to answer questions or to ignore the interviewer. In this study the key informants were the four chairpersons of the Board of Directors of the four FSAs and the four managers from the four FSAs. The identified key informants were interviewed at their places of work (FSA offices), a guide was used and relevant information was written down.

#### **(c) Group focus discussions**

A focus group is a group interview of approximately six to twelve people who share similar characteristics or common interests. A facilitator guides the group based on a pre-determined set of topics. The facilitator creates an environment that encourages participants to share their perceptions and points of view. Focus group discussion is a qualitative data collection method, meaning that the data is descriptive and cannot be measured numerically. The study organized two focus groups of ten shareholders drawn from the oldest and the most recent FSAs (kigumo

and kiritiri respectively). The focus group members were selected from the shareholders who did not hold any leadership position and had not filled a questionnaire or participated in the study in any way. The discussion took place at the selected FSA's banking hall's compound.

### **3.8 Data analysis techniques**

Data analysis is defined as a means of categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions or to reduce data to an intelligent and interpretable form using statistics.

In this study numbers were assigned for responses which are closed ended. For open ended questions the researcher categorized all responses given and assigned them numbers. SPSS (Statistical package for the social sciences) was applied.

## CHAPTER FOUR

### 4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.1 Introduction

This chapter covered data presentation, analysis and interpretation of the research findings. The data was presented in the form of tables and figures. It also contained the summary of data analysis of the four objectives of the study.

#### 4.2 Presentation of Findings

##### 4.2.1 Response rate

Out of the 120 questionnaires sent out to the various FSAs, 112 were filled and returned with only 8 questionnaires remaining unaccounted for. This represents a percentage of 93 percent and 7 percent respectively. This indicated that the response was equally representative, hence implying that the findings on the impact of member-owned financial institution on diversification of livelihoods among the rural households got from the sample above was representative.

##### 4.2.2 Respondents Age Bracket

According to table 4.1 below, 16 percent of the respondents were aged between 18-25 years, 13 percent of the respondents aged between 26-35 years, 30 percent of the respondents aged between 36-45 years, 34 percent of the respondents were between 46-55 years while 7 percent of the respondents aged above 55 years. This indicated that most of the respondents or the majority of shareholders in the FSAs are aged between 46 and 55 years. This implies that the majority of the shareholders are mature (e.g. they have families to take care of), their capacity to make sound/wise decisions in life is high and therefore likely to understand more the importance of diversifying the income generating activities.

**Table 4.1 Respondents Age Bracket**

Category	Frequency	Percentage
18 - 25 years	18	16
26- 35 years	15	13
36 - 45 years	34	30
46 - 55 years	38	34
Above 55 years	7	7
<b>Total</b>	<b>112</b>	<b>100</b>

**4.2.3 Gender**

According to table 4.2 below, 53 percent of the respondents were male while 47 percent of the other respondents were female. This indicated that the research study targeted more male respondents as compared to their female counterparts. Men in the African setting are the heads of households therefore are burdened with so much responsibilities which forces them to think of and try out various income generating activities hence favorable for this study

**Table 4.2 Sex of Respondents**

Category	Frequency	Percentage
Male	59	53
Female	53	47
<b>Total</b>	<b>112</b>	<b>100</b>

#### 4.2.4 Marital status

According to table 4.3 below, 74 percent of the respondents were married, 18 percent were singles, and 6 percent windowed and 2 percent divorced .This indicated that the majority of shareholders in the FSAs were married. The married people have not only themselves to think about but also their offspring. They have to take care of both their basic and other needs, therefore able to understand the importance of FSAs in the diversification of livelihoods.

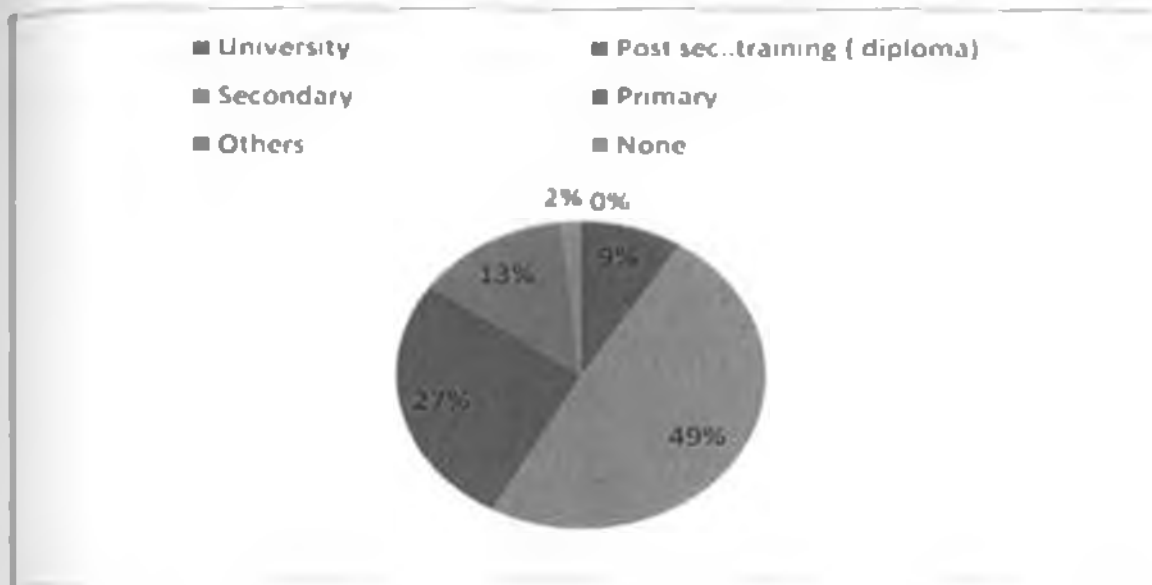
Table 4.3 Marital statuses of the respondents

Category	Frequency	Percentage
Married	83	74
windowed	7	6
Single	20	18
Divorced	2	2
Other	nil	0
Total	112	100

#### 4.2.5 Highest Education Level attained

According to figure 4.1 below, 49 percent of the respondents had attained secondary education, 27 percent had primary level education, 9 percent with Post secondary and 2 percent indicated that they had no education background while 13 percent indicated others. This indicated that majority of FSA shareholders know how to read and write and that majority of FSA shareholders are secondary graduates. This implied that a big percentage of the shareholders are knowledgeable and could come up with various initiatives in order to diversify their livelihoods once provided with capital.

**Figure 4.1 Highest Education Level attained by the respondents**



#### **4.2.6 Distribution of respondents by type of occupation**

According to figure 4.2 below, 54 percent of the respondents were business persons, 44 percent farmers, 1 percent teachers and 1 percent others. This indicated that majority of FSA shareholders were business people. This therefore implied that majority of the shareholders already had the exposure on various income generating activities and hence relevant to the study.

**Figure 4.2 Distribution of respondents by type of occupation**

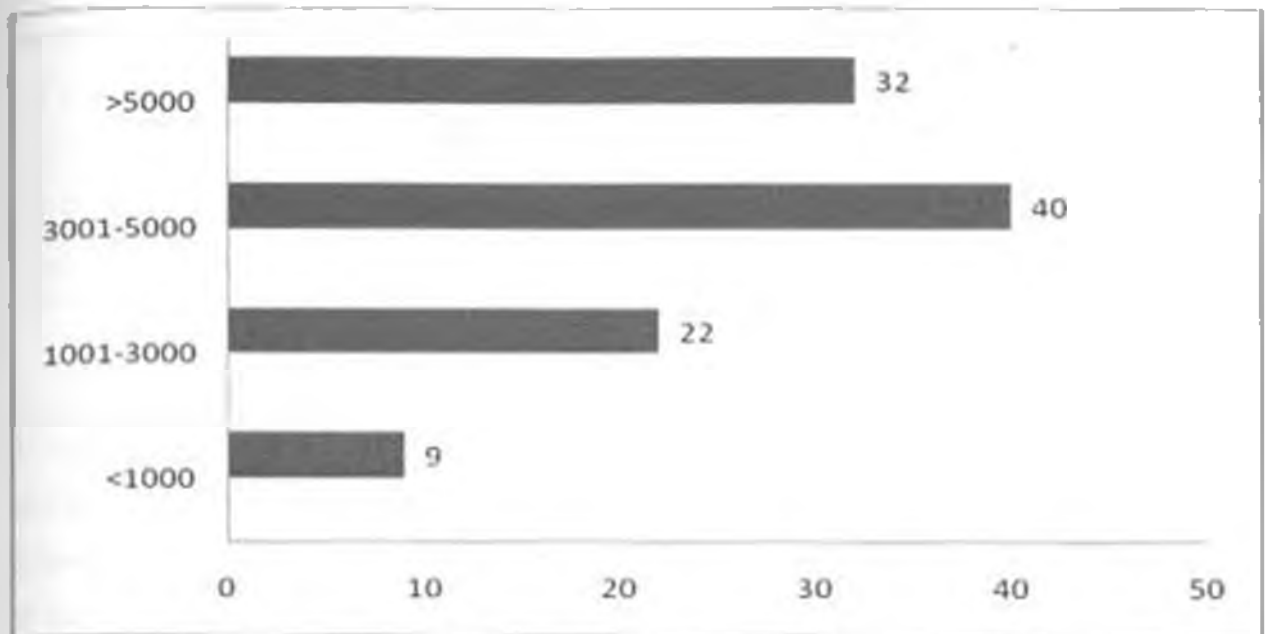


#### **4.1.7 Households average monthly income**

According to figure 4.3 below, 9 percent of the respondents had monthly income of kshs 1000 and below, 22 percent had monthly incomes of kshs 1001-3000, 40 percent with monthly incomes of kshs 3001-5000 while 32 percent had monthly income of ksh 5000 and above. This indicated majority of the shareholders had a monthly income of between ksh 3001 and 5000. This implied that majority of the shareholders saving margins were still relatively low compared to their needs and therefore expected to feel the need to diversify their livelihoods in order to increase their savings.



**Figure 4.3 Households average monthly income**



#### **4.2.8 Knowledge of the FSAs**

When the respondents were asked about the name of their FSA, 100 percent knew the official/full name of their FSAs. This indicated that the respondents were a part of the process and results of their FSAs. Ownership helped them to adopt and come up with new innovations which led to the diversification of livelihoods.

#### **4.2.9 Distance of households from FSA center**

As shown in the table 4.4 below, 15 percent of the respondents lived less than or two kilometers from their FSA. 54 percent lived between 2 to 5 kilometers from the FSA while the rest 31 percent lived between 5 and 10 kilometers away from the FSA. This indicated that the majority of the shareholders lived near the FSA and that the FSAs served a certain defined locality. This implied that the diversification of livelihoods by the FSAs if any, would only be limited to certain locality

**Table 4.4 Distance of households from FSA**

Category /distance	Frequency	Percentage
< 2 kms	17	15
2-5 kms	60	54
5-10 kms	35	31
>10 kms	nil	NIL
Total	112	100

**4.2.10 Time of joining the FSA**

According to the table 4.5 below, 66 percent of the respondents joined the FSA before the launch and 34 percent after the launch. This indicated that the majority of FSAs share holders joined before the launch but FSAs were still attracting more people to join. This implied that majority of the shareholders had complete knowledge of the genesis and mandates of the FSAs which was very important for this study.

**Table 4.5 Time of joining the FSA**

Category	Frequency	Percentage
Before the launch	74	66
During the launch	-	-
After the launch	38	34
Total	112	100

### 4.3 Analysis and interpretation of findings

This section of data analysis gave a judgmental opinion of the respondents. Answers were derived from questionnaires, key informant interviews and focus group discussions. The opinions were analyzed as below.

#### 4.3.1 Access and decision to take FSA loans/credit and diversification of livelihoods

From the research findings, it was evident that access to FSA loans led to diversification of livelihoods. The researcher found out that, 95 percent of the respondents had borrowed loan from the various FSAs under study to undertake various income generating activities with 71 percent of the respondents borrowing money to expand the existing businesses, 18 percent to start an income generating activity, 9 percent to pay school fees while 3 percent borrowed for other purposes other than those listed above (see the table 4.6 below). This indicated that the majority of the respondents borrowed money either to expand an already existing business or start a new income generating activity. This implied that majority of the shareholders were already in business so they had the expertise to either expand, change or increase their income generating activities if facilitated

**Table 4.6 Purpose of loan**

Category	Frequency	Percentage
Expansion of existing business	76	71
To start an income generating activity	19	18
To pay school fees	10	9
Any other	3	3
Total	107	100

The decision of the respondents to borrow credit from the FSA's was determined by the flexibility & accessibility of loans. When the respondents who had already borrowed loans from the FSAs, were asked what motivated them to borrow, 83 percent of the respondents had borrowed because of the flexibility and accessibility of the loans, 1 percent because of peer

pressure and very low interests rates while 13 percent indicated other reasons like grace period, repayment mode and period

**Figure 4.4 Factors motivating respondent's decision to borrow loans**



From the interviews with key informants, the FSA loans only took at most two weeks to be processed which to shareholders was very friendly. The groups (KCM) were also small and manageable and so the default rate in these groups was small hence enabling the shareholders to access credit wherever they required it.

Compared to other lending institutions the shareholders felt that FSA credit was more competitive in terms of flexibility and accessibility. What really came up in focus group discussions was that frustrations from other lending institutions they had experience of, was not worth it because by the end of the day they were not considered owners of these institutions and were not expecting any dividend like the case in FSAs.

The study also found that offering credit was one of the major services of the FSAs and accessed only by the shareholders. A shareholder could access up to four times his /her shares as loan .The FSAs applied group lending methodology where the shareholders organized themselves into small groups of between 5-10 members who knew each other very well for guaranteeing

purposes. These small groups (KCM) met weekly to save, pay loans and guarantee others to access loans.

Other services offered by the FSAs included savings ,selling of shares ,money transfers ,Mpesa and being agents of formal bank (e.g. equity).

Compared to others factors considered in the study which included level of household savings, business training and shareholding, access to credit had a greater influence to diversification (see the table 4.7 below

**Table 4.7 Extent of impact/influence**

S/No.	Factors	Extent of influence in %					Total
		A To a very great extent	B To great extent	C To a low extent	D To a very low extent	E To a no extent	
1	Access to credit	84	16				100
2	Household savings	36	62	2			100
3	Business training	70	29	1			100
4	Shareholding /ownership	47	44	6	3		100

In reference to the study, this therefore meant that the access and decision to borrow credit offered by the member-owned financial institution in this case financial services institutions (FSA) lend to the diversification of livelihoods.

#### **4.3.2 Level of savings by households and the diversification of livelihoods**

From the study it was evident that the level of savings per household influenced the decision to borrow money for the purpose of diversification action. When asked about their average monthly

household savings. 80 percent of the respondents talked of one thousand and below while 20 percent citing a maximum of three thousand shillings.

When asked whether the level of household savings influenced their decision to borrow, 99 percent of the respondents replied that it did, while 1 percent of the respondents said that it did not. When asked to explain, they said that, savings acted as security in case one was not able to pay the loan.

When asked to indicate the extent the level of household savings affected diversification, 36 percent of the respondents replied that household savings influenced the diversification of livelihoods to a very great extent, the majority at 62 percent said it influenced to a great extent while 2 percent said it influenced to a low extent ( see table 4.7 above). Majority indicated that it was unwise to borrow money without a safety net or an alternative plan. From the group discussion some of the respondents said that they had to wait until their saving reached to a certain level so that they could borrow. One was quoted saying "I cannot borrow money without a hiding place." Despite the fact that the FSAs did not consider savings to determine the amount of loan a shareholder qualified for, the shareholders were encouraged to save whether one was in a small group or not. The KCM members saved ksh 50 per week per person but it was clear that the shareholders did not depend on that so much but what they had saved as an individual either in the FSAs or in other institutions. Some however reported to have borrowed after lobbying for support from their children incase they defaulted.

This therefore indicated that the level of savings per household influenced the decision of shareholders or gave them power to borrow credit from the FSAs. The saving could either be owned by the shareholder borrowing credit or a family member who willingly offered to help in case of any problem with repayments. This enabled the shareholders to borrow loan for the purposes of diversification of livelihoods. What came out clearly was that there was still a certain degree of fear to borrow credit among the rural people and hence savings were looked at by respondents as an alternative measure in case they defaulted. The participants kept referring to previous ugly experiences they had witnessed where some of their friends' houses were demolished and iron sheets recovered for sale after defaulting. This motivated them to be careful and the only way to do so was to borrow loans almost equivalent to their savings and putting the

borrowed finances into the specified use. However some of them testified having borrowed the loan and repaid without problems hence encouraging them to borrow larger amounts.

#### **4.3.3 Business training, ownership/shareholding and diversification of livelihood**

##### **(a) Business training**

From the study it was evident that business training had an impact on diversification of livelihoods. When the study sought to find out whether business training had any impact on diversification of livelihoods, 70 percent of the respondent said that business training influence was to a very great extent, 29 percent said the influence was to a great extent and 1 percent felt that the influence was to low extent ( see table 4.7 above). The respondents felt that business training had an impact on diversification of livelihoods in that they learnt new skills and kept being reminded about the dos and the don'ts in the business.

Business trainings were carried out both weekly at the small group (KCM) meetings and annually during the AGMs. Some however felt that it could have had more impact if the ISAs engaged a full time trainer who could even visit them at their business premises. Some of the Sub topics covered in business training included, things to consider when starting a business, how to calculate profits, business capital vis-à-vis personal money, customer care among others. Business training equipped the shareholders with the business skills which enabled them to manage their businesses and utilize the finances either in form of credit, grant or gift well.

##### **(b) Ownership/shareholding**

The research findings revealed that ownership/shareholding had an impact on diversification of livelihood. When the study sought to find out the extent of impact the ownership had on the diversification of livelihood, 47percent of the respondents were of the opinion that the impact of shareholding/ownerships was to a very great extent, 44 percent felt that the impact was to a great extent, 6 percent felt it was to a low extent while 3 percent felt that it was to a very low. When the respondents were asked why they joined the ISA, the right of ownership which gave them power to make decision in the FSA through the AGM and which conspicuously lacked in other MIs was ranked the highest reason. Other reasons included, the ISAs being a bank model at

their level, flexible services (e.g. one can save money in the morning and with draw in the evening) and that they were certain their money was safe.

To become a member, a person must purchase at least one share which was being sold for Ksh 300 across the FSAs under study. Being a shareholder guaranteed one to access all other services of the FSAs and more so enjoyed some dividends at the end of every financial year in a case where the FSAs made profit in their transactions. Respondents felt that the dividends were still small (ranged between ksh 10 to ksh 50 per share) to plough back to the business or to use it as capital to start an income generating activity. But despite this, ownership had other hidden benefits. Being a member one was able to access loan which was given against the shares, this could then be used to improve or start an income generating activity. From the group discussed it was also learnt that due to ownership (i.e. knowing that at the end of the year there will be something to take home- dividend), the shareholders were motivated to repay the loans effectively and hence reduced the loan default rate. This meant that shareholders could access loan when they needed it because there was money in the FSAs.

#### **4.3.4 Diversification of livelihoods and improvement of income/welfare**

The findings indicated that diversification of livelihoods led to improved /increased income/welfare. When the respondents were asked whether they experienced a notable income increase after joining the FSAs, 100 percent of the respondents acknowledged the fact that there was some increase in monthly income after joining the FSA. When asked about their income generating activities before joining the FSA, the respondents listed the following activities, subsistence farming, small businesses, fetching water for sale in the market centers, casual work in the farms, and loading and off loading sand Lorries. This indicated that the respondents were still doing some activities to earn their living implying that it was easier to either expand or switch to others income generating activities. When asked if they changed, expanded or added to what they were doing previously after joining the FSAs, 90 percent of the respondents acknowledged having done it with only 10 percent not having done it. Some said that they were subsistence farmers but had become MIRRA estates owners, some of them were hawkers but had permanent business premises, some were able to start businesses like baking and selling cakes, hotels ,livestock selling and poultry keeping. This implied that the FSAs led to diversification of livelihoods. This was because when they became shareholders they were



trained, formed groups and accessed loans which allowed them to either expand or start new income generating activities. The main purpose of this was to make more money and it was evident that diversification of livelihoods lead to increased income and hence improved shareholders welfare.

The study went further and used some indicators of development to find out at what point the respondents were able to undertake them in order to test whether the FSAs had an impact on the welfare of the people (see table 4.8 below). It was clear that the respondents had experienced some boost from the FSAs which indicated that there was some improvement on income. For example all the members of the FSAs interviewed had managed to build a decent house (53.6 percent had a decent house before joining the FSAs, 12.5 percent built a decent house after joining the FSAs while 33.9 percent said they were able to build a decent house both before and after joining the FSA). This implied that the 12.5 percent respondents would not have been able to build a decent house if they had not joined the FSAs. The category in both before and after joining the FSA (33.9 percent) probably had a decent house before but wanted to construct another for the grown up children or wanted to expand or remodel the already existing house of which they were able to do with the help of the FSA services.

Another indicator of development being able to pay the school fees with ease was used and 78.6 percent of the respondents were able to pay school fees with ease after joining the FSA. 21.4 percent were able to do it both before and after joining the FSAs. This implied that by respondents participating in services offered by the FSAs, they were able to raise their income hence able to pay school fees with ease. The fact that some shareholders were able to pay school fees with ease both before and after joining the FSAs represented the true picture of the rural households that their income and poverty levels vary which was/is practically the real situation in any given set up.

When study looked at the issue of households being able to have three meals a day, 10.7 percent of the respondents were only able to have three meals a day only after joining the FSAs while 89.3 percent were able to have three meals a day both before and after joining the FSAs. This indicated that shareholders after participating in the activities of the FSAs, their income had raised and enabled them to afford three meals a day for their families. For example a shareholder

accessing credit either expanded his/her business or put up a new income generating activity hence increased incomes which automatically boosted the living standard.

The study also found that 43.8 percent of the respondents were able to employ somebody in their farms before joining the FSAs, 40.2 percent after joining, 3.6 percent both before and after joining the FSAs while 15.2 percent were not able to or did not need to. This implied that majority of the shareholders needed the services of others to do the farm work because they were able to pay them for these services. As mentioned earlier on ,majority of the shareholders had transformed themselves to estates owners from subsistence farming and others had opened up businesses hence needed somebody to attend to their farms. This in itself was a clear indication that the quality of live had improved and was also being extended to others by offering employment. The 15.2 percent of the respondents who said they did not or it was not applicable could be assumed that they utilized the household members to do the farm work so did not need to engage anyone else probably for the purpose of maximizing profits.

The study found out that 1.9 percent of the respondents were able to take children to private schools before joining the FSAs, 10.7 percent after joining the ISA, 2.7 percent both before and after joining the FSA while 83.9 percent said it was not applicable or did not. FSAs were enabling shareholders to take their children to private schools. The big percentage of those who said it was not applicable probably could be attributed to either the availability of public primary schools which offered free education hence no need to take the children to private schools or the fact that some of the shareholders were past the age of having school going children.

The study looked at being able to purchase a piece of land as a development indicator and found that, 8.9 percent of the respondents were able to purchase a piece of land after joining the FSAs while 91.1 percent said it was not applicable. After joining the FSAs at least a few were able to purchase a piece of land, which indicated that the FSAs contributed to this. However majority indicated that it was not applicable or did not have and this could either be attributed to the fact that the shareholders did not need to purchase any land because they already owned family land or the incomes are still not enough to do undertake big projects.

The issue of undertaking any indicator of development specified in the table below also depended on the individual priorities. According to Rational choice theory, individual's actions and social actions are essentially concerned with their own welfare. The individual as an actor has an initial concern only about him or herself and his or her welfare. The individual has several options or choices and chooses the most proffered option.

**Table 4.8 Responses in when the specified indicators of development were undertaken.**

S/ N o.	Indicators of development	comparison				Percentage
		A Before joining FSA	B After joining the FSA	C Both before and after /addition/e xpansion	D Do not have /not applicable	
1	Build a decent house	53.6	12.5	33.9	-	100
2	Buy T.V/video/CD player	10.7	13.4	71.4	4.5	100
3	Buy livestock	85.7	8.0	4.4	1.9	100
4	Purchase a piece of land	-	8.9	-	91.1	100
5	Pay school fees with ease	-	78.6	21.4	-	100
6	Employ somebody in your farms or business	43.8	40.2	3.6	15.2	100
7	Take children to private schools	1.9	10.7	2.7	83.9	100
8	Have 3 meals a day	-	10.7	89.3	-	100
9	Buy decent clothes for family members	7.8	8.0	86.6	-	100
10	Do charity work	0.9	26.8	8.0	64.3	100

### Conclusion

In conclusion it was evident that FSAs were really impacting positively on the diversification of livelihoods among the rural households.

## CHAPTER FIVE

### 5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter summarizes the findings; answers research questions, make conclusion and recommendations on the effects of member-owned financial services on diversification of livelihoods among the rural households.

#### 5.2 Summary of the Findings

The study was carried out to investigate the effects of member-owned financial institutions on diversification of livelihoods using financial services association as a case study. The study sought to answer the four questions and the findings can be summarized as below.

##### 5.2.1 Does the FSA credit affect the diversifying livelihoods?

According to the research study, 95 percent of the respondents had accessed credit from the FSAs and when asked to state what motivated them to borrow from the FSAs, 83 percent of them indicated that it was because of the flexibility and accessibility of the credit in the FSAs. 98 percent of the sampled population was of the opinion that flexibility and accessibility of credit motivated shareholders to borrow. The study also found out that, 95 percent of the respondents had borrowed loan from the various FSAs under study to undertake various income generating activities with 71 percent of the respondents borrowing money to expand the existing businesses, 18 percent to start an income generating activity, 9 percent to pay school fees while 3 percent borrowed for other purposes other than those listed above. Diversification of livelihoods in this study was defined as Attempts by individuals or households to find new ways to raise incomes. So any body who indicated having done one of the following: expanded the existing livelihood, started a different livelihood and added to or started a different source of income was reported to have diversified his /her livelihood. Data from both the focus group discussion and interview of key informants, the credit though compared to others , it accrued higher interests, it took at most one week to be processed. there were no those tedious and rigorous procedures. The participants

felt that the flexibility and accessibility encouraged shareholders to borrow. This therefore indicated that the FSAs credit affect the diversification of livelihoods.

### **5.2.2 Does the level of savings by households influence their decision to opt for credit?**

According to the research study, 99 percent of the respondents were of the opinion that the level of savings in their household influenced their decision to opt for credit. They indicated that savings act as the security (plan B) in case they are not able to repay the loan. Even in their small groups they were encouraged to save 50 shillings. In the group discussion it was evident that majority of the rural people in the rural Kenya still fear to borrow and hence the issue of having a safety net (savings) .So the amount of savings in a certain household influenced their decision to borrow credit.

### **5.2.3 To what extent does the accessibility of credit, business training and share holding /ownership in FSAs impact on diversification of livelihoods?**

The study found out that, 84 percent of the respondents felt that accessibility of credit impacted to a very great extent while 16 percent felt that it impacted to a great extent.

The study found out that, 70 percent of the respondents were of the opinion that business training impacted to a very great extent, 29 percent felt that it impacted greatly while 1 percent impacted to a low extent.

The study also found out that, 47percent of the respondents felt that ownership impacted to a very great extent, 44percent of the respondents felt it impacted to a great extent ,6 percent said it impacted to a low extent while 3 percent were of the opinion that it had a very low extent.

After ranking the four factors (accessibility of credit, savings, business training and ownership), the same trend was observed in both group discussions. First of all the members unanimously agreed that all the factors had an impact on diversification of livelihoods and ranked them in order of their impact as follows (1.accessibility of credit, 2.Business training, 3.savings and 4.ownership).This therefore means that though the extent of impact varies from one variable to the other, each one of them had an impact on diversification of the livelihoods.

#### **5.2.4 Does diversification of livelihoods lead to increased income levels among the rural households?**

The study found that 100 percent of the respondents indicated that there was a significant increase in average monthly income after joining the FSA. This was brought about by the fact that when they joined the FSA (became shareholders), they underwent business training course and also were able to access credit. This led to some expanding their businesses and others starting income generating activities as shown in the report (table 4.6), hence increased incomes. The increased incomes enabled them to undertake some of the activities like being able to provide for their families three meals a day, offer employment and build a decent home among others. Therefore diversification of livelihoods lead to increased income levels among the rural households.

#### **5.3 Conclusions**

From the research findings it can be concluded that member-owned financial services are impacting positively on the diversification of the livelihoods among rural households. Due to implementation of the FSAs majority of rural households have been able to come up new income generating activities while others have expanded their initial sources of income which has led to increased incomes.

It can also be concluded that both the level of savings in a household and flexibility and accessibility of credit influenced the decision of the shareholders to borrow loans from the FSAs.

It can also be concluded that flexibility and accessibility, business training and shareholding/ownership had an impact on diversification of livelihoods. Flexibility and accessibility of the credit was singled out among others as the one having the most impact, followed by business training, savings and the shareholding/ownership.

## **5.2 Recommendations**

FSA's serve a small area for the purposes of cohesion especially when it comes to forming small groups in order to access credit. This therefore means that the services of the FSA's are accessed by the people who are within that range hence not able to reach many rural households. The study therefore recommends that many FSA's be replicated in other rural areas to serve as many households as possible.

From discussion there was a feeling that the FSA's were limited in a way in that the loans accessed are still very small hence satisfying only a certain group of people without realizing that in the rural areas there are retirees who are used to huge amounts of money. The study therefore recommends the revision of the model in order to accommodate the needs of every rural household.

## **5.3 Suggestions for further study**

The study suggested a comparative study between the member and non member owned financial institutions as an area for further study.

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## APPENDICES

### APPENDIX 1: LETTER OF TRANSMITTAL

Mrs. Eunice A Musau.

P.o Box 42565-00100

Nairobi

23<sup>rd</sup> May,2012

Dear Respondent,

I am a student at the University of Nairobi, faculty of Arts, department of Sociology pursuing Master of Arts in rural sociology and community Development. I am carrying out a research entitled, ' effects of member-owned financial institutions on diversification of livelihoods among rural households' with a case study of financial services association (FSAS) in Embu county

The purpose of the study is to evaluate the effects of member-owned financial institutions on diversification of livelihoods among rural households

The findings of the study are expected to provide useful information to planners and decision makers that will guide in making long term policy recommendations on member-owned institutions and more particularly on the new FSA model. Also the study will provide an academic contribution in the area of FSA model.

The results of this study will be shared once the study is completed. Any information given will be treated with confidentiality. You do not need to write your name on the questionnaire. You are kindly requested to complete the attached questionnaire and return it as soon as you are through. Thank you in advance.

Yours faithfully

Eunice Musau

## APPENDIX 2 (QUESTIONNAIRE)

This was administered to all shareholders sampled from the four FSAs.

### PERSONAL DETAILS AND IMPACT OF THE FSAs

Kindly tick the appropriate answers in the spaces provided

1 Name ----- (optional)

2 Indicate your age bracket (A.) 18-25YRS  (B). 26-35yrs

(C). 36-45yrs  (D). 46-55yrs

(E). 56 and above

3 Gender Male  Female

4 Marital status

(a) Married  (c) Widowed

(b) Single  (d) Divorced

(e) Any other -----

5 What level of education have you attained? Tick appropriately

A None  B Primary

C Secondary  D post secondary training( eg diploma)

E university  F Others specify -----

6 What is your occupation? Tick appropriately

A Farmer  C Teacher

B Housewife  D Business person

E Others-(specify)-----

7 Indicate the range of your current average household's monthly income.

A KSH 1000 and below  B KSH 1001—3000

C KSH 3001-5000  D KSH 5001 and above

8 Has there been any notable increase in the household's income after joining and being involved in the FSA? YES /NO

IF yes, by how much?-----

9 What is the name of your FSA?-----

10 How far is your home from the FSA center?

A Less than 2 km  C Between 5 and 10 km

B Between 2 and 5km  D More than 10km

11 When did you join the FSA?

A Before the launch  B During the launch

C After the launch

12 Why did you join the FSA? -----  
-----

13 What income generating activities did you engage yourself in before you joined the FSA?

(Please list them down)

1-----

2-----

3-----

4-----

14 Have you changed, expanded or added to the above named activities? YES/NO

If yes, please specify 1-----

2-----

3-----

4-----

15 Have you ever borrowed a loan from the FSA? Yes /No

If yes , what motivated you to borrow?

A flexibility and accessibility of the FSAs credit

B very low interest rates

C peer pressure

D Any other (specify) -----

16 What was the purpose of the loan ? (Tick the appropriate answers)

A To expand the previously existing business

B To start an income generating activity.

C For paying school fees.

D Any other (specify) -----

17 Have you ever borrowed from other institutions? Yes/no

If yes, how do you compare the lending in that institution to this of the FSA in terms of accessibility and flexibility?

18 In your own view do you think the flexibility and accessibility of credit in the FSAs is motivating the shareholders to borrow loans for the purpose of diversifying their sources of income? YES/NO

19 Approximately what is your household average savings per month?-----  
-----

20 Does the level of saving in your household influence your decision to borrow? YES/NO

If yes , how and why ?-----  
-----

21 To what extent do the under listed factors impact on increase and/or variations of activities that earn you livelihood?

A To a very great extent

C To a low extent

B To a great extent

D To a very low extent

E No impact at all

Kindly tick the most appropriate

S/NO	ACTIVITIES	A	B	C	D	E
1	ACCESS TO CREDIT					
2	HOUSEHOLD SAVINGS					
3	BUSINESS TRAINING					
4	SHARE HOLDING/OWNERSHIP					

22 Comparing the life before and after joining the FSA, when were you able to do the following things? Kindly tick the most appropriate answer against each indicators, services and items as specified below

A Before joining FSA

B After joining the FSA

C Both

D Not applicable /No / Do not have

S/N	INDICATORS /SERVICES /ITEMS	A	B	C	D
0					
1	BUILD A DECENT HOUSE				
2	BUY T.V/Video/CD PLAYER				
3	BUY LIVESTOCK				
4	PURCHASE A PIECE OF LAND				
5	PAY SCHOOL FEES WITH EASE				
6	EMPLOY SOMEBODY IN YOUR FARMS OR BUSINESS				
7	TAKE CHILDREN TO PRIVATE SCHOOLS				
8	HAVE 3 MEALS A DAY				
9	BUY DECENT CLOTHES FOR FAMILY MEMBERS				
10	DO CHARITY WORK				
11	OTHERS (SPECIFY)				

### APPENDIX 3 (FOCUS GROUP DISCUSSION GUIDE)

This will be used to guide the discussion in the two focus groups selected

<p>Thank you for joining this group discussion. We want to find out if the FSAs have impacted our livelihoods in any way. You can say what you want and what you say will not be quoted individually. If you like to talk a lot, please make sure that others get a chance and if you are quiet, please try to participate</p>	<p>Interview instructions</p> <p>The researcher to explain the objectives of the study and guide the group establish ground rules.</p> <p>To evaluate the effects of FSAs credit on diversification of livelihoods among the rural households.</p> <p>To examine the relationship between the level of savings by households and the decision to opt for credit for the purpose of diversifying livelihood.</p> <p>To examine the extent to which access to FSAs credit ,business training and shareholding /ownership in the FSAs impact on the diversification of livelihoods</p> <p>To establish whether diversification of livelihoods among households lead to improved income.</p>
<p>Kindly tell us your name and something you like and dislike about your FSA. I will start with mine..My name is.....</p>	<p>Give focus group members a chance to introduce themselves</p>



**Questions**

What services does your FSA offer?

What motivates you to borrow from the FSA?

How do you use the credit we borrow from the FSA?

How has each of the following affected your source of income?

- Credit
- Business training
- Shareholding /ownership

Do you think diversification of livelihoods lead to increased income levels among the rural households?

Thank you so much for your participation, kindly let us know if you have any concerns, suggestions or questions before we close the discussion

Key question and assistance given probe. Only to be asked after the participants have given their own answers.

**APPENDIX 4(: KEY INFORMANT GUIDE)**

**1 What is the name and location of this FSA?**

---

---

**2 Which year was it started?**

---

**3 Please give a brief history of the FSA.**

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---

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**4 How many shareholders does the FSA have?**

---

---

**5 About how many of these shareholders have ever borrowed?**

---

**6 How long does your FSA loan take to be processed?**

---

---

**7 Mainly what is the reason for borrowing and how often do they borrow?**

---

---

---

**8 How often is the business training offered to the shareholders?**

---

**9 What is the share price?**

---

---

**10 How much was the last declared dividend?**

---

---

**11 What can you say about the FSAs cash flow?**

---

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12 What impact is the JSA making on the shareholders?

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13 What is the clientele turnover (exiting and replacement or joining the FSA) in this particular FSA?

(Please give details)

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