

**IMPACT OF SACCOS IN ALLEVIATION OF POVERTY IN
KENYA: A CASE OF KISUMU COUNTY.**

BY:

OBWANGA SAMSON ODOYO

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DECLARATION

STUDENT

I declare that this is my original work and has not been presented to any university for award of any degree.

Signature..........


Date...12/11/2012.....

Name: Obwanga Samson Odoyo

Reg. No: D61/63316/2010

SUPERVISOR

I confirm that the research project was done by Obwanga Samson Odoyo under my supervision. This has been submitted for review with my approval as the University's supervisor.

Signature..........

Date...13/11/2012.....

Otieno Odhiambo Luther,

School of Business, University of Nairobi.

Acknowledgement

I give thanks to my supervisor Otieno Odhiambo Luther for the guidance accorded to enable the successful completion of the project paper.

Dedication

Glory and honour be to the almighty God

To my wife Askah and children; Madan, Ahadi, Felix and Larry for their patience and support during the periods of commitments.

ABSTRACT

Poverty is a pervasive problem that is experienced throughout the world. Poverty deprives people access to proper housing, food consumption, education, health care and ability to accumulate assets that generate income. The purpose of the study is to find out the impact that Saccos in Kisumu County have on alleviation of poverty.

Saccos are financial institutions that are owned and controlled by members for the purpose of providing savings, loans, insurance and other services like welfare funds and advances to members. Kisumu County has 45 Saccos with 42,183 members spread in Kisumu East, Kisumu west, Nyando, Muhoroni and Nyakach. The Saccos provide financial services of savings and various types of loans for development, school fees and emergencies. Poverty however remains a problem in Kisumu County. The rate of poverty is still high and is estimated to be 47.8 % according to Integrated Household Budget survey. This has informed the need for the study to determine the impact that these Saccos have on alleviation of poverty. The study will be useful to financial institutions in designing suitable products to members, government and its agencies for instituting policies and legislations that are appropriate to Sacco members. It will also be useful to members and the public for awareness of the impact of Saccos in their economic and social welfare.

The population of the study will be all members of Saccos in Kisumu County. A sample of 2,100 members was selected and data was collected using questionnaires, interviews

and review of existing records. Descriptive statistics will be used to analyze the data to be presented in form of tables and graphs.

The findings indicate that 5% of the Sacco members fall below poverty level which is expenditure of less than ksh 100 per day. Poverty of Sacco members is more pronounced among the small traders and farmers with rates of 40 % and 34 % respectively. It also shows that among the income groups with spending of less than ksh 100, 68 % of the members have income below ksh 10,000 per month.

In conclusion, Saccos have positive impact on alleviation of poverty in Kisumu County as 95 % of the members fall above poverty level of expenditure of less than ksh 100 per day. It is notable that, however much poverty among traders and farmers may be comparatively high, it falls among a small and insignificant proportion of the Sacco members with only 5% being considered poor. The indicators of poverty including; health care, education and other issues that address reduction of poverty like small business ventures, emergencies like funerals, sicknesses and weddings are financed by Saccos.

I therefore recommend that policies and regulations need to be instituted to enable members to venture into sustainable income generating ventures. The small traders, artisans and farmers who form majority of the poor Sacco members need favourable legislative and policies including; taxation, interest rates and subsidies. For those who

may need research in a similar topic, they need to find out the impact that Saccos have on the performance of institutions that remit members contributions.

TABLE OF CONTENTS

PAGE

Declaration	i
Acknowledgement.....	ii
Dedication.....	iii
Abstract.....	iv
List of tables.....	ix
Acronyms.....	x

CHAPTER ONE: INTRODUCTION.....1

1.1.0 Background.....	1
1.1.1 Poverty.....	1
1.1.2 Saccos as a source of finance and issue of poverty.....	2
1.1.3 Saccos members in Kisumu County.....	4
1.2.0 Statement of the problem.....	6
1.3.0 Objectives of the study.....	7
1.4.0 Value of the study.....	7

TABLE OF CONTENTS

PAGE

Declaration	i
Acknowledgement.....	ii
Dedication.....	iii
Abstract.....	iv
List of tables.....	ix
Acronyms.....	x

CHAPTER ONE: INTRODUCTION.....1

1.1.0 Background.....	1
1.1.1 Poverty.....	1
1.1.2 Saccos as a source of finance and issue of poverty.....	2
1.1.3 Saccos members in Kisumu County.....	4
1.2.0 Statement of the problem.....	6
1.3.0 Objectives of the study.....	7
1.4.0 Value of the study.....	7

CHAPTER TWO: LITERATURE REVIEW.....	8
2.1 Poverty.....	8
2.1.1 Theories of poverty.....	10
2.2 Absence of financial markets for the poor.....	13
2.3 Impact of Saccos in poverty alleviation.....	15
CHAPTER THREE: RESEARCH METHODOLOGY.....	19
3.1 Research design.....	19
3.2 Population.....	19
3.3 Sample design.....	19
3.4 Data collection	20
3.5 Data analysis.....	20
CHAPTER FOUR: DATA ANALYSIS, AND FINDINGS.....	23
4.1 Introduction.....	21
4.2 Expenditures of members.....	21
4.3 Poverty according to occupations.....	22
4.4 Income and spending.....	24
4.5 Impact of Saccos in poverty alleviation.....	24
4.6 Conclusions.....	26

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1	Introduction.....	28
5.2	Summary and conclusions.....	28
5.3	Recommendations.....	29
5.4	Limitations of the study.....	30
5.5	Recommendations for further Study.....	30

REFERENCES.....	31
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APPENDIX I: Map of Kisumu County.....	39
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APPENDIX II: List of Saccos in Kisumu County.....	40
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APPENDIX III: Questionnaire.....	42
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LIST OF TABLES

Table 4.1	Membership and expenditure levels.....	22
Table 4.2	Occupations and expenditure levels.....	23
Table 4.3	Members incomes below poverty level.....	24
Table 4.4	Members Sacco financing needs.....	25

LIST OF ACRONYMS.

ADB	Africa Development Bank
AIDS	Acquired Immune Deficiency Syndrome
CGAP	Consultative Group to Assist the Poor
CBK	Central Bank of Kenya
CIC	Co-operative Insurance Company Ltd
CMA	Capita Markets Authority
CRA	Commission on Revenue Allocation
FOSA	Front Office Savings Activities
GOK	Government of Kenya
HIV	Human Immunodeficiency Virus
KIBHS	Kenya Integrated Household Budget Survey
KNBS	Kenya National Bureau of Statistics
KUSSCO	Kenya Union of Savings and Credit Co-operatives
ILO	International Labour Organization
IRA	Insurance Regulatory Authority
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organizations
PPA	Participatory Poverty Assessment
RBA	Retirement Benefits Authority
ROSCAs	Rotating Savings and Credit Associations
SACCOS	Savings and Credit Co-operative Societies

SASRA	Sacco Societies Regulatory Authority
USD	United States Dollar
WMS	Welfare Monitoring Survey
WOCCU	World Council of Credit Unions

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

1.1.1 Poverty

Poverty is defined as the inability to attain a minimal standard of living measured in terms of necessary basic needs and services. In recognition that poverty was contextual, that it was not static but relative, micro credit was introduced as a mechanism for the poor to pursue poverty reduction activities. Micro credit programmes were meant to help the poor generate income and alleviate poverty sustainably. Poverty alleviation paradigm which is manifested in increasing outreach and access to the poor, providing small loans for consumption and production, savings facilities, group formation and training tend to target women. The assumption being that increasing women's access to credit increases their income hence impacting positively on household income (Pitamber, S., 2003).

Poverty is a pervasive problem in the society spanning across the world in different levels and forms. Micro finance is suggested as empowering the poor by increasing their participation in global economy (Mordeno, 2010). Kenya Integrated Household Budget Survey suggests that in 2005/2006 almost half of Kenya's population, 17 million people which translates to 47 % lived in poverty, of which 85 % were in rural areas. This resulted from the marginal increase in cost of meeting basic needs basket of goods. KNBS's Participatory Poverty Assessment (PPA-IV) found that extreme poverty is closely linked to food consumption (World Bank, 2008). Kenya is faced with various challenges including food shortages, unemployment crisis, increase in poverty and lack of capital all of which

have resulted in declining economic growth which reached negative 0.3 in the year 2000 (Kipruto, 2012). Saccos are critical in providing access to financial services to low income households in Kenya. They are a leading source of finance in many rural areas (FSD, 2010). In Kisumu County the poor are able to access Sacco finances to buy livestock, fishing, crop growing, start small and medium businesses and to solve problems of school fees, health care and social activities of weddings and funerals.

1.1.2 Saccos as a Source of Finance

A Sacco is a form of financial institution formal in nature, owned, controlled, used and democratically governed by members themselves with the purpose of encouraging savings among members and using pooled funds to make loans to members at reasonable rates of interest and providing related financial services to enable members improve their economic and social welfare. The history of Saccos or credit unions show that they were formed for relief of poverty among the poorer economic classes in Europe, United States , India and developing countries (Tache, 2006). Saccos contribute to develop local economies where the poor live through their linkage with the community. The assumption is that Saccos enable the poor access financial services by providing low income families with safe place to save and where to borrow reasonably priced loans. The poor will therefore improve their living conditions and have their voices heard.

Saccos are playing a significant role in provision of financial services to a larger population than other formal financial sector. Their contribution to poverty alleviation, employment creation, and HIV/ AIDS management is recommendable (Awino, M, 2011). FinAccess 2009 study indicates the strategic importance of Sacco movement in Kenya to pro-poor

financial sector development, with 9% of adult population using Saccos (Kamau, L, 2011).

The cooperative sector in Kenya plays important role in wealth creation, food security and employment generation. They provide an institutional infrastructure upon which the poor and middle class have organized themselves socially, culturally, economically and politically (Owino, M, 2011). Saccos provide various finances to the members. The school fee loans help members to educate their children and dependants who cannot afford school fees at the secondary, college and university levels of education. Emergency loans provided by Saccos are used for health care in case of sickness, funerals and burials, and immediate needs that require urgent source of finance. Sacco development loans are used to buy land, for building dwelling houses and commercial/ rental houses, buying vehicles for passenger and goods transport. With the operation of FOSAs, members are capable of taking advances to solve to bridge gaps arising due to deficiency of income. Members with salaries are able to channel their earnings through Saccos where they enjoy benefits of ownership, low cost service provision and can obtain salary advances without requirements for security. Sacco loans are usually insured that in case of passing on of a member, the insurance pay the outstanding loans and portion of insured savings at the time when the loan was disbursed.

When banks in Kenya withdrew from rural areas in 2003, leaving a large population without financial services, Saccos played a role in filling the gap, by lifting citizens from poverty (Okundi, H, 2011). Saccos help members to deposit savings that comprise share capital and members deposits. Members pool financial resources which are then used to disburse loans to the same members. The share capital and members deposits are comparatively long term and are only withdrawn upon resignation or withdrawal of membership. Saccos with FOSAs allow members to own savings accounts for keeping their money that they may withdraw from time to time for consumption, weddings, school fees

and medical bill payments, and other needs. Saccos also provide finances for micro and medium enterprises, like Matatu business, Salons, crop and livestock farming, sale of grains and horticultural crops, food kiosks, restaurants, shops and canteens and many more.

1.1.3 Saccos Members in Kisumu County

A co-operative is an autonomous association of persons united voluntarily to meet common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise (ICA, 2007). Co-operatives put their values into practice through the following principles involving; voluntary and open membership, democratic control, economic participation of members, education, training and information dissemination, concern for the community and co-operation among co-operatives.

There were 5,544 registered Saccos in Kenya by December 2010. Out of the 3,983 active Saccos in Kenya, 218 or 6 % operated FOSAs (deposit taking), while the rest of 84 % were non deposit taking. From the economic report of 2009, of the 20 million adult populations, 17.6 % are served by Saccos (SASRA, 2011). According to the ministry of cooperatives, there were 42,183 members of Saccos in Kisumu County. These are from teachers, farmers, fishermen, traders and professional organization's Saccos.

Kisumu county Sacco memberships are diverse. There are teachers Saccos, farmers Saccos, employee formed Saccos and those of traders. The teachers Saccos are Kisumu teachers Sacco which draw membership from; Nyakach, Muhoroni, Nyando, Kisumu East and West. Farmers Sacco membership are drawn from sugar cane growing areas of Chemelil and Muhoroni and from rice growing areas of Nyando, from fishermen along the lake . The

Saccos in Kisumu County help poor farmers who cannot afford farm inputs, to get fertilizers, and seeds. The members can acquire finances for buying cattle, sheep and goats which constitute economic activities of the rural poor of Kisumu County. Saccos lift the members of Kisumu from poverty by boosting farming of sugarcane, rice, maize, millet and rearing of animals like cattle, sheep and goats which provide milk and its products and can be sold in case of needs to pay school fees, pay medical bills and to solve cultural activities like weddings and funerals. The Saccos are a source of employment to those employed directly and those who engage in economic activities from finances obtained from the Saccos.

Kisumu County borders Vihiga to the North, Nandi County to the North east, Kericho County to the east, Nyamira to the south, Homa Bay to the south west and Siaya to the west. The County covers 2085.9 km² with a population of 968,909 people, proportion of male being 48.9 % and female 51.1 %. The county has a population density of 465 people per km² while the number of households is 226,719. The poverty rate of the county is 45 % with an age dependency ratio of 100: 87 (Soft Kenya, 2012). Kisumu County had 45 Saccos by August 2012 according to KUSCCO record (APPENDIX 2). The main economic activities in the county include; subsistence farming, livestock keeping, fishing, rice farming, sugar cane farming and small-scale trade. Indicators of poverty in Kisumu include; lack of health facilities, lack of farm credits, high prevalence of HIV/AIDS, high unemployment levels, low technological base, poor housing, environmental diseases like cholera and typhoid, lack of education and low technological base (Abdi, 2004).

1.20 Statement of the Problem

Poverty is synonymous with shortage of income (Desai and Potter, 2008). Poverty deprives people of good health, education, social life, and environmental quality, spiritual and political freedom. The poor are forced to sell physical assets, reduce quantity and quality of food consumed, move to inferior accommodation, postpone medical treatment or withdraw from Saccos. Saccos offer subsistence loans for school fees, medical care, furniture and household items, all of which enable the members to meet the daily requirements of living (Nyimba, 2005).

The strategic emphasis on access to financial services is to promote productive investment, alleviate economic shocks, and ease poverty. Saccos is a response to the realization that the need for financial products and services that can help the poor, is pressing. Saccos play a crucial role in mobilization of savings for investment; the Sacco sub sector was worth KSh 210 billion by December 2010 while deposit-taking Saccos had about KSh 171 billion of this amount SASRA (2011). In Kisumu County, There are teachers Saccos, farmers Saccos, traders Saccos and employee formed Saccos. The members get emergency loans, school fees loans, development loans and advances from Saccos with FOSAs. Despite these finances to help the poor to uplift their standards of living, Kenya Integrated Household Budget Survey still estimates poverty level in Kisumu County to be 47.8 %.

A number of studies show positive correlations between financial developments, economic growth, and poverty reduction; the implication is that properly designed financial sector activities, translate to greater savings, more investment and poverty reduction (Trew, 2005). Other studies find weak links between financial developments, economic growth, and poverty reduction (Favara 2003). A study using rural bank branch data for India found a negative relation between the number of rural bank branches and poverty and a positive

relation with production (Burgess and Pande 2005). There seem to be lack of agreement on the relationship between financial developments, economic growth, and poverty reduction. The study therefore seeks to explore the effects of poverty and to determine whether Saccos play a role in reduction of poverty.

1.30 Objectives of the Study

To determine the impact of Saccos on reduction of poverty in Kisumu County.

1.40 Value of the Study

The study can be used by formal banking institutions in formulating strategies to Saccos and for designing competitive strategies. The study will be used by various stakeholders like:

Financial Institutions

Financial institutions will use the study to design policies that are relevant to Saccos in their effort to alleviate poverty among their members.

Regulators

The government through the ministry of cooperative development and SASRA will use the study to create regulations and pass legislations and controls that ensure that Sacco efforts are geared towards poverty reduction.

Members of Saccos and the public

The study will help the Sacco members to know the role that the Sacco societies play in solving the problem of poverty. The public will be aware of contribution of Saccos in poverty reduction and the economy in general.

CHAPTER TWO

LITERATURE REVIEW

2.1 Poverty

In the year 2001, 1.1 billion people were living in extreme poverty. More than 8 million people around the world die each year because they are poor to stay alive. In Kenya, WMS estimated poverty index at 56% in the year 2004. The causes of poverty include; bad governance, inadequate roads, high cost of social services like health, education, HIV/AIDS, unemployment and low wages, insecurity and disability (Mualuko ,N,J, 2007). Poverty has been defined and measured in economic welfare terms such as consumption and income. An individual is poor if he falls below a predetermined level of economic welfare deemed to constitute a reasonable minimum in some absolute level or by standards of a specific society (Suri, T, et. al, 2008). Poverty can be classified as chronic or transitory. Chronic poverty persists for years, if not lifetime while transitory poverty is short lived than chronic poverty. It can also be classified as structural poverty or stochastic poverty. Structurally poor lack asset endowments sufficient to generate expenditures above poverty line although observed income may exceed poverty line due to random shocks. Stochastically poor have observed income and expenditures below poverty line even though their asset holdings suffice, in expectations for them to be non poor. In Kenya 73 % of households that have fallen in poverty mention sicknesses, poor health and heavy related expenses as the principal reason for declining into poverty (Mukui. , T., J., 2005). The 1993 Vienna world conference on human rights and Copenhagen programme of action recognized that improving conditions under which poverty stricken people live is a human right. Extreme poverty is a violation of human rights because it is the main obstacle for implementing other human rights, as well as the principle that all human beings have equal dignity. Poverty eradication needs therefore to be supported by economic and social policies

concerning health, education, shelter, family planning, population and gender equality (Fournier, F, 2002).

In sub Saharan Africa, the \$ 1 per day poverty head count index rose from 47 to 49 % from 1990 to 2000 and that rapid sustained growth is required for poverty reduction (World Bank, 2004). Poverty is a multi- dimensional and includes lack of access to education, health care, clean water and sanitation and adequate housing. It also includes gender inequality and greater likelihood of contracting diseases such as HIV/AIDS or malaria. In 1990s, it was estimated that 29 % of people in low and middle income economies were poor and that by the time MDGs will reduce poverty to 14.5 %, there will be 890 million who do not have the bare minimum to live on. The UN recognizes the contribution of co-operatives to poverty reduction, by creating employment, mobilizing resources effectively. The UN department for policy coordination and sustainable development prepares the UN Secretary Generals report on cooperatives to general assembly, in collaboration with committee for the promotion and advancement of cooperative (COPAC) every second year. Other agencies that work with cooperatives are ILO and FAO. In 1996, the UN general assembly adopted a resolution urging due consideration to be given to contribution of cooperatives in achieving social and economic goals (Birchall, J, 2003). Poverty consists of two interacting deprivations; psychological and social. Psychological deprivations, describes the inability of individuals to meet basic material and psychological needs which are measured by lack of income which limits access to food, education, health, housing, water and sanitation. Social deprivation refers to absence of elements that are empowering such as; autonomy, information, dignity, and self esteem. ROSCAs therefore help in mobilizing savings through the people's daily collection of deposits which are in turn used as working capital to restock supplies which enable them to expand output and earn streams of profits, thereby providing

source of income to individual households which reduces poverty levels. Credit provided by ROSCAs is used to build houses, assets and are used as security by safeguarding peoples money from incessant appeals from family and friends (Yusuf, N, Ijaiya, G, and Ijaiya, M, 2009).

Poverty still remains a global challenge, which Kenya and Kisumu County must also strive to address. According to GOK Vision 2030 (2007), in order to attain middle income status, the country must make effort to meet MDGs by 2015. These constitute; elimination of extreme poverty and hunger, universal free primary education, gender equality, reduction of child mortality, improvement in maternal health, lower HIV/AIDS and major diseases, environmental sustainability, and better partnership with international development partners. Kisumu County has a population of 968,909 and the poverty rate (KIHBS) of 47.8 %. As outlined in the Kisumu district strategic plan 2005 – 2010, the main causes of poverty are; lack of exploitation of natural resources, HIV/AIDS menace, socio cultural factors, inadequate and unreliable rainfall patterns which affect agricultural activities which is the source of livelihood of 90 % of the population. Persistent floods also destroy crops and causes water borne diseases (CRA. 2012).

2.1.1 Theories of Poverty

The theories that explain poverty are; human capital theory, permanent income and life cycle hypothesis, restricted opportunity theory, flawed character theory, culture of poverty theory and the dual labour market theory. Human capital theory by Becker and Mincer explains individuals' decision to invest in human capital (education and training) and patterns of individuals' lifetime income. Investment in education and training involves cost and those who will be compensated by higher life time incomes will choose to invest. Those

who do not invest are more likely to be poor. Permanent income and life cycle hypothesis holds that people have permanent income streams (from current to future earnings and assets) but their incomes can have short term (transitory) deviations from the permanent streams. Restricted opportunity theory states that the poor lack sufficient access to economic opportunities and cannot avoid poverty unless their economic opportunities improve. Flawed character theory has it that people have ample opportunities for improving their economic status but lack the initiative and diligence to take advantage of the opportunities. Culture of poverty theory by Oscar Lewis explains that the culture of poverty falls among significant minority of the poor such that people are not psychologically geared to take advantage of opportunities that may come their way. The dual labour market theory stipulates that labour market is split into primary sector offering steady employment, higher wages and better promotion and the secondary sector with poor working conditions, low wages and few promotion opportunities (Kernan, S, M and Ratcliffe, C, 2002).

The sociological theories that explain poverty include; conflict theory of poverty and structural functional theory of poverty. The conflict theory of poverty by Marx and Weber explains the conflict between bourgeoisie (the owners of means of production) who control the market system and the proletariat (working) class who rely on the bourgeoisie for wages. Without the proletariat there would be no production hence they must remain unequal to ensure production is stable and cost effective. The structural functional theory of poverty holds that everything in the society has a purpose and a function and that poverty and inequality serve a specific function in the society. Inequality is a graded ladder of people at different levels of income hence poverty motivates people to climb the ladder and it also ensures that all jobs/functions in a society will be filled.

Individualistic theorist, Herbert Spencer blames poverty on the poor. He claims that the poor are lazy and do not want to work and should not be allowed to eat. Another individualistic theorist, David Marsland, argues that low income is caused by the generosity of the state and that public expenditures on income support withdraws money from investment and industry and the benefits should be targeted at only the disabled and those in genuine need. The underclass theory of poverty by Charles Murray define the underclass by deplorable behaviours like; not willing to take jobs, committing crime and having illegitimate children. The deplorable behaviours do not want to work, resort to crime hence damaging communities to extent that people withdraw into themselves. The conflict theories explaining poverty include; poverty and welfare, poverty and labour market, poverty and power, poverty and stratification, poverty and capitalism. The theory of poverty and welfare holds that since most people who are poor receive state benefits, poverty is attributed to the inadequacy of those benefits. The poverty and labour market theory says that majority of the poor are employed but receive wages insufficient to meet their needs and that mechanization has reduced demand for unskilled who then remain unemployed. According to Ralph Miliband, in the theory of poverty and power, the poor lack political power and they lack resources that can enable them to organize themselves to protest. Economic deprivation is a source of political deprivation and political deprivation helps to maintain and confirm economic deprivation. In the theory of poverty and stratification, Peter Townsend says that existence of class divides is the major cause of poverty while in the theory of poverty and capitalism, existence of poverty is beneficial to the ruling class by increasing their motivation to work as they receive unequal rewards for work.

2.2 Absence of Financial Markets for the Poor

In most developing countries, formal financial markets serve only a small percentage of the population, often not more than 20% - 30 %. Most households who do not have even the basic financial services are concentrated in the low-income categories. Based on principle that access to finance could improve the life of the poor, micro finance has emerged to provide loans, savings and insurance to the poor (Sucre Reyes, M. A., 2009). The poor need an array of financial services to help them deal with a range of short-to- long term consumption needs and the ups and downs of incomes and expenses, to make use of opportunities and to cope with vulnerabilities and emergencies. The needs of the poor for financial services have been categorized into three groups, namely; life cycle needs that can be anticipated (like marriage, education, and burial), unanticipated emergencies (like sicknesses, loss of employment, floods, death), and opportunities (like investing in a new business or buying land). But the poors' access to formal financial services is limited and the services available do not acknowledge their diverse requirements, hence making them to rely on money lenders, friends and families (Stewart, R., Van Rooyen, C., Dickson, K., Majoro, M., and De Wet, T., 2010).

Market imperfections that include asymmetric information and transaction costs can explain the lack of access of finance for the poor. Theoretically, economists have explained the difficulties that face the poor in accessing financial markets in terms of asymmetric information (Alkerlof, 1970). The result of information asymmetry is adverse selection and moral hazard. Therefore, in the face of asymmetric information mainstream financial institutions cannot clear the market for funds (Stiglitz and Weiss, 1981). High transaction costs and lack of collateral are two important barriers for the poor in access to finance. The poor do not have security that they can pledge in order to acquire loans from banks and

other financial institutions. A new wave of specialized micro finance institutions serving the poor has tried to overcome these problems in innovative ways, such as with group lending schemes, and bigger loan sizes as customers continue to borrow and repay (World Bank, 2011). Absence of financial markets may cause delay of entry into entrepreneurial developments and associated capital formation. Technological innovations and learning by doing may also be affected (Cooley, F. T., and Smith, B., D., 1998).

Due to absence of financial markets for the poor, policy makers' focus is on whether to subsidize or not to subsidize financial institutions in providing financial services to the poor. The micro finance approaches to this debate are; poverty reduction approach and financial system approach. Poverty reduction approach call for provision of cheap financial services to the poor especially, through government subsidies while financial system approach aims at building financial intermediation system for the poor without subsidy. The absence of financial system for the poor has led to formation of micro finance institutions which provide loans, deposits, payment services, money transfers and insurance to poor and low income households and their micro enterprises. The micro finance systems are categorized into; formal, semi formal and informal systems. The formal system comprise; cooperative banks, savings banks, postal savings; the semi formal include; savings and credit cooperatives (Saccos), farmers associations, NGO financial programmes, village banks while the informal are; friends, shop keepers, money lenders, ROSCAS and traders (Manh Hao, Q., 2005).

2.3 Impact of Saccos in poverty alleviation

The justification for existence of Saccos is the provision financial services to the poor and low-income households (Gonzalez Vega 2003). At the same time providing access to finance to the poor is considered a tool for economic development and poverty reduction (Morduch and Haley, 2002; Khandker, 2001, 2003). There are positive developments associated with credit union membership. 90% of credit union members experience improvements in purchasing power, increased spending in education, business and durable assets than non- credit union members. Non – members of credit unions who do not have access to loans during the time of vulnerability take more drastic measures such as selling assets, cutting down more often on daily expenses and they take children out of school more frequently (Dzandu, E, Oosterhout, H, 2009).

Micro finance plays a major role in determining the standard of living. The economic and social wellbeing depends on the finances available to cater for the needs of education, medical care and consumption. In Africa alone; 320 million people who live on USD 1 per day need micro finance (ADB. 2006). Financial co-operatives (Saccos), Co-operative bank and CIC hold a saving portfolio accounting for 31% of gross national savings. Poverty however remains a great challenge to human society with almost half of the world's six billion people living on less two dollars a day. The poor lack security and credit history to obtain financial services in formal banking institutions. They are also living in rural set ups where formal banks have not opened branches. It is for these reasons that Saccos are coming up to bridge the gap and to support the poor to obtain funds for personal and enterprises development (Kuria. N.C, 2011). MFIs try to reach the living and working arena of the poor. A broader understanding of poverty calls for the need to identify how the

provision of credit is related to the lives of the poor. After Yunus had set up Grameen bank, many MFIs have followed the example to provide the poor with ways to access credit (Rieneke, M. V, 2010). In Kenya, the rise in poverty has compelled the government to initiate measures through which the vulnerable can access financial services. Sacco societies Act 2008 was passed to regulate the operations of Saccos that take deposits from members.

Studies have been done on the impact of micro finance on promotion micro and small enterprises and on poverty reduction. Most of the studies have not fully focused specifically on the role and impact of credit unions or Saccos, which calls for the need to find out the impact these institutions, play in poverty alleviation.

Financial services cooperatives and Saccos have been credited for lifting thousands of people from life of penury and bondage in India and South East Asia (Gilbert Okoye, 2009). The role of Saccos in economic development include; establishment of micro businesses in both rural and urban areas, provision of financial services to vulnerable groups including women, youth and disabled to alleviate their status in the society, enabling members to build low cost housing units, buy household items and provide affordable education to their children. The members also put the loans in agriculture to increase productivity and enhance food security. Rural micro projects, like kiosks, salons, restaurants, shops and handicrafts are started from loans taken by Sacco members.

Saccos have a significant role in provision of financial services to the poor. The Sacco savings safeguard poor households against the uneven income streams due to seasonal fluctuations in rural areas. Poor households are also able to accumulate wealth to finance long term goals (Ahimbisibwe, F, 2007). Empirical evidence from Uganda shows that micro

credit interventions including those of Saccos have indeed capacity to reduce poverty, contribute to food security and change social relations for the better. The associated benefits involve; reduced vulnerability and increased ability to cope with risk, stabilization of income for the poor and smoothening of consumption expenditures, regular income that enables the poor to have regular access to food, health care and education services, accumulation of assets like radio, livestock and fridges (Muzinduku, P, 2008).

Saccos had 6,286,894 members in 2007. The multiplier effect of the membership would see income generating opportunities spread to more people. It is estimated that 63% of Kenya's population (about 23.4 million people) participates in economic activities that originate from the cooperative movement. Saccos contribute significantly to poverty reduction and prevention measures in Kenya. School fee loans are used to educate children on the assumption that education prevents poverty in the long term. Development loans are used to buy land, build houses, invest in businesses and farming, and buy household furniture with the aim of poverty reduction. Saccos also provide emergency loans and have introduced benevolent funds to provide social protection to the poor members. The cooperative movement generate employment to 0.3 million people directly, and 1.5 million people indirectly (Wanyama, F.O, 2009)

Credit provided to micro enterprises by Saccos has had positive impact on the lives of poor people (Edward O. Mudibo, 2006). This has enabled income of households with credit to rise in comparison to those without credit. According to Mudibo (2006), the role of Sacco micro credit in poverty reduction involve; establishment of businesses to raise standards of living, source of employment, increase in productivity of agricultural sector to enhance food security, setting up of rural micro projects like restaurants, salons, matatus. The Sacco credit

also enhances the capacity of the poor to acquire household items, pay school fees and quality housing. It also inculcates a culture of savings in the lives of the poor people.

In conclusion, poverty remains a global phenomenon to be tackled. It deprives people the basic and essential facilities of life like adequate food, housing and medical care. Kisumu County has indicators of poverty due to high unemployment, poor housing, diseases prevalence and poor technology. Saccos play a major role in alleviation. The members are able to start micro businesses that generate income to reduce poverty. The finances from Saccos are used in provision of low cost housing, health care, education of children and dependants, and food for the families. Saccos also provide employment to the poor, either directly or indirectly and they inculcate a savings culture among the poor. The economic development of the country also depends on the contribution of the Saccos or credit unions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Methodology

Survey method was used to conduct the research. Descriptive research was employed to describe the impact of Saccos in relation to poverty. The survey method is chosen because of ease of administration of questionnaires and interviews to the target population. According to Mutea Rukwara, (2007), in a survey design, the common method of data collection is the usage of questionnaire.

3.2 Population

The universe of the study comprised all 42,183 members of Saccos in Kisumu County. The membership record has been obtained from the register of ministry of cooperative and development (Nyanza regional office). The members of the county who constitute the population of the study are from; Nyando, Nyakach, Muhoroni, Kisumu West, Kisumu East and Kisumu Central. There are 45 Saccos in Kisumu County as per the records of KUSCCO Nyanza regional office.

3.3 Sample design

A random sample of 2100 members was chosen out of the 42,183 members of the Saccos in Kisumu County.

3.4 Data Collection

The study involved collection of primary and secondary data. Primary data was through questionnaires given to members and through interviews of representative members. Secondary data was obtained from the records of ministry of cooperative development and marketing, Kussco and selected Saccos. The Process was mainly to determine the members' perception on how Saccos are helping in the alleviating poverty in Kisumu County.

3.5 Data Analysis

Data collected was analyzed using descriptive statistics. The main purpose of descriptive statistics is to enable the researcher to fully describe a distribution of scores or meaning using few indices (Mugenda and Mugenda, 2003). Data collected on Sacco members' expenditures, number of members, incomes, occupations was edited for completeness and accuracy. These were then coded for ease of electronic data processing and analyzed using statistical package for social sciences (SPSS). Tables were used to show the relationship between Sacco financing and poverty levels. The members will be classified according to income, expenditures, age and gender. The study was conducted determine the members' expenditures per day, income levels and relating the impact that Saccos have on those who fall below poverty levels. The analysis was done consider how Saccos impact on the poor members in terms of age and gender.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter discusses the findings of the research. The researcher investigated the impact of Saccos on alleviation of poverty in Kisumu County. Questionnaires were circulated to 2100 members of various Saccos out of which 1540 members responded giving a response rate of 73%. Data was analyzed using descriptive statistics. Tables were used to present the data. Poverty has been measured by the expenditure level of the members and those spending less than 1 USD per day are considered as poor.

4.2 Expenditure of the members

The expenditure levels were used as a determinant of poverty situation among the Sacco members. The members were asked to state how much they spend per day and also to state their monthly incomes. According to the World Bank, those who spend less than 1 USD per day are considered poor. The response rate out of the 1540 members who returned the questionnaires was as follows:

Table 4.1 Membership and Expenditure Levels

The table below shows various expenditure levels and the response of members on their daily expenditures:

Expenditure Levels	50 - 100	100 - 200	200 - 300	300 - 400	400 & above
No. of members	84	398	615	311	132
Percentage	5%	26 %	40 %	20 %	9 %

According to the findings, 5% of the members are considered to be poor. The research was based on the fact that those whose expenditures fall below Ksh 100 are considered to be poor members of the Sacco. As the general poverty rate in Kisumu is 47 % while the analyzed information shows that only 5% of the Sacco members fall below poverty the conclusion was that Saccos have positive roles in the ability of the members to provide for their expenditure needs hence uplifting them from poverty. 95 % of the Sacco members can meet their basic expenditure needs hence are not considered poor.

4.3 Poverty According to Occupations

The table depicts various occupations in the vertical column and expenditures levels horizontally. The aim is to determine the numbers of members in each occupation who fall within the classified expenditure levels.

Table 4.2 Occupation and expenditure levels.**Expenditure levels**

Occupation	50 - 100	100 - 200	200 - 300	300 - 400	400 & above
Teachers	13	118	205	112	45
Farmers	29	92	74	55	23
Traders and artisans	34	63	38	23	12
Other occupations	8	125	298	121	52
Total	84	398	615	311	132

According to the data 16 % of the teachers who are Sacco members are poor, 34% of farmers are poor, 40% of the traders and juakali artisans are poor while only 10% of professional Sacco members are poor. This indicates that those who are not in formal organizations and depend on small and irregular savings do not feel much positive impacts of Saccos in alleviation of their poverty. Those, whose remittances to Saccos are regular, mainly through remittances by the employers, experience the benefits of the Saccos in poverty reduction.

4.4 Income and spending levels

The table below considers several income levels and the number of members who fall within each category of incomes. The purpose of the table was to determine the number of members in each classified income group and the proportion whose expenditures are below Ksh 100 per day. This expenditure of below Ksh 100 being the measure of poverty level.

Table 4.3 Members incomes below poverty levels.

Income (000)	1 - 10	10 - 20	20 - 30	30 - 40	40 & above
Members with expenses below Ksh 100	1041	458	37	4	Nil

The findings show that 68 % of the Sacco members whose income fall below Kshs 10,000 spend less than ksh 100 and are considered poor. Those in the income group Ksh 10,000 – 20,000, only 30 % are poor while for those in income group of Ksh 20,000 – 30,000, the poor Sacco members are 2% are poor. The findings show that majority of the Sacco members with low incomes are still poor. The members with high incomes do not experience poverty and Sacco activities have positive impact in reduction of their poverty.

4.5 Impact of Saccos on poverty alleviation.

The members were requested to explain how their respective Saccos have helped them in poverty alleviation and their responses in the questionnaires.

The table below reasons why members need Sacco financing. It indicates the number of members who obtained finances for various uses; including purchase of land and building houses, subsistence/consumption; education, business and farming and for emergency cases like, funerals, sicknesses, and social functions like weddings.

Table 4.4 Members' Sacco financing needs.

Need for financing	Land	School fees	Emergencies	Small businesses & farming	Subsistence
No. of members	787	1,540	924	967	192

The findings show that 51% of the members use Sacco financing to buy land while all the members indicated that they use the Sacco financing to pay school fees. The use of Sacco financing to pay fees was 100% of the Sacco membership. 60 % of the members indicated that they use finances from the Saccos to solve emergency issues including, sicknesses and funerals. The findings indicate that 63 % of the members use Sacco finances to start small businesses and to venture into farming activities. The businesses cited by the members include, shops, Kiosks and canteens, Sale of grains and groceries, livestock keeping, sugar cane growing, rice growing, barber shops, bars and restaurants, fishing and fish trading. 12% of the members cited subsistence and consumption as the need for Sacco finance

4.6 Conclusions

Financial services cooperatives (Saccos) have been credited for lifting people from life of penury and bondage (Okoye, G., 2009). The poor need financial services for education, emergencies like; sicknesses, loss of employment; for opportunities like; new businesses and buying land. Their access to financial services are however limited (Stewart, R., Van Rooyen, C., Dickson, K., Majoro, M., and De Wet, T., 2010). The findings show that the members of Saccos' main reasons for financing, include education, buying land and building houses, starting small businesses and farming, providing for emergency situations of sicknesses, loss of employment, funerals and for consumption as analyzed in table 4.4. All the Sacco members had obtained finances for school fees and small businesses of public transport, shops, selling of clothes, restaurants and shops have been started from Sacco finances. The farmers, both for crops and livestock have gone into the ventures through assistance from the Saccos. The traders for clothes and wears, groceries and grains, furniture makers, welders, motor vehicle spares and accessories all owe the existence of their businesses to the finances obtained from the Saccos.

The benefits of Saccos involve; reduced vulnerability and increased ability to cope with risks, access food, health care, education services, smoothening of consumption expenditures, and accumulation of assets like; livestock, radios, fridges (Muzinduku, P., 2008). From the analysis in table 4.1, it can be concluded that Saccos alleviate members from poverty as 95 % of Sacco members are above the poverty line which is Ksh 100 per day. The members who are traders and farmers with irregular incomes are however experiencing relatively positive impact than those with regular incomes as indicated in table 4.3. In overall, the findings show positive impact of Saccos in alleviation of poverty, by solving their consumption needs, education and social needs and assisting members to

venture into small businesses and farming. These have the effect of lifting the Sacco members from poverty.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents conclusions derived from the findings of the study and recommendations for further research.

5.2 Summary and Conclusions

The findings of the study show that Saccos have an impact on poverty alleviation. The study indicates that of the Sacco membership, 6% are considered poor as their expenses fall below the poverty level. Poverty falls heavily on the members of traders and juakali artisans of which 40% of the members are poor. In the farmers Saccos, 34% of the members are poor while in teachers Saccos, 16% of the members are poor. The Saccos for professionals have least poverty, with only 10% of the members experiencing poverty.

In terms of income levels, those with incomes below Kshs 10,000 experience poverty, with poverty rate in the income group being 68%. Those in the income group of between Kshs between Ksh 10,000 and ksh 20,000 experience poverty of 30% while those in income groups of Ksh between ksh 20,000 – 30,000 experience poverty of 2%. These are based on how much they spend per day, and those whose expenses are below \$ 1 per day are considered poor.

The Saccos have positive impact on alleviation of poverty among the poor members. The members start small businesses and engage in farming activities that generate income to

provide for their economic and social needs. The poor members can buy land and build houses through finances obtained from Saccos. Saccos are also a source of finances for payment of school fees, provision of emergencies of; sicknesses, funerals and social needs of weddings. The finances are also used for subsistence and food consumption. School fees are a major reason for Sacco financing with 100 % of the members stating that they borrow to pay for education needs. 63 % of the members acquire finances to start small businesses of running shops, salons and barber shops, selling of clothes and other wares. The members obtain finances for fishing, and farming involving; livestock, growing of sugar cane, maize and millet, cotton. Only few members comprising, 12 % use finances for subsistence. In conclusion, Saccos play a positive role in alleviation of poverty among the poor members in Kisumu County. This is through generation of income generating businesses and providing for their healthcare, education and social welfare.

5.3 Recommendations

The study discussion indicates that Saccos control 31 % of the Gross National Savings with a savings of 210 billion in Kenya. Poverty in Kenya was however 56 % according to WMS report of 2004. This calls for a recommendation for the Government to institute policies that enable the members to invest the finances in income generating activities. The research findings show that the finances are mainly used in school fees and emergency situations of sicknesses, funerals, with little for investments.

According to the findings, the poor members of the Saccos are traders and Juakali artisans and farmers with a poverty rate of 40 % and 34 % respectively. The findings also show that of the poor members whose incomes fall below Ksh 10,000, poverty rate is 68 %. It is therefore imperative that, policies measures be implemented to assist farmers and small

traders. The recommended policy measures, include subsidize farmers in terms of inputs to lower their production costs. The taxation measures on transactions, products and inputs for farmers and small traders should be reduced to encourage their savings and disposable income. It is also recommendable that Saccos need to be encouraged through favourable legislation, reduced interest rates on loans provided to Saccos by commercial banks. The Central bank rate (CBR) should vary and be different so that Saccos can enjoy lower rate of borrowing for onward lending to members.

5.4 Limitations of the Study

The period for conducting the study and submitting the report was short. The time for the correspondents to fill the questionnaire, return and to organize, analyze and put the data in a report was inadequate. The area covered by the research study was widely expanded hence constraining access to some regions.

5.5 Recommendations for Further Research

The research was based on the impact of Saccos in alleviation of poverty in general. I suggest that any body interested in a similar research should explore the impact of Saccos in performance of institutions that remit the members deductions.

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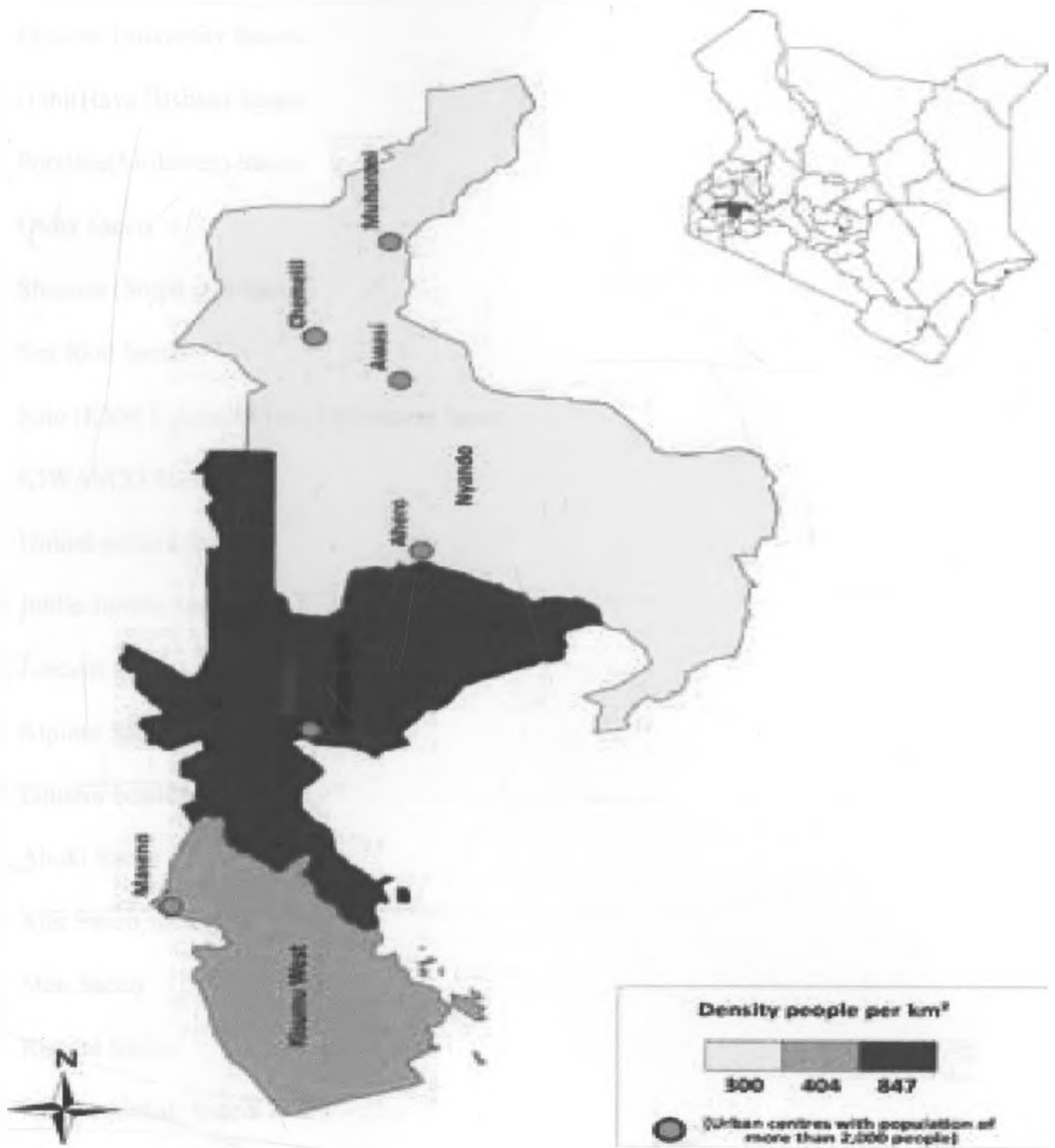
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APPENDIX 1: MAP OF KISUMU COUNTY.

Source: Commission on revenue allocation – Kenya county fact sheet



APPENDIX 2: LIST OF SACCOS IN KISUMU COUNTY – Source

KUSCCO Nyanza regional office

1. Maseno University Sacco
2. Habi(Haya Bishan) Sacco
3. Portable(Molasses) Sacco
4. Otota Sacco
5. Shasosa (Sojpa co.) Sacco
6. Sea food Sacco
7. Kito (KSM I, Airport Taxi Operators) Sacco
8. KIWASCO Sacco
9. United millers Sacco
10. Jubile Jumbo Sacco
11. Joncum Sacco
12. Kipinte Sacco
13. Equator bottlers Sacco
14. Ahoki Sacco
15. Kite Sacco society ltd
16. Mek Sacco
17. Kimute Sacco
18. Kibuye juakali Sacco
19. KMet Sacco
20. Tunza (Care Kenya) Sacco
21. Kencent(Nyanza club) Sacco
22. Kipwo(Kisumu poly) Sacco
23. Umoja fish mongers Sacco

24. Obunga dry fish Sacco
25. Fei(Farm engineering) Sacco
26. Labda (Lake basin development authority) Sacco
27. Fanaco(Fanana) Sacco
28. Kibos sugar Sacco
29. Victoria boda boda Sacco
30. Mlimani hospital Sacco
31. Dunga fish mongers Sacco
32. Indicose Sacco
33. Sunep(Sunset) Sacco
34. Rainbow Sacco
35. Lareco Sacco
36. Ahero town council Sacco
37. Chemelil Sacco
38. Kisumu Nyando Rural Sacco
39. Agrochem Sacco
40. Mutco(Muhoroni town council) Sacco
41. Child development workers Sacco
42. Kiseo(Kisumu seme boda boda) Sacco
43. Nyando Sacco
44. Koru Sacco
45. Nyando Sacco

APPENDIX 3: QUESTIONNAIRE.

The question is designed to address the impact of Saccos in poverty alleviation in Kisumu County.

1. Members

General information:

- a. Age of the member.....
- b. Education level: Primary High school Middle level College University
- c. Approximated income per month.....
- d. Approximated expenditure per day.....
- e. Occupation (e.g. Farmer, teacher, trader, Accountant).....
- f. Gender: Male Female

Impact of Sacco on the members:

- a. Services provided by your Sacco.....
- b. State type of loans You get from Sacco: e.g. fee/business/medical/land/funeral.....
.....
- c. Can you say that the Sacco has improved you from poor/worse state to a better state:
Yes No
- d. If yes, state how the Sacco has improved your status.....
- e. What situations has the Sacco solved your problems.....
.....
- f. In general, do you consider that the Sacco has helped members to alleviate poverty:
Yes No

g. Briefly explain how the Sacco alleviate members poverty.....
.....
.....

2. Kussco

- a. How many Saccos members are in Kisumu County?
- b. Are your Sacco members affected by poverty: Yes No
- c. If yes, briefly explain.....
- d. Explain the impact Saccos in Kisumu county have on poverty alleviation.....
.....
- e. What role does Kussco play in addressing the issue of poverty among the Sacco members in Kisumu County?
.....
.....

3. Ministry of co-operatives

- a. How many Saccos members are in Kisumu County?
- b. Does the issue of poverty affect the Sacco members in Kisumu County? Yes No
- c. If yes, state how.....
- d. What impacts do the Saccos in Kisumu County have in alleviating poverty among members?
1.....
2.....
3.....
- e. According to you, has the Saccos, improved or worsened the lives of poor members.

Yes No (Tick appropriately)

f. If improved state how

g. If worsened, state how