FACTORS INFLUENCING UPTAKE OF LOANS IN GROUP SAVING AND LOANING SCHEME: A CASE OF BANKING ON CHANGE PROJECT IN MBEERE NORTH SUB COUNTY, EMBU COUNTY, KENYA

BY

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DECLARATION

I declare that this research project is my original work and has not been submitted for the award of a degree or certification in any other institution.

Signature…………………………………………Date …………………………………………..

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L50/69263/2011

The research has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this work to my mother Esther, my dear wife Catherine and our wonderful playful children Roy Mbogo and Esther Wanjiru.

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TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

BOC	Banking on Change
CBT	Community Based Trainers
FBO	Faith Based Organization
FSD	Financial Sector Deepening
GS&L	Group Savings and Loaning
KII	Key Informant Interview
KWFT	Kenya Women's Finance Trust
MER	Monitoring Evaluations and Research
MFI	Micro Finance Institutions
NFEC	National Financial Educators Council
ROSCA	Rotating Savings and Credit Association
USA	United States of America
VSL	Village Saving and Loan

ABSTRACT

Groups Savings and Loaning is a concept that is aimed at helping the poor rural communities and other marginalized people to access financial services. It is community led microfinance where communities organize themselves in groups, which may not necessarily be required to register with social services, but to enable them to come together and mobilize their own resources and walk out of economic hurdles. The purpose of this study was to examine the factors that affect the loans uptake in groups saving and loaning scheme of Mbeere North Sub County in Embu County. The study focused on management and governance structures of the groups, group's linkages to external financial institutions and the group member's financial literacy levels. The objectives of the study were to determine how group leadership contributes to loans uptake in group saving and loaning scheme, to investigate the influence of group linkage to formal financial institutions and the uptake and utilization of loans in groups saving and loaning scheme and to establish the extent to which literacy levels affect the loan uptake in group saving and loaning scheme. All the groups that were in the cluster were targeted where 15 group leaders were interviewed. Data was collected using a questionnaire that was administered to the respondents. Quantitative data was cleaned and keyed into a database ready for analysis. Descriptive analysis was done using SPSS analysis package where means, frequencies and regression analysis was performed. The respondents were 40% male and 60% female. All the groups were reported to have a functional constitution where group rules are stipulated. This is a key management and leadership tool in the groups. Different groups adopted different record keeping styles but the survey revealed that they were satisfactory according to the supervising patron. On linkage to other financial institutions 53.3% of the groups reported to seek other formal financial services from formal financial institutions like banks and micro finance institutions. In addition, 86.7% of the groups also reported to be aware of the customer friendly bank accounts offered by Barclays bank and equity banks. 93.3% of the respondents who participated in the survey were of the opinion that the interest rates offered by the groups are friendlier than those offered by formal banks. On group's literacy on financial management, 66.7% reported that their groups had received technical trainings from their patrons. The results revealed that interests rates, fear of repayment and groups not having enough money to satisfy members' requests had significant effects on loan uptake by group members. Group rules and collateral did not show statistical significance difference in affecting uptake of loans by members in savings groups.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Globally, it is estimated that 2.7 billion people are financially excluded. Today, many governments are realizing that access to financial services plays a pivotal role in the alleviation of poverty as well as reducing the vulnerability levels of the marginalized poor. According to Klapper (2012), it is outlined that in most developing countries, more than two-thirds of the adult population has no access to formal financial services, and in sub-Saharan Africa, financial exclusion is as high as 76 per cent. Exclusion is typically highest amongst women, youth and the very poorest segments of society.

However, financial exclusion has led to the development of resourceful indigenous community-based solutions including savings groups. By saving small amounts, groups gradually begin to save, and subsequently access loans from their own capital. Indeed there is something of a savings-led revolution now taking place across the world, with seven million savings group members (Allen, 2009). These groups promote savings rather than debt which can smoothen their irregular income patterns and enable them to meet their daily household requirements. In addition to this, the groups goes ahead and receive business skills from the expertise they work with to equip them with the requisite skills and knowledge on how to select, plan and manage small businesses. These businesses are financed by the funds borrowed from within the savings group and refunded later after an agreed period of time with an agreed amount of interest, thereby increasing the financial base of the group's savings. (Adams &Ladman, 1979)

As group savings accumulate over time, the security of the money can become a challenge and the need for the safety of a formal financial institution becomes stronger. Savings therefore offer a stable springboard from which to begin the path to formal financial inclusion.(Massu, 2012).Kenya is one of the countries where access to credit is minimal. Individuals and small enterprises rely on their personal wealth and resources to grow, address their household requirements as well as grow their enterprises. Institutions that offer credit facilities in Kenya, for instance Kenya Womens Finance Trust (KWFT), Faulu Kenya and other small MFIs have not reached poor communities at the grassroots. In addition, the cost involved and access to the resources also acts as a hindrance as the interest charged is unaffordable. This could be as a result of a number of reasons: first, the rural poor lack awareness and knowledge to understand what services that are offered by these institutions. They have a negative perception on "loan" where it is attached to collateral and reclaim when one is unable to pay or defaults. Secondly, the financial institutions offering credit services may find it unprofitable serving the small credit needs where transaction volumes are low due to their low income. (Brett, 2010). In addition, the institutions are in most cases geographically inaccessible to the majority poor as the institutions are mostly located in the more developed urban centres. This makes it difficult for the rural poor to travel to these areas to access the services. It is also notable that where the services are available, the financial institutions attached high value collateral to the credit. The rural poor also are not able to demonstrate or support the credit borrowed against their future incomes which are hard to predict and track. (Besley & Coate, 1995).

Banking on Change is a grant project being implemented by CARE International in partnership with PLAN International and Barclays Bank. The projects aim is to develop access to basic financial services. It brings together the independent interests and expertise of each partner to improve the quality of life for poor people by extending and developing access to basic financial services. Banking on Change projects operate in Egypt, Ghana, India, Indonesia, Kenya, Mozambique, Peru, Tanzania, Uganda, Vietnam and Zambia. (Massu, 2012)

The project is implemented on CARE's and PLAN's primary effort to expanding access to services to mobilize savings rather than credit. They believe in facilitating the poor people by building their financial assets and skills through savings, rather than debt. This facilitates the groups from financial exclusion to an informal financial inclusion. (Massu, 2012)

Group savings and loan methodology is employed on trust, transparency and utmost respect among the members. Members gather together as a group where they are able to sensitize and self-select. They are guided by a constitution which underpins all the rules and regulations to govern the group. The members do elect office representatives who include the chairperson, the treasurer, the secretary and two money counters. During meeting dates, the group members come together and contribute their savings and thereafter the funds raised are loaned out to the same members to be refunded after an agreed amount of time, usually after one month at an agreed interest chargeable, usually 10 per cent. (Allen, 2012).

Access to financial services has increasingly been receiving greater emphasis over the recent years, becoming a focal part of the overall development agenda. One reason is that modern development theory sees the lack of access to finance as a critical mechanism for generating persistent income inequality, as well as slower growth. Another is the observation that small enterprises and poor households face much greater obstacles in their ability to access finance all around the world, but particularly in developing countries. There are many different reasons why the poor do not have access to finance –loans, savings accounts, insurance services. Social and physical distance from the formal financial system may matter. The poor may not have anybody in their social network who knows the various services that are available to them. Lack of education may make it difficult for them to overcome problems with filling out loan applications, and the small number of transactions they are likely to undertake may make the loan officers think it is not worthwhile to help them. As financial institutions are likely to be in richer neighborhoods, physical distance may also matter, banks simply may not be near the poor. Specifically for access to credit services, there are two important problems. First, the poor have no collateral, and cannot borrow against their future income because they tend not to have steady jobs or income streams to enable them repay their loans. Second, dealing with small transactions is costly for the financial institutions.

1.2 Statement of the problem

Recognizing the increasing marginalization of poor communities with respect to access to formal credit and the constraints that smallholder farmers are facing in accessing the required capital for farming technologies adoption, various policy options are adopted and implemented with the aim of filling the financial gap created by the liberalization of the financial sector. The government has been taking deliberate efforts to encourage the existing commercial banks to open up micro-finance windows to serve the poor. This has been done by establishing credit guarantee schemes and by relaxing bank lending conditions. In addition, the government has been creating a favorable policy and legislative environment to encourage the establishment of Micro-finance Institutions (MFIs) and to mobilize members of communities to establish Savings and Credit Cooperatives (SACCOS). Under- standing the extent at which communities have accessed formal credit markets and factors which influence them to be credit constrained, is therefore relevant and is an important step towards improving access to credit for the majority of the population. Similarly, understanding the inter linkages between access to credit and the kinds of investments that are carried out by the loanees to better their lives and their relation to uptake of the services from the providers. Thus this study is an attempt to fill the lack of knowledge and help policy makers and rural development planners in making informed decisions to improve rural development and achieve the country poverty reduction targets.

1.3 Purpose of the study

The purpose of this study is to examine the factors that influence loans uptake and utilization in the group saving associations in Mbeere North Sub County.

1.4 Objectives of the study

The objectives that guided this study are:

i. To determine the influence of group leadership on loans uptake in group saving and loaning scheme in Mbeere sub county

ii. To examine the influence of group linkage to formal financial institutions and the uptake of loans in group saving and loaning scheme in Mbeere sub county

iii. To establish the extent to which groups financial literacy levels influence the overall uptake of loans in group saving and loaning scheme in Mbeere sub county

1.5 Research questions

iv. How does group leadership influence the loans uptake in group saving and loaning scheme in Mbeere Sub County?

v. How does groups' linkage to formal financial institutions influence loans uptake in group saving and loaning scheme in Mbeere Sub County?

vi. To what extent do financial literacy levels influence uptake of loans by members in group saving and loaning scheme in Mbeere Sub County?

1.7 Significance of the Study.

The findings of this study are helpful to the implementing organization of the Banking on Change Project, CARE international to inform them on what factors affect the success or failure in the GS&L groups in the area of loans management (uptake and utilization). Out of these findings, the management is in a position to make informed decisions on how to facilitate the groups and their patrons for an improved groups management and areas of strengths and their weak points. The findings are important in helping management to make informed decisions on how to facilitate the groups and their patrons for an improved performance and even in future programming and resource allocation.

1.8 Delimitations of the study

This study was conducted on BOC Eastern cluster where the researcher sampled groups under each model for interviewing. The choice of this region was due to its relative proximity to the researcher as compared to the Nyanza region. This made the study less expensive and tedious. In addition, the study did not focus on the groups that are less than 1 year old as they were still in the formation stage.

1.9 Limitations of the study

The researcher anticipated to experience difficulties in finding respondents available as the study coincided with season for land preparation for farming. The researcher ensured that prior mobilization was sought with the group members to ensure availability without interfering with their daily working schedules. In addition, the respondents feared to disclose their personal details for fear of disclosure. The researcher assured the respondents about confidentiality of the information collected and was to be used for the study purposes only.

1.10 Assumptions in the study

In this research, the researcher assumed that the respondents were to share the information sought freely without seeking sitting allowances. In addition, it was also assumed that the findings from the selected sample were representative for generalization.

1.11 Definitions of Significant Terms.

Financial Literacy

Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources.

Group leadership

Group leadership refers to a group’s management and governance structure. The presence and adherence of instruments of leadership for instance the group’s constitution, mission and vision, regular meetings and good record keeping.

Group's linkage

Group's linkage refers to the facilitation of groups to open bank accounts which are friendly to them. i.e. bank accounts which do not attract charges. The implementing organization enters into a memorandum with the bank to ensure that groups who have grown financially saves in these accounts. They are usually group accounts but not for individuals.

Loans uptake

Loans uptake refers to the level at which group members are able to access, qualify, manage and utilize the loans so as the members are not in a difficulty to repay the loans. An unhealthy uptake can result to too much fund in the cash box or few members taking too much money by themselves.

1.12 Organization of the study

Chapter One represents the background of the study, statement of the problem, research questions, objectives of the study, significance of the study, and limitation of the study, scope of the study, delimitation of the study, definition of the significant terms as used in the study and organization of the study.

Chapter Two reviews literature related to factors that influence uptake and utilization of loans in small community groups, interest rates charged on loans, availability of fund in the from savings, group rules on lending, records management and collateral to secure loans. The chapter also represents the study conceptual framework and summary of literature reviewed.

Chapter Three discusses studies on research methodology which included; research design, target population, sampling procedures, Data collection procedures, Data collection instruments, reliability and validity of instruments, pilot- testing, data analysis and table of operationalization of variables

Chapter Four gave a detailed analysis, interpretation and discussion of study findings.

Chapter Five gave a review of the whole study, summary of research findings, discussions, conclusion and recommendations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter introduces the concept of micro credit and reviews the growth of micro finance and community's access to credit. It covered the concept of micro credit, group's leadership, group's financial literacy, group's linkages to formal financial institutions and the roles of each delivery channel in the success of the groups.

2.2 The concept of Micro credit

The Village Savings and Loan (VSL) model is a self-managed and self-capitalized microfinance methodology. By having its members mobilize and intermediate local pools of investment finance, it offers savings, insurance and credit services in markets outside the reach of formal institutions. According to Kiriri and Munguti (2007), VSLAs have altered the development equation in marginalized communities' worldwide, providing members with the means to cope with emergencies, build capital and re-create social dynamics that support genuine self-reliance.

The concept of micro credit has its roots from the Grameen Bank which has in the recent decades reversed the conventional banking requirements by removing collateral required to secure credit from a formal institution creating a more community managed banking system which is based on mutual trust, self-supervision, accountability, participation and creativity. Grameen Bank has emphasized that credit is the entry point and it serves as a catalyst in the overall development process. Credit is as an empowering agent, an enabling element in the development of socio-economic conditions of the poor who have been kept outside the banking orbit on the simple ground that they are poor and hence not bankable.

(http://www.unesco.org/education/poverty/grameen.shtml).

Micro-finance refers to the activity of provision of financial services to clients who are excluded from the traditional financial system on account of their lower economic status. (Kiriri and Munguti, 2007). The lack of financial assistance from formal financial institutions has made the small businesses, most of the times, turn to the informal sector for support, which is regarded as a veritable source of credit for production and consumption purposes. As Scott (2007) observe, there are a significant number of businesses, and a far higher proportion amongst young people, who would be unable to start a business without loan finance from a MFI, so it would appear that MFIs are indeed filling a gap.

The founder and managing director of Grameen Bank, Professor Muhammad Yunus, reasoned that if financial resources can be made accessible to the poor people through terms and conditions which are reasonable and acceptable, then millions of economically disempowered people with their millions of small pursuits can add up to create the biggest development wonder. His conviction had its root in the traditional bank's structure which has been designed in a way that was never facilitative of the poor who constitute the largest segment of the society and their contribution in the economy is usually assumed to be minimal against the reality that their small monies plays the biggest part in the economic

arithmetic.(http://www.unesco.org/education/poverty/grameen.shtml).

Phil. (2007) views credit as a powerful weapon to fight poverty. He asserts that the more credit one can receive, the more resources he can command, and the more powerful he is. Financial access at the household level has a positive impact on the management of the home economics and especially with women. The collateral based conventional format denies the right to credit for the poor people and especially women, which in turn dispossess them in their fight against the economic and other related odds around them. (Hendricks, 2011).In the Kenyan context, as pointed out by National Poverty Eradication Plan (1999-2015), this is aggravated more by the fact that majority of women do not own property thus denying them opportunity to secure credit. The Grameen approach emphasizes on the creation of an enabling environment and conditions in which every human being may have the opportunity to carve out dignified ways of living. Grameen Bank views loans as means to gain command over resources. (Feiner, 2006).

According to a research conducted on the group savings and loan methodology, it revealed that globally, 20 per cent of unbanked people have identified distance as a key barrier to financial inclusion, and this rises to 31 per cent in sub-Saharan Africa. (Klapper and Demirguc-Kunt,2012). Formal financial institutions find it not profitable in reaching for the marginalized poor, probably because of the minimal capital at the grassroots. Due to the minimal access to micro credit, communities find it difficult to cope with challenges requiring financial interventions at the grassroots, especially at the household level.

Kenya as a government has over the years put in place various policies and resources to the fight against poverty. In a Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya, the government recognized poverty together with disease and illiteracy as the major constraints to human development (Government of Kenya, 1965). Consequent to this, various development plans, Poverty Reduction Strategy Paper (PRSP) (2000-2003), Participatory Poverty Assessment Reports (1999) and National Poverty Eradication Plan (1999-2015) have spelt out the strategies to fight poverty. The adoption of the millennium declaration and the millennium development goals by the United Nations Assembly in September 2000 was a laudable initiative by the international community to fight poverty, accelerate human development, and facilitate the gradual, but more effective integration of the developing world, especially Africa, into the global economy. In Kenya, as at 2003, 56 per cent of the population was still living below the poverty line with a projection that at the current trend, 65.9 per cent of the Kenyan population would be living below the poverty line by 2015. (UNICEF, 2006).

In Kenya's development pattern, the marginalized poor have been seen to benefit from a model employed by equity bank to reach for the unbanked, defying the odds of banking. Equity bank ensured that stringent formal requirements in owning a bank account, accessing loans with collateral were scrapped off giving an opportunity for those without collateral and referees to access the services. It has been so far strengthened by the entrant of the mobile technology in money transfer, mobile banking and grassroots agents. Looking at the financial institutions penetration in any market, of course the institution has to ensure that in the long run, the institution has to register remarkable gains. First, in the rural communities, there is the issue of lack of collateral to secure credit coupled with the misconception that there is still little to be offered by the customers, probably because of their class, economic viability and fear of default.(Connecting the World's Poorest People to the Global Economy, 2013).

2.3 Group's Leadership and the uptake of loans by group members

According to Massu *et al*, (2012), Village Savings and Loan Association (VSLA) was pioneered by CARE in 1991, and has proven to be one of the world's most effective informal savings methods. VSLAs flexibility to save in small amounts, access small loans for small investment and build a social fund to strengthen their resilience to external shocks such as illness or drought makes the methodology more acceptable in areas with members who have low and inconsistent incomes (VSLA Programme guide 1, Hugh Allen 2006). Participation in a VSLA boosts members' average incomes and household assets, and also brings non-economic benefits such as increased self-esteem, particularly for the approximately 70% of participants who are women. However, the management of the group's affairs contributes to a greater percentage on the strength of the group and its performance. (Lauren& Hendricks, 2011).

Leadership and governance of the groups plays a critical role as well as the leadership style that is be employed. In some instances, it is vital to train the leaders in different leadership functions to keep the groups live. The composition of the group management in case of a heterogeneous group is key to avoid dominance by one gender, especially men. In case of a homogeneous group, the literacy levels of the leaders is vital and ability to keep records of the group. From an impact study conducted by FSD Kenya(2010)it revealed that today, CARE's VSLAs reach an estimated 3.1 million people in 26 African countries, with approximately 3 million more participating in VSLAs supported by other development organizations globally. The Banking on Change project is implemented on the pillar of savings-led community finance. The basic principles of the methodology enable individuals in a community to join together in self-governing groups to save regularly and access small loans from a group fund. The project is unique both in its pioneering cross-sectoral partnership model and in its focus on improving community finance methodology and innovation to drive scalability, sustainability and cost effectiveness. This project uniquely employs the partnership model as compared to the normal common donor – delivery partner relationship (Okeyo, 2013).

The composition of the leadership structure has to be agreed upon. Members appraise their leaders and vet them to ensure that they get the best leaders. A management committee is constituted through elections and the following office bearers are elected. 1 Chairperson, 1 record-keeper, 1 box-keeper, 2 money counters and 3 key holders (one for each of the three keys used to lock the box) (IRC, 2012). A management committee is a team of people responsible for ensuring the proper functioning of the group. The management committee enforces the rules established by the members and takes responsibility for running meetings and representing the group to outsiders.

It is always advised that even in heterogeneous groups, that at least four members of the management committee should be female, and suggest that at least one female occupy the post of chairperson, record-keeper or box keeper rather than simply the money counter or key holder positions (IRC, 2012).

2.4 Group's linkage and the uptake of loans by group members

In Asia and South America, slightly different approaches have been implemented, for example linking with Microfinance Institutions. The partnership works towards building community's asset base in savings and as groups mature and become operationally self-dependent, they are linked to formal financial institutions with tailor made products that are facilitative to the growth of the groups rather than inhibitive. This is usually in accordance with the partnership agreements that each partner plays their distinctive roles, and in this case the Barclays bank offers group friendly services to facilitate the groups transact effectively and efficiently. (BOC Strategy Summary, 2011).

According to an internal report by CARE, (*Connecting the World's Poorest People to the Global Economy,* 2013), two pilot tests have been carried out in Kenya and Uganda, and are part of Banking on Change partnership in eleven-countries. The pilots were aimed at improving access to financial services for around 400,000 people in Kenya and Uganda. The ultimate objective was to link these people to more friendly formal banking services offered by Barclays in liaison with the partner organizations, Plan International and CARE International. CARE Uganda and CARE Kenya offices, which had been supporting savings groups since 1998 and 2004 respectively, were keen to take part, as many of their groups had expressed interest in accessing formal financial services. For Barclays, which had 111 branches in Kenya and 50 in Uganda, it was an opportunity to understand the financial needs of poor communities, a market it had yet to penetrate. A modest target was set of linking 210 groups in Uganda and 200 in Kenya.(Massu, 2013).

In designing Banking on Change project, CARE and Barclays were informed by some of the early lessons that had emerged from savings groups which had already sought out financial services on their own initiative. Often groups hadn't had any training in using financial services, bank staff didn't know how to work with this new type of customer whose needs were unlike those of other clients, and some groups had been left with unmanageable debt and a suspicion of banks. CARE and Barclays took a number of steps to avoid such a scenario. Suitable groups were identified using CARE's Linkage Readiness Assessment Tool, as well as by their proximity to bank branches. Banking staff were briefed on working with groups, and members were given training on using financial services and on the Barclays product. Banking on Change project has been designed on the premise of providing community's savings, insurance (welfare/social fund) and micro credit. (CARE Internal report 2013). By mobilizing their own savings and lending, the interests gained from these activities are shared out at the end of the agreed cycle. Massu (2013) argues that microloans increase community's ability to cope with risk, strengthen community ties, and increase access to informal credit as these institutions are community managed.

According to the virtual library on microcredit, character refers to how a person has handled past debt obligations. From the credit history and personal background, honesty and reliability of the borrower to pay credit debts is determined. Secondly, capacity refers to how much debt a borrower can comfortably handle. Income streams are analyzed and any legal obligations looked into, which could interfere in repayment. Finally, capital refers to current available assets of the borrower, such as real estate, savings or investment that could be used to repay debt if income should be unavailable. The 3 Cs of microcredit (i.e. character, capacity and capital) are seen to be the key determinants of the access or penetration of formal institutions to the grassroots. It can be argued that if any of the three shows negative feedback, then the institutions may have reservations in making entry to a particular market. This has probably been the reason why we have a bigger percentage of the unbanked poor populations especially in the sub Saharan Africa. On the other hand, where there is relative ease in access to clients, mainly in more established communities, these institutions provide a varied variety of products to win the market base.(Hari Srinivas, Virtual library on micro credit).

2.5 Groups Financial Literacy and the uptake of loans by group members

Financial literacy refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. The National Financial Educators Council (NFEC) also defines financial literacy as possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals. The financial isolation of poor people often results in their lack of financial understanding, which in turn leads them to further distance themselves from formal financial institutions. A study of how VSLAs could link to financial institutions in Kenya found that, although banks had some products which were suitable for the needs of poor people, the same people had either no knowledge, or an incorrect understanding, of those products and hence were reluctant to use them. (M2i Consulting, 2011).Evidence also shows that poor financial literacy represents a significant barrier to accessing and properly using formal financial services. Poor financial literacy limits people's capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being. (Mackay Aomu, 2012). According to Candace(2012), Group members do not budget or plan ahead with any regularity. They don't anticipate their income or how they spend it; they don't save outside of the SG, and relatively few plan ahead for the lump sum of money they receive at share-out. It should be noted, however, that we draw these conclusions in part from the opposite experience that a few 'positive deviants' described and with which few others could resonate.

Using VSLA methodology as a first step helps to address the barrier of inadequate financial understanding, because after joining the group people are systematically trained over a period of one year. Through the training, group members are quickly able to manage transactions, make decisions on who in the group should take out the next loan, and determine interest rates and a repayment schedule. This financial education helps poor people understand the importance and basic mechanics of finance. It helps VSLAs evolve into small, informal fund management institutions wherein people are able to raise funds in the form of savings, take decisions on the effective deployment of funds across members, ensure timely recovery and share the dividends at the end of the savings cycle. Much of this training is delivered by so-called Village Agents, who are often members of the local community, and are paid on a fee-for-service basis – thereby creating incomes and jobs. (FSD Updates, Issue 07, 2012)

With greater knowledge people are less likely to fall victim to unscrupulous moneylenders, or financial service providers who might be offering inappropriate products, with no transparency and high interest rates. Increased financial education is also in the interests of banks and other providers, as people who are financially educated are more likely to use formal financial services. The groups who are part of the Banking on Change linkage pilots in Uganda, Ghana, Kenya and Tanzania, and who have been linked to Barclays branches, all receive additional training in the role of banks and the types of products they offer before deciding whether to bank at Barclays. Those who choose to open a savings account at Barclays receive a further training on the process and procedures. (Massu *et al*, 2012).

Scaling up financial literacy to reach the 2.7billion people who are financially excluded remains a huge challenge. There is an urgent need to invest in expanding access to financial education for poor people, especially women. But there still lies a challenge on who invests in this financial education as well as who to enable the next generation to gain skills that allow them to access financial services and in turn invest in their businesses and support their family's development. Few countries have so far adopted financial education in their curriculums (Massu, 2013). Building financial education into the school curriculum, or running awareness campaigns for young people, can increase understanding and inculcate financial habits from an early age. Mass awareness campaigns on financial education in a focused way, followed by training by banks and other stakeholders, show a demonstrable impact. With regard to consumer protection of poor customers, some initiatives are emerging, including for example the global Smart Campaign. This aims to improve the protection of customers using MFIs, by certifying those institutions that endorse and apply certain principles. However, far broader and deeper financial education and protection will be necessary for poor customers in future (Candace, 2012).

Borrowing from Grameen Bank, Banking on Change, using the village savings and loans methodology enhances group's skills in generating an income and create self-employment without having to be constrained by the limitations of wage employment. It has been shown that their individual self-selection and group economic activities increase the sense of participation and strengthens the base of self-help (Kabir, 1997).

The immediate task is to ensure that they succeed in finally overcoming their poverty and attain further development in a sustainable way. Grameen's method of operation has clearly demonstrated that poverty can be alleviated within a short time and new opportunities created for self employment, higher incomes, improved housing, better health and nutrition, children's schooling, and altogether a better quality of life. (Huppi, 1990).A substantial number of Grameen's clientele, according to some evaluations, have already succeeded in overcoming absolute poverty.

Grameen Bank has exhibited an exponential growth of members accessing credit over a period of 10 years, with over 2 million women and less than 0.5 million men and supports the analogy that improvement in household economic growth starts with women. (Kabir, 1997). In other studies, men have been seen to take a back seat in embracing the methodology, although they play a significant role in supporting their wives to make contributions to the women's groups. This could be by way of complementing their small savings by top up or by giving them time to attend meetings. The figures above illustrates an exponential growth of members accessing credit through the Grameen Bank over a period of 10 years and supports the analogy that improvement in household economic growth starts with women. (Siringi, 2011).

2.6 Theoretical Review

1 . Theory of Joint-Liability Contracts

The term joint liability can be interpreted in several ways. It can be explicit, for instance when people come together to pool resources or seek funds to address an economic issue that affect all of them, they share he risk and are thus said to be in joint liability. When one borrower cannot repay hi/her loan, group members are contractually required to repay in the defaulters stead. Typically, if one of the members defaults a payment, it therefore means that other members in the same group will be labelled as defaulters and also risk not to access the benefits thereof. If the group had placed collateral against the loan, then the collateral is confiscated in lieu of the balance. Secondly, the perception of joint liability can be implicit. That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. One form in which this can happen is if the microfinance organization itself chooses to fold its operations when faced with delinquency (Fischer & Ghatak, 2010)

Ghatak and Guinnane (1999) review the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit-constrained borrowers. These all have, in common, the idea that joint liability can help alleviate the major problems facing lenders — screening, monitoring, auditing, and enforcement — by utilizing the local information and social capital that exist among borrowers (Ghatak & Guinnane, 1999). In particular, joint liability can do better than conventional banks for two reasons. First, members of a close-knit community may have more information about one another (that is, each other's types, actions, and states) than outsiders. Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbors may be able to impose powerful non-financial sanctions at low cost. An institution that gives poor people the proper incentives to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank(Fischer & Ghatak, 2010).

The behavioral factors motivating frequent repayment for loans can also create demand for commitment savings products, ranging from ROSCAs to formal financial products with time or amount targets. For a time, the excitement surrounding micro lending seemed to crowd out interest in savings behavior, but interest has flooded back. The policy literature now broadly recognizes the importance of savings outlets for poor households (e.g., Collins et al., 2009; and CGAP, 2002), and academic research has begun to unpack the many constraints households face when attempting to save. There is a general sense that such problems are particularly salient for poor individuals; more and more, we see the tools of behavioral economics applied to specific questions concerning microfinance and informal credit markets. Basu (2008), for example, looks directly at the effect of time-inconsistent preferences on the demand for commitment savings products and their welfare implications.

2.7 Conceptual Framework

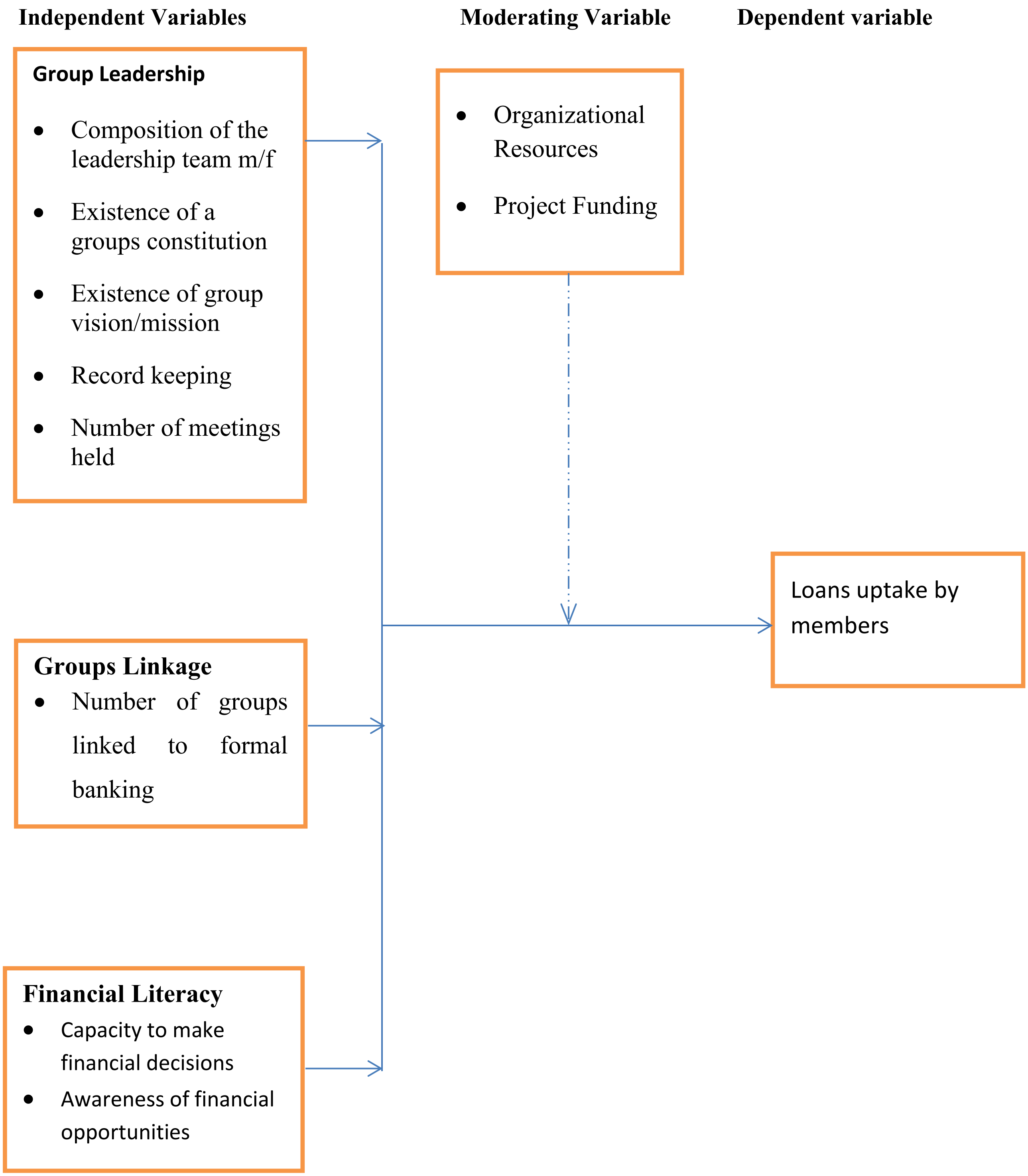

Figure 1: Conceptual Framework

The success of GS&LAs is determined by different factors. From inception, the group management plays a key role in the sustenance of the group operations as the leaders has the responsibility of ensuring that the groups vision and mission are achieved. Depending on the supervising authority, the different delivery channels have different roles in the awareness creation, mobilization of community members, recruitment, training and monitoring of the groups. The success of each supervising partner is also dependent on the organizational support and the resource allocation to those activities. The implementing organization of the BOC project together with other partners supports the trainers and technical personnel with stipends in order to carry out their activities. In addition, the implementing organization (CARE) has to offer technical support to the supervisors to enable them smooth implementation of their different activities as well as ensuring there is sufficient funding for the activities. Loans uptake therefore will be determined by the financial literacy of members and their ability to utilize the funds in a productive manner to be able to repay. Other factors are the access to other financial institutions to offer other financial services at affordable rates to the groups.

2.8 Research Gap

The three delivery channels employed under BOC project has over time of the projects implementation exhibited varied performances ranging from group organization, its leadership structures, mobilizing savings, loans utilization and overall self reliance and sustainability. Various research works carried out has only focused on the savings mobilized and number of direct and indirect beneficiaries. The quality and performance of the groups can be affected by a number of factors. The sole mandate of communities coming together is to pool resources together so that they can have the financial muscle to drive their economic needs. The challenge is not many poor people have access to formal financial services and where they are available; they are expensive for them, thus the need for homegrown solutions to their local problems. More often than not, the groups are formed with a common goal for her members. Several internal and external factors come into play and usually they do not last to the fullness of their intended duration. The success if saving and loaning group is therefore to aid members to mobilize funds in savings so that they can grow together economically. This way, they are able to loan themselves and multiply the money to increase their economic portfolio. It is imperative then that if saving and lending are affected in one way or another, then the groups life is at risk. This research sought to focus on the quality of the groups especially on the loans uptake and utilization behaviors by group members. Loans uptake is a sign of positive growth as money is lent and repaid at an agreed upon interest rate. However, how money is used also determines whether money will be repaid back or members will default.

2.9 Summary of Literature Review

This chapter has reviewed literature on GS&L group's leadership, the influence of the different delivery channels, group's linkages to formal financial institutions and the financial literacy of the groups in the overall uptake and utilization of loans by group members in the groups. The importance of literature review is to identify knowledge gaps on what the researcher intends to do against what has already been documented. Different authors have discussed in depth the importance of community led micro finances and how they play a significant role in tackling poverty at the grassroots. However, none of the researchers have concentrated on the quality and performance of the methodology. Of utmost importance in this study is the uptake and utilization of loans by members in the group. The information in this section has been gotten from the past studies, journals, books organizational periodicals and the internet.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter set out various stages and phases that were to be followed in completing the study. This included research design, target population, sample size and sampling procedures. It also included research instruments, data collections procedures, data analysis techniques. Research methodology involved describing the procedure applied in conducting the study. The aim of research methodology was to produce reliable and valid data free from personal biases and errors.

3.2 Research Design

This study used descriptive design to assess the relationship between the variables that influence loans uptake by members in Groups saving and loan (GS&L) groups implemented under BOC project. According to Chandran (2004), research design is the arrangement and analysis of data in a way that combines their relationship with the purposes of the research to the economy of procedures. It is the means to achieve the research objectives through empirical evidence.

3.3 Target Population

The target population in this study was 15 GS&L group members operating in the Banking on Change project in Mbeere North Sub County in Embu County. The group members selected from the 16 groups operating in the area. One group was found to be less than 1 year since formation and thus was excluded in the study. Out of the total groups, 7 of them are supervised by franchisees, 3 are supervised by direct CBTs and 6 are supervised by Faith Based Organizations (FBOs). Group members from this region were been selected due to their relative proximity of the researcher compared to other clusters in Nyanza region. The respondents were randomly selected from the group's membership irrespective of their positions in the group.

3.4 Sample Size

The researcher used stratified sampling where he selected groups from the 3 models, i.e. FBO, Direct CBT and the Franchisee. The researcher then randomly selected group leaders from each stratum who participated in the research. A census survey was conducted for all the groups in the cluster. Sampling refers to the selection of a subset of individuals from within a population to yield some knowledge about the whole population, especially for the purposes of making predictions based on statistical inference (Cooper and Schindler, 2003). Sampling was done to reduce costs, faster collection and to ensure homogeneity and representation since the data is smaller and therefore it was possible to improve the accuracy and quality of the data. The researcher divided proportionately the selected respondents in the 3 strata to participate in the research. Simple random sampling was used to select respondents who participated in the research. According to Krejcie & Morgan (1970), a sample of 15 respondents was found to be representative of the whole population.

3.5 Data Collection Methods

The researcher employed both qualitative and quantitative approaches to research to collect views and opinions from the respondents. The study used both open ended and close ended questions in the questionnaire to collect data, which incorporated qualitative and quantitative data. In this survey, the researcher developed data collection instruments to facilitate the research exercise. The questionnaire was pre tested two weeks before its administration to ensure validity and reliability of the data to be collected. According to Kothari (2004), the purpose of pre-testing the data instrument is to ensure that the items in the instrument are stated clearly and have the same meaning to all respondents. It is only during pre-testing that the researcher is able to assess the ease of use of the instrument.

3.6 Validity of Instruments

According to Nachmias and Nachmias (2005), validity is concerned with the question "Am I measuring what I intend to measure." Mugenda and Mugenda (2003), defines validity as the accuracy and meaningfulness of inferences, which are based on research results. Validity indicates the degree to which an instrument measures what it is supposed to measure (Kothari, 2007). He further says that its determination is purely judgmental and can be done using a panel of persons who shall judge how well the instrument meets the standard. In this study, validity was ensured by having the instrument reviewed by the university supervisor whose recommendations were used to review the instrument. The study applied content validity as a measure of the degree to which data was obtained from the research instruments. Simple language was used in the research instrument in order to ensure that the respondents fully understood the content.

3.7 Reliability of the Instruments

Nachmias and Nachmias (2005) define reliability as the extent to which a measuring instrument contains errors that appear inconsistently from observation to observation, during any one measurement attempt or that vary each time a given unit is measured by the same instrument. A measuring instrument is reliable if it provides consistent results (Kothari, 2007). The researcher used the split half method in assessing reliability during piloting of the instrument. In this case, the research instrument was divided into two groups (odd and even) where scores from one group were correlated with scores from another group. This halve reliability estimate was then stepped up to the full test length using the spearman-Brown prediction formula.

Predicted reliability, $\rho^*_{xx'}$, was estimated as:

$$\rho^*_{xx'} = \frac{N\rho_{xx'}}{1 + (N-1)\rho_{xx'}}$$

Where *N* was the number of "tests" combined and $\rho_{xx'}$ was the reliability of the current "test". The formula predicted the reliability of a new test composed by replicating the current test *N* times. A reliability of 1 was deemed reliable.

3.8 Data Analysis and Presentation

Before embarking on data analysis, the responses collected from the field were inspected for completeness, coded, and entered into Statistical Package for Social Sciences (SPSS) for analysis. The qualitative data from was analyzed through qualitative content analysis and mean frequencies and percentages, were employed on the quantitative data to test for relationships between one or more variables to the dependent variable and this was done immediately after the discussions. The results were presented in form of tables, charts, graphs and narratives.

3.9 Piloting of Data Collection Instruments

The questionnaire was pretested two weeks before it was administered to ensure validity and reliability of the data to be collected. The purpose of pre-testing/piloting the data instrument was to ensure that the questions in the instrument were clearly stated and had the same meaning to all respondents. It is only during pre-testing that the researcher is able to assess the ease of use of the instrument. Kothari (2004).

3.10 Ethical Considerations

Mugenda (2003) suggests that protecting the rights and welfare of the participants should be the major ethical obligation of all parties involved in a research study. The researcher took precautions to ensure non disclosure of research data to parties that may use such data for their own purposes. All possible measures were taken to ensure that the respondents' names and particulars are not disclosed. A system of coding the participants' responses was established so that each completed tool was linked to the respondents without using actual names. Participation in research was voluntary and subjects were allowed to withdraw if they wished. This was communicated prior to the start of the study. The researcher obtained consent from participants before the study commenced. The researcher adhered to The National Commission for Science, Technology and Innovation (NACOSTI) regulations on data collection from subjects and adherence of ethics. Once the findings are approved, the research findings will be shared out with the participants through meetings or forums.

3.1.1 Operational Definition of Variables

The following table illustrates the objectives of the study, the dependent and independent variables, indicators, measurement scale and the type of data analysis to be conducted.

Table 3.1: Operational Definition of Variables

Objectives	Variables	Indicators	Measurement Scale	Type of Data Analysis
To determine the influence of group leadership on loans uptake by	**Dependent Variable (Y):** Loans uptake by group members	• Composition of the leadership team m/f • Existence of a groups constitution	Nominal	Descriptive

members	Independent Variable (X): Group leadership	• Existence of group vision/mission • Record keeping		
To examine the influence of group linkage to formal financial institutions and the uptake of loans by the group members	**Dependent Variable (Y):** Loans uptake by group members Independent Variable (X): Group linkage	• Number of groups linked to formal banking	Nominal	Descriptive
To establish the extent to which groups financial literacy levels influence the overall uptake of loans by group members	**Dependent Variable (Y):** Loans uptake by group members Independent Variable (X): Financial Literacy	• Capacity to make financial decisions • Awareness of financial opportunities • Satisfaction of members on services	Nominal Ordinal	Descriptive

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction.

This chapter presents data analysis on the factors that influence the uptake of loans in group's savings and loaning scheme in Mbeere North Sub Cointy, Embu County. Data collected was analyzed using frequencies, percentages, mean standard deviation, correlation and regression. The chapter is organized in different sections in terms of how data was analyzed, data presentation on the findings in different variables tested and interpretation section of the variables.

4.2 Questionnaire Response Rate

The survey targeted to reach 15 respondents from different savings groups. Out of all the 15 questionnaires sent to the respondents, all the 15 received positive feedback, representing 100% response rate.

4.3 Demographics

The table below illustrates the gender representation of the respondent who participated in the survey. The respondents comprised of 60% women and 40% men as shown in the table below

Table 4.2: Respondents by Gender

Gender	Count	Percent
Male	6	40.0
Female	9	60.0
Total	15	100.0

The respondents were drawn from both homogeneous and heterogeneous groups. Response was received from 6 male and 9 female respondents translating to 60% women and 40% men. Where the responses were not clear, the researcher followed up with the respective respondents to ensure that the questionnaires were complete and accurate. The response rate was excellent according to Mugenda and Mugenda (2003) who recommends that for simplification a response rate of 50% is sufficient for scrutiny and exposure, 60% is good and a response rate of 70% and over is excellent.

4.1.3 Number of members at group creation/start up

The respondents were asked how many members their groups had. These were the original members when the groups were created. The following table shows the different groups sizes at point of their creation. The following table illustrates membership of different groups when they were formed as shown in table 4.3 below.

Table 4. 3: Number of members at group start up

Frequency	Percent
10	6.7
17	13.3
20	33.3
23	6.7
25	6.7
28	13.3
30	13.3
31	6.7
Total	100.0

The survey revealed that the average number of members per group was 23 members. The minimum number of members was 10 members whereas the group which had the highest number of members was 31 members. It is recommended that the group consists of between 10 – 30 members and the survey showed that most of the groups adhered to.

4.1.4 Gender composition of management team

The savings groups can either be homogeneous or heterogeneous. The respondents who were interviewed were drawn from heterogeneous groups. It is desired that the management of the groups has both men and women playing different roles. The following table shows the composition of management in the interviewed groups.

Table 4. 4: Composition of management team by gender

	Frequency	Percent
Male	6	40.0
Female	9	60.0
Totals	15	100.0

The management team comprised of 5 elected members for a period of 1 year. From the survey, it was revealed that in all the groups, there is 40% of women elected as leaders as compared to 60% of men taking leadership roles in the groups. Despite having majority of people in the groups being women, there is no translation of the same in the management positions. The groups are however tried to be gender sensitive in their leadership structures but still do not attain the required gender balance of 1:1 or more.

4.1.5 Group has a constitution

The respondents were asked if their groups had a constitution to govern them as a group in transacting business. All the groups were reported to have a constitution governing the groups. The constitution outlines the rules and regulations that govern the group member's behavior, saving frequency, non-compliance to agreements and share outs. The document is a requirement for every group as a guide to instill discipline to the members.

4.1.6 Phase the group is at.

The respondents were asked to report on the stage in which their group is at by the time of the survey. The sampled respondents reported the following of their group's stages of development.

Table 4. 5: Current group Phase

	Frequency	Percent
supervisory	11	73.3
maturity	4	26.7
Total	15	100.0

From the respondents selected to participate in the survey, 73.3% of groups were reported to be at supervisory stage. Only 26.7% of groups had reached maturity stage. Groups who attain maturity stage are able to operate with minimal support from outside and can even fundraise on their own. Groups who are at supervisory stage require regular monitoring and support in terms of constant training and guidance in the operations of the group's activities.

4.1.7 Meeting frequency

The respondents who participated in the survey were asked to report on the frequency of their meetings to transact in their respective groups. The following table represents different meeting frequencies as reported by the respondents.

Table 4. 6: Frequency of meetings

	Frequency	Percent
weekly	6	40.0
bi monthly	1	6.7
monthly	8	53.3
Total	15	100.0

From the survey, majority of groups (53.3%, n=8) reported to hold their meetings once every month. An additional 40% (n=6) of groups reported to have their meetings once a week. Only 6.7% (n=1) of groups reported to meet twice a month. Ideally, monthly meetings are recommended so as to ensure that the group is active. Weekly meetings could be overwhelming to the members bearing in mind that they also have other chores and other livelihood activities to attend to. During monitoring, the supervisors need to monitor attendance rates and if the frequency of meetings significantly affects attendance, then the groups can be advised to change to fortnightly or monthly.

4.1.8 Records keeping

The respondents were asked if their groups keep transactional records. The following are some of the records different groups maintain as records.

Table 4. 7: Management of group's records

	Frequency	Percent
ledger	1	6.7
ledger, passbooks	6	40.0
passbooks	6	40.0
register, ledger, passbook, social fund	1	6.7
register, passbooks	1	6.7
Total	15	100.0

All the groups interviewed reported to keep their groups management records. These records are passbooks, group register, social fund register and ledger book. Over 80% of groups in the survey reported that they keep both ledger books and passbooks. Only 6.7% of the groups keep social fund records as the social fund is not a compulsory contribution in the groups. The groups management of records was satisfactory and commendable as all members loans and savings information could be easily accessed.

4.1.9 Awareness of the customer friendly bank account offered at Barclays or equity bank

The respondents who participated in the survey were asked if group members are aware of the customer friendly bank accounts offered by Barclays and equity bank with low transactional fees to favor groups. The following table illustrates the responses as was reported by the respondents.

Table 4. 8: Awareness levels on customer friendly accounts by Barclays and Equity Banks

	Frequency	Percent
yes	13	86.7
no	2	13.3
Total	15	100.0

From the survey, 86.7% of the groups reported to be aware of the customer friendly bank accounts offered by Barclays bank and equity banks. The remaining 13.3% did not have an idea of the service. Those who were aware of the formal banking services also reported to access other services from these banks. These banks are Cooperative bank, Equity bank and Barclays bank. However, those who reported not to access services from formal banks reported to have sought loan services form Uwezo fund. After maturity stage, groups are usually linked to other financial institutions so that they can mobilize resources on the own.

4.1.10 Group has sought financial assistance from the banks/other financial institution

The respondents were asked if their groups have sought assistance in form of loan or other services from the formal financial institutions. The following were the responses.

Table 4. 9: Group has sought financial assistance from banks/other financial institution

	Frequency	Percent
yes	8	53.3
no	7	46.7
Total	15	100.0

Apart from the credit services offered by the groups, 53.3% of the groups reported to seek other formal financial services form formal financial institutions while 46.7% of them reported not to seek formal financial services. It was encouraging from the results that 86.7% of the groups are aware of other financial institutions and the financial products they offer. This makes linkage easier and successful.

4.1.11 Hindrances to loans uptake

The respondents were asked to report on hindrances that prevent the group members from accessing loans from the groups. The respondents indicated that interest rates were not a hindrance for them to access loans. Only 6.7% of the respondents reported that they felt that interest rates charged were too high for them. The remaining 93.3% of the respondents felt that the interest rates charged were fair for them. Further, the respondents felt that group rules are not a hindrance to them. The respondents reported that the rules help the instill discipline to members and reduce defaulting rates. In addition, respondents reported that collateral is not a hindrance to members taking loans as the members are not required to attach any collateral to the loan. However, all the respondents reported that there is not enough money to satisfy the loans demands for all the members.

4.1.12 Different loans utilizations by the group members

The respondents were asked to mention some of the activities they invested the monies borrowed from the various groups. The following were the leading uses that were mentioned.

Table 4. 10: Different utilizations of loans by members

Uses	Pay school fees		Buy food commodities		Start small business		Pay back an overdue loan		Buy more stock		Buy HH equipment	
	N	%	N	%	N	%	N	%	N	%	N	%
Yes	17	70.8 %	15	62.5%	15	62.5 %	4	16.7 %	9	37.5 %	12	50.0 %
No	7	29.2 %	9	37.5%	9	37.5 %	20	83.3 %	15	62.5 %	12	50.0 %
Total	24	100	24	100	24	100	24	100	24	100	24	100

Most respondents 70.8% reported to have utilized the loans to pay for their children's school fees. Other leading utilizations included buying of food commodities for household consumption and starting small businesses with 62.5% respectively. Members are encouraged to invest the loans taken from the savings groups to ensure that they get a better return on their investment. Some respondents reported to take loans to pay school fees or buy food commodities. This poses a risk for them to repay as the money they borrow is just consumed. The supervision team needs to ensure that they train the group members on business development skills so that they can appraise viable income generating activities to start with the loans.

4.1.13 Influence on how to use the money from the group

The respondents were sked on who makes the decision on how to utilize the monies borrowed from the groups. The following were the responses on who decides how money will be used.

Table 4.11: Who influences how you use the money you lend from the group?

	Frequency	Percent
Self	14	93.3
husband/wife	1	6.7
Total	15	100.0

93.3% of the respondents reported that as the sole members of the groups has an upper hand in deciding on the use of the funds. Only 6.7% of the members reported that their spouses have a say in how the funds are to be utilized. It is encouraging that the money taken from the savings is utilized as per the members' desires. Where other people influence utilization, it risks coercion and money used on the non-prioritized uses.

4.1.14 Roles of the patron/supervisor

The respondents were asked to mention some of the roles of the patrons who supervise them. Patrons and supervisors are tasked with monitoring and supporting the groups up to maturity. They perform different functions as outlined in the table below.

Table 4. 12: Roles of Group Patrons/Supervisors

	Frequency	Percent
training	1	6.7
training, monitoring, supervision	11	73.3
training, supervision	2	13.3
training, supervision, monitoring	1	6.7
Total	15	100.0

The respondents reported that the patrons are tasked with conducting trainings to the groups on different modules, monitoring and supervision.

4.1.15 Level of satisfaction

The respondents were asked to rate their levels of satisfaction with the support they get from their supervisors/patrons and the following were their responses.

Table 4. 13: Members Satisfaction levels on supervision of patrons/Supervisors

	Frequency	Percent
satisfied	14	93.3
dissatisfied	1	6.7
Total	15	100.0

Majority of the respondents 93.3% reported that they are satisfied with their patrons support. Only 6.7% of them reported that they are dissatisfied with the support they receive from their supervisors. The respondents were asked if they prefer one patron over the other in the services they offer. Majority of the respondents 66.7% were inclined to the fact that some patrons offer better services than others. The rest of the respondents reported that they do not agree that some patrons are preferred than others with 13.3% of them strongly disagreeing that services offered by different patrons vary in quality.

4.1.16 Varied performance of different channels

The respondents were asked of their opinion on if there were varied performances of different groups supervised by different patrons**.** The following were the responses.

Table 4. 14: Performance of groups under different supervision

	Frequency	Percent
strongly disagree	1	6.7
Disagree	1	6.7
agree	7	46.7
strongly agree	6	40.0
Total	15	100.0

Majority of the respondents who participated in the survey reported that they agreed that different groups supervised by different patrons exhibited different performances. Only 13.4% of the respondents didn't think that different patrons offered different services hence the variance in performances. The different patrons are Franchisee, FBOs and Community Based Trainers (CBT). Some of the groups opted to be supervised by CBTs are they are resident in their communities and they felt that they are also easily accessible if required to support the groups.

4.1.17 Interest rates charges are friendlier than in the formal banks

The respondents were asked of their opinion on the interest rates charged in the groups and those charged by formal banks. The following were their responses.

Table 4. 15: Are interest rates in groups friendlier than in other banks?

	Frequency	Percent
not applicable	1	6.7
agree	3	20.0
strongly agree	11	73.3
Total	15	100.0

A total of 93.3% of the respondents who participated in the survey were of the opinion that the interest rates offered by the groups are friendlier than those offered by formal banks. The remaining 6.7% of the respondents didn't comment on the question. Barclays Bank and Equity Bank have tailor made products that are friendly to savings groups. Once a group matures (is able to transact business without external support), and can resource mobilize on its own, it is linked to these institutions. Other product from commercial banks can prove expensive for the groups to operate hence risk of closure.

4.1.18 Have you received any technical training on financial literacy

The respondents were asked if their groups had received technical trainings in groups' savings from the patron. The following table illustrates the feedback from the respondents.

Table 4. 16: Have you received any technical training on financial literacy

	Frequency	Percent
yes	10	66.7
no	5	33.3
Total	15	100.0

Most of the respondents 66.7% reported that their groups had received technical trainings from their patrons. The remaining 33.3% of the respondents reported that their groups had not received technical trainings from their supervisors.

4.1.19 Correlation matrix for independent variables

Correlation analysis was done to establish relationship of variables in the study. The table below illustrates the relationship between different variables and levels of significant.

Table 4. 17: Correlation matrix for independent variables

	Interest rates	Group rules	Fear of repayment	Collateral	Not enough money
Interest rates	1	-0.071	0.681**	-0.071	0.071
Group rules	-.071	1	-0.105	-.071	0.071
Fear of repayment	0.681**	-0.105	1	-0.105	-0.681**
collateral	-0.071	-0.071	-0.105	1	0.071
Not enough money	.0071	0.071	-0.681**	0.071	1

The table above demonstrates the correlation matrix of the factors affecting loans uptake. They include interest rates, group rules on repayment, member's fears of failing to repay and collateral attached to the loans. The analysis shows that there is no positive significance and correlation between these variables at 0.01 and 0.05. The research study used multiple regression analysis in order to analyze impact of independent variable on dependent variable. The multiple regression models are as under:

$Y = \alpha + \beta 1I + \beta 2GR + \beta 3FR + \varepsilon$………… (1)

Where **Y** is loans uptake by group members (dependent variable), **α** is constant, **X** is other factors affecting loans uptake and **β** is the regression coefficient which may be positively or negatively affecting dependent and independent variables.

$LA = \alpha + \beta 1I + \beta 2GR + \beta 3FR + \varepsilon$………… (2)

Where **LA**=Loans uptake by group members (dependent variable) **β1G*L***= Groups Leadership (Independent Variable) **β2L=** Linkage to other institutions (Independent Variable**) and β3*FL*=** Financial Literacy (Independent Variable).

4.1.20 Model Summary

The following table summarizes correlation of variables in relation to how they influence loans uptake in savings groups.

Table 4. 18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of estimate
	.725[a]	.623	-.074	.025

a. Predictors: (Constant), interest rates, fear of repayment, not enough money to fulfil members requests, group rules, collateral

The table above shows that the independent/ predictor variables have a combined correlation of 0.725 (72.5%) with loan uptake. The results also indicate that the independent variables explain 62.3% of the total variation in loan uptake.

4.5.1 Analysis of Variance

The following table illustrates ANOVA in testing significance of variables

Table 4. 19: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.815	5	2.163	4.112	0.023
Residual	2.105	4	0.526		
Total	12.920	9			

a. Predictors: (Constant), interest rates, fear of repayment, not enough money to fulfil members requests, group rules, collateral

b. Dependent Variable: past3meetingshaveyoutakenaloan

A multiple regression analysis test was carried out with interest rates, fear of repayment, not enough money to fulfill members' requests, group rules and collateral as independent variables and loan uptake as the dependent variable. The ANOVA results revealed that the regression model is a good fit for the data, F = 4.112, p = 0.023.

The following table illustrates

Table 4. 20: Model Coefficients

Model	Standardized Coefficients				95.0% Confidence Interval for B	
	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
(Constant)	0.641	1.711	1.662	0.402	-1.193	2.193
interestrates	0.711	2.464	-2.304	0.020	-1.713	2.134
grouprules fearofrepayment	0.666	1.306	1.081	0.688	-1.757	1.862
collateral	0.937	8.492	-2.081	0.022	-3.757	5.862
notenoughmoneytofulfi lmembersrequests	0.709	1.227	0.982	0.773	-1.626	1.363
	0.806	0.191	-1.989	0.035	-5.714	1.398

In the above table the regression coefficient for interest rates $\beta_1 = -0.192$ which implies that one unit increase in interest rates reduces loans uptake by 19.2% if other variables are kept constant. The T value is 2.304 which is significant at $\alpha = 0.05$ significance level since $P = 0.02 \leq 0.05$. It implies that the null hypothesis should be rejected and the alternative one accepted, that is: interest rates have a significant effect on the uptake of loans.

The regression coefficient $(\beta_2) = 0.267$ or 26.7% which implies that one unit change in group rules causes 21.7% effect in uptake of loans if other variables are controlled. The T value is 1.081 which is not significant at $\alpha = 0.05$ significance level since $P = 0.688 \geq 0.05$. It implies that the null hypothesis should be accepted, that is: group rules have no effect on loans uptake in groups. The regression coefficient for fear of repayment $(\beta_3) = 0.139$ or -13.9% which means that once percent increase in fear of repayment reduces uptake of loans by 13.9% if other variables are kept constant. The T value is -2.081 which is significant at $\alpha = 0.05$ significance level since $P = 0.022 \leq 0.05$. We therefore reject the null hypothesis in favor of the alternative one which states that fear of repayment has a significant effect on loans uptake by group members. The regression coefficient for collateral, $(\beta_4) = 0.205$ which means that once unit increase in collaterals, affects uptake of loans by group members by 20.5% if other variables are kept constant.

The T value is 0.982 which is not significant $\alpha = 0.05$ significance level since $P = 0.773 \geq 0.05$. We therefore accepted the null hypothesis that collaterals have no significant effect on loans uptake. The regression coefficient for groups not having enough money to fulfill members requests $(\beta_5) = -0.358$, which means not having enough money to satisfy members' requests reduced loans uptake by 35.8%. The T value is -1.989 which is significant $\alpha = 0.05$ significance level since $P = 0.035 \leq 0.05$. So research study rejected the null hypothesis in favor of the alternative that stated groups not able to satisfy the members loan requests had a significant effect on loans uptake. The research model is as given below:

Loans uptake = 1.537 – 0.192 (interest rates) + 0.267 (group rules) – 0.139 (fear of repayment) +
+ 0.205 (collateral) – 0.358 (not enough money to satisfy members' requests)

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study was conducted to determine the factors that influence the uptake of loans by group members in a groups saving and loaning scheme in Mbeere North Sub County. This chapter provides information on summary of findings, discussion, conclusions, suggestions for further research and the recommendations of the study.

5.2 Summary of Findings

The findings on the factors that influence the uptake of loans by group members in a groups saving and loaning scheme in Mbeere North Sub County are shown in the following sections.

5.2.1 Group's Leadership and the uptake of loans by group members

The study revealed that majority of the respondents 93.3% do not feel that collateral is a hindrance to the members accessing loans from the groups. This is so because the members are not required to attach any security to the loans they take from the group. The fundamental point during the formation and selection of members to these groups is the self-selection and vetting.

The members joining the groups must be vetted to ensure that they are known by all the community members and their behavior in the community is not questionable. In addition, majority of the members are farmers and they come together with one objective of growing their wealth and supporting their farming activities. The study also indicates that there is no significant a correlation between collateral and uptake of loans by group members.

5.2.2 Group rules and the uptake of loans by group members

The study revealed that each group has a set of rules that govern the groups meeting procedures and general conduct of group members. The rules are documented in a constitution which binds every member of the group. In addition, the constitution outlines the rules and regulations that govern the group member's behavior, saving frequency, non-compliance to agreements and share outs.

Majority of the respondents in the survey, 93.3% reported that the group rules do not hinder them from accessing the loans. In contrast, they reported that the rules helps the members maintain repayment discipline as no collateral is attached to the loans taken.

Only 6.7% of the members reported that they feel that the rules are harsh and hinder them from accessing the loans. It is important to note that different groups set their rules depending on what they agree as a group. Therefore, not one group has the same set of rules as the other and thus there is a possibility that some group rules may be a hindrance to member's access to loans.

5.2.3 Group's linkage and the uptake of loans by group members

The study revealed that majority of the respondents 93.3% do not feel that collateral is a hindrance to the members accessing loans from the groups. This is so because the members are not required to attach any security to the loans they take from the group. The fundamental point during the formation and selection of members to these groups is the self-selection and vetting. The members joining the groups must be vetted to ensure that they are known by all the community members and their behavior in the community is not questionable. In addition, majority of the members are farmers and they come together with one objective of growing their wealth and supporting their farming activities. The study also indicates that there is no significant a correlation between collateral and uptake of loans by group members.

5.2.4 Interest rates charged by different groups and the uptake of loans by group members

The study revealed that majority of the group members 93.3% felt interest rates charged is a hindrance to them accessing the loans from their groups. Only 6.7% of the respondents reported that the interest rates were not a hindrance to members accessing loans. Further analysis using regression analysis revealed that interest rates were a significant predictor of loans' uptake among group members.

Analysis revealed that a unit increase in interest rates reduced loan uptake by 19.2%. The respondents reported that the interest charged per member for any amount of money borrowed is 10% per month. They reported that even though this may seem higher than the rates charged by commercial banks, it is usually the best option for them because they can borrow any amount which they feel they are comfortable repaying.

In addition, the process by which commercial entities go through before one is granted a loan is too complicated for the low income cadre. They reported that commercial banks and micro finance institutions require that one attaches collateral to the amount borrowed. Thirdly, it is uneconomical for the members to travel to the urban centers to borrow small amount of money as they incur travel expenses and other logistical inconveniences.

5.2.5 Groups Financial Literacy and the uptake of loans by group members

Only 13.3% of the people who participated in the survey reported that members have fear of not being able to repay the money they borrow from the groups. They fear to take loans because they don't want to be labelled as defaulters by the rest of the group members. Majority of the respondents 86.7% reported that they don't fear how they will repay the loans taken as they have already received trainings on how to start small businesses that will generate income for them and aid their loan repayment. The study therefore reveals that there is no correlation between the members fear of repayment as a hindrance to the uptake of loans by group members.

5.2.6 Not enough money to fulfil member's requests and the uptake of loans by group members

Majority of the respondents in the survey reported that the greatest hindrance to members' access to loans is that there is usually not enough money to satisfy members' requests. 93.3% of the respondents reported that the money collected in every meeting is less than the money requested by members as loans.

In this case, the members are requested to scale down their requests which in most cases will not be able to address their pressing needs if reduced. If a member feels that the amount that he or she will be granted as a loan will not be sufficient to address the pressing need, he or she normally drops the request completely. Only 6.7% of respondents who participated in the survey felt that there is usually enough money to satisfy member's requests.

Further analysis using regression analysis revealed that not having enough money to satisfy members' interests was a significant predictor of loans uptake. The results indicated that a unit reduction in the amount of available money in groups reduced loan uptake by 35.8%.

5.2.7 Fear of Repayment and the uptake of loans by group members

Majority of the respondents, that is, 86.7% noted that fear of repayment had a significant impact on loans' uptake. The financial uncertainties in the future made members really afraid of taking loans, since they were not sure they will be able to pay back the loans. Only 13.3% of the respondents responded that fear of repayment did not affect their interest in loan uptake. Further analysis using regression analysis revealed that fear of repayment was a significant predictor of loans uptake. Results showed that a unit increase in fear of repayment reduced loan uptake by 13.9%.

5.3 Discussion of findings

The study sought to investigate the relationship between the group's leadership and the uptake of loans within the groups. The study found that in all the groups interviewed, collateral and group rules did not have correlation with the uptake of loans. This is explained by the fact that the members come together to form groups purely on trust. Members are vetted by other members before joining. For this reason, they are not required to provide collateral of any kind to secure a loan from the group.

The findings further revealed that interest rates, fear of repayment and groups not having enough money to satisfy the members' requests had a significant relationship with loan uptake. An increase in any of the three factors led to a significant decrease in loan uptake by members from the group savings. This can be understood since interest rates tend to make loans expensive to take, for the simple fact that someone is required more money than the borrowed amount, thus scaring away interested people (Cheng, 2014). On fear of repayment, some people who need loans are not confident enough that they will be able to repay the required amount within the stipulated time. This is sometimes attributed to lack of a reliable source of money that would enable them to pay the loans (Stephens, 2003). When a group does not have enough money to satisfy members' loan requests, it is impossible for the members to access loans from the particular group. This in turn lowers the number of loan uptakes from group savings (Allen & Staehle, 2007).

As alluded by Lauren& Hendricks, (2011), the management of the group's affairs contributes to a greater percentage on the strength of the group and its performance. The composition of the group management in case of a heterogeneous group is key to avoid dominance by one gender and especially in the setup of Mbeere where many groups are formed by women to uplift their living standards as well as improve their farming. The leadership of the savings groups helps in enforcing the rules that govern the conduct of the members.

The gains obtained from these community organizations are ploughed back to the community to enable them uplift their living standards. This is in contrast to the conventional credit access from formal banking institutions where the gains are taken away from them in terms of profits. This is observed by Massu (2013) as she cites that communities in rural poor who engage in micro loaning groups are able to cope with risks at their community level, they are able to strengthen their community ties through such social engagements like the social funds to support one another in times of difficulties. She continues to add that these organizations increases access to credit and are more trusted because they are community managed.

It was also observed that members who have skills on how to manage finances are more likely to take more loans than those who don't. Financial literacy is a key factor in uptake of loans in the groups. Poor financial literacy limits people's capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being. (Mackay Aomu, 2012). Groups are encouraged to link to a formal banking institution once they are found to have the capacity to manage larger portfolios of funds and have the requisite financial management skills.

5.4 Conclusions

Some of the factors above have no significant effect on the uptake of loans by group members. This is probably because members feel that the group rules are well stipulated in the constitutions and again they are agreed upon by all members. Group leadership is a key factor since enforcement and adherence of the set group is dependent on the leadership of the group. The management team needs to adopt a good transparent and accountable records keeping style that all members understand. Any doubt on the leadership by members can negatively affect the satisfaction of the members and their lack of faith in how their funds are recorded affects uptake of loans. The groups do not charge collateral on loans taken and thus, there is no significant effect of collateral on loans uptake in the groups.

Availability of money to lend to members is another factor. Majority of groups needs exceeds their financial capacity. Members of the groups will not take loans if the money to be loaned out is not enough to satisfy their needs. In this case, if the money is too little and cannot address their needs, the members refrain from taking loans. In this regard, linkage to other financial institutions who offer pro poor financial services is encouraged. One of the barriers to access to credit from these institutions is high interest rates which negatively affect loan uptake. Members feel that interest rates are one of the stumbling blocks towards accessing loans from banks and other MFIs. Some members feel that they will not be able to repay the loans and thus refrain from taking the risk because they don't want to be labelled as defaulters or their attached collateral confiscated by the lender.

Groups need training on financial management, record keeping and business development skills. They need to understand how to mobilize funds, utilize in the best way to have a return on their investment. Financial literacy is key since groups will be in a position to appraise viable income generating activities they can engage in so that the funds they lend from the groups can be put into productive use. This research found out that groups are offered trainings on different modules and constant support. Groups who have reached maturity phase means that they have saved for a period of 1 year, have finished training and have shared out. These groups need refreshers and minimum support from trainers as they are able to perform their activities on their own.

5.5 Recommendations of the Study

This section outlines the recommendations from the study. The recommendations are from partner organizations implementing group saving and lending interventions as well as the relevant government ministries.

1. Government Policies

The findings of this research did not look in the government policies and how they affect the growth of savings groups in the rural communities. It is recommended that the government sets clear policies to guide set up and operationalization of the community savings groups. This way, community savings groups will be able to grow in a structured way and receive relevant technical assistance from government financial advisors and finally linked to formal banking institutions.

2. Support to Saving Groups

As established in the study, most groups depend on non-governmental organizations for trainings on financial management. This study recommends that savings groups be supported with technical trainings on financial management and income generation activities by relevant government ministries in the counties. This way, the groups will not have a burden of paying the trainers which in most cases is the hindrance for them to access quality trainings

3. Trainings on financial literacy and management skills for new groups

It was established that most groups have received trainings on financial literacy. However, after the phase out of the supporting non-governmental organizations, the self-forming groups remain untrained and lack proper group management and financial management skills to run the groups. This in most cases leads to collapse of groups before attaining their objectives.

5.6 Suggestions For Further Research

The findings of this study were based on a sample drawn from saving groups in the Mbeere North Sub County in Embu County. The following were suggestions for further study.

1. Influence of Technology on the growth of savings groups.
2. Influence of Gender on the growth of savings groups.
3. Influence of Government Policies on the growth of savings groups and their economic contributions to the rural poor.

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APPENDICES

Appendix 1. Letter of Transmittal

BERNARD MBOGO

P.O BOX 24522-00100

NAIROBI.

22nd October, 2013.

THE MANAGER,

BOC PROJECT,

C/O CARE KENYA

EMBU

Dear sir/madam

RE: BERNARD WAWERU MBOGO: STUDENT NO. L50/69263/2011

I am a student at the University of Nairobi pursuing a degree of Master of Arts in project planning and management. As part of my course, am required to carry out a research on the Factors Influencing the loans uptake in Group Savings and Loaning Scheme implemented by CARE in Eastern region.

The purpose of this letter is to seek your permission to collect relevant data from the groups in your area. Attached herewith are copies of questionnaire to be used in collecting the data.

I appreciate your support.

Yours faithfully,

Bernard Waweru Mbogo

L50/69263/2011

Appendix 2: Data Collection Tool

Questionnaire for group leaders in group saving and loaning scheme in Mbeere north sub county, Embu County

Instructions

Please answer all the questions. You are kindly requested to spare some of your precious time to provide the information asked for as accurately as possible. Your co-operation will be highly appreciated. The information is purely educational purpose and will be treated with utmost confidence. Please do not indicate your name anywhere in this questionnaire.

Section A (I): Group Details

Name of Group…………………………… Group Code………………………………..

Date of group's first savings………………. No. of members at the date of creation………………

Group formed by .... Supervision/Channel………………………..

Location……………………………….. Cycle ……………………………………….

Section A (II): Group leadership

1. How many members does your group have? …………………………..

   Male [ ] Female [ ]

2. What is the composition of the group management team?.................................

   Male [ ] Female [ ]

3. Does your group have a constitution *(seek to see the document to verify)*

   Yes [ ] No [ ]

4. Which phase is your group at?

a) Preparation b) Training c) Supervision

5. How often do you meet as a group?

[ ] Weekly [ ] Bi monthly [ ] monthly

6. Do you keep records of the group transactions?

Yes [ ] No [ ]

If yes, what kinds of records do you keep? --

If No in above, why? ---

Section B: Group linkage

7. Are you aware of the customer friendly bank account offered at Barclays or equity bank?

   Yes [ ] No [ ]

8. Does your group have access to formal financial institution?

   Yes [ ] No [ ]

   If yes, which one ………………………………………………………….

9. In the past one year, has your group sought any financial assistance from outside in form of a loan?

   Yes [ ] No [ ]

Section C: Financial Literacy

10. What is your Savings this cycle (Kshs) ………………………

11. What is the value of 1 share in your group?

    ....

12. In the past 3 meetings, have you taken a loan from your group?

    Yes [ ] No [ ]

13. What is the minimum amount you have ever taken for a loan? …………………………

14. What is the maximum amount you have ever taken for a loan? …………………………

15. Is everyone in your group entitled to take loans from the group?

Yes [ ] No [ ]

16. What are the hindrances to one taking a loan from the group? (tick all that apply)

[ ]Interest rates

[ ]Group's rules

[ ]Fear of repayment

[ ]Collateral/security required

[ ]Not enough money to fulfil members loans request

17. For what purpose did you put into use for the money you took as loan from your group? (Multiple answers apply)

[ ] Pay school fees

[ ] Buy food commodities

[ ] Pay back an overdue loan elsewhere

[ ] Start a small business

[ ] Buy more stock for my business

[ ] Buy household equipment

18. Who decides on how to use the money from the group?

[ ] Self [ ] Husband/wife

19. Do you as an individual engage in any income generating activity?

Yes [ ] No [ ]

If yes, what kind of IGA do you engage in?--

Do you own property/assets as a group?

Yes [ ] No [ ]

20. If yes, what kinds of property does your group have currently?…………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

21. How is the property managed?...

....
....

22. Are you satisfied with how the property is/are managed?...

23. ....
....

24. Over the past one year, what is the most significant change have you seen in your family?……………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
……………

Section D: Roles of the delivery channel

25. What are the roles of the patron/channel your group is under?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

26. Does your supervisor /patron conduct monitoring visits to your group?

Yes [ ] No [ ]

If yes to Qn24 above, how often are these visits conducted?

[ ] Weekly

[ ] Bi weekly

[ ] Monthly

[ ] Quarterly

[ ] Other Specify ---

27. Are you satisfied with the supervision of the patron you are under? *(FO for Direct CBTS, Franchisee, FBO)*

- o Very satisfied
- o Satisfied
- o Dissatisfied
- o Very dissatisfied

28. What is your level of agreement with the following statements that relate to the influence of the supervising channel to the taking of loans by members of the groups .Use a scale of 1-5 where 1= Not Applicable, 2= strongly disagree, 3=Disagree, 4= agree with 5= strongly agree.

	The trainings we get from the supervising channels are helpful to the groups	1	2	3	4	5
	There is one preferred channel over the other in terms of support					
	The use of different strategies by the different channels gives rise to varied performances of the groups					
	Table banking has enabled group members to have access to loans					
	The interest rate charged are friendlier than those charged by formal financial institutions					

27. Have you received any technical trainings?

Yes [ ] No [ ]

If yes, which ones---

Thank you very much for you time and responses

Appendix 3: Plagiarism Report