

Assessment of Rural Financial Institutions as Tools for Alleviation of Rural Poverty: A Case of Karia Catholic Church Self-Help Group in Kiambu District

By

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Project Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Project Planning and Management of the University of Nairobi.

University of Nairobi

September, 2008

Declaration

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




Date 23/09/08

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



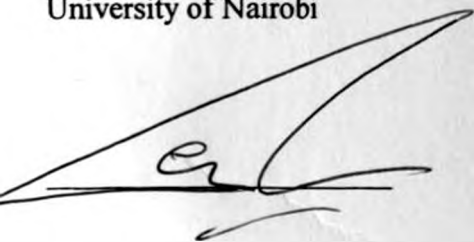
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Dedication

This project is dedicated to my mother, Mrs Jane W Gitau who saw my capabilities when I didn't and for pushing me into the education path. Thanks mum.

Acknowledgement

I would like to thank to thank Maina, my love, for his constant support-both financial and moral- and for showing me that anything is possible.

The completion of this project would not have been possible without the vital input of my supervisor, Mr Nzuki. Thank you for your patience and guidance. To the lecturers who taught the various units thank you for making it easier for us.

To my classmates who made the whole experience of adult learning fun and endurable. They demonstrated maturity and made reading material available to all members of the class.

Abstract

The main objective of this research was to assess the extent to which rural financial institutions (RFIs) are effective as tools of rural poverty alleviation. This objective was to be achieved through determining the relationship between the RFI services and rural poverty in terms of income levels, literacy levels, accessibility to health services, and the income generating activities financed through loans from the RFIs.

A case of Karia Catholic Church Self Help Group (KCCSHG) was selected to provide data on how RFIs operate, the services they offer to their members and the strengths and weaknesses that affect them.

The design employed to meet the objectives was the survey method. This method was chosen because of its ability to capture first hand information on how members of the RFI have benefited from their activities. Three instruments of data collection used were questionnaires, which were administered using the leave-and-pick method. Secondly, interview schedules were used in the acquisition of information from the management. Observation was the last method used in the verification of the data acquired from the questionnaires and in getting information that would otherwise be difficult to describe using the questionnaires, such as the standards of living of the members of the RFI.

The validity and reliability of the data instruments used was assured by taking a pilot study. Triangulation was also used in order to test validity of the answers given to certain pertinent questions like income levels before and after the investment of loans.

Through the findings of the research, RFIs can be classified among the most effective tools of alleviating rural poverty. Of the total number of 500 people interviewed, 96% of them experienced an increment in their income levels after investing the loans acquired from KCCSHG. Education levels and access to health care also improved due to the improved income levels. RFIs have a common weakness of over reliance on the Government to provide extra funds to finance their operations, while their major strength lies in the mutual trust that members have with each other and their finances.

Several recommendations have been given at the end of this research, such as ensuring that the communication lines between the institutions and the clients are always open to both sides. Confidentiality of clients' financial information is crucial for maintenance of security. Another recommendation is the adoption of technology in all organizational processes would not only speed up service delivery but will also improve effectiveness and efficiency. Lastly, better and stringent methods of loan follow up should be formulated to ensure prompt loan repayment.

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List of Acronyms

AGM	Annual General Meeting
UN	United Nations
RFIs	Rural Financial Institutions
AFC	Agricultural Finance Corporation
IFAD	International Fund for Agricultural Development
WB	World Bank
KCCSHG	Karia Catholic Church Self-Help Group
Kshs	Kenya Shillings

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In Kenya, seventy per cent (70%) of the population lives in poverty, most of who reside within rural areas of the country, (UN 1973). This study started by citing reasons why poverty exists. Different reasons have been given by various scholars as to why poverty exists; due to behaviour of personal failings of individuals or due to the structure of the society. More recent theories citing the political and economic systems as the causes of poverty have also been highlighted.

Rural poverty has also been observed to be more rampant than urban poverty because the rural population is hindered by a rest of biases that make it difficult for them to improve their living conditions. The biases make it imperative that initiatives to help the rural population must come from outsiders (government, planners or voluntary organizations), through provision of an enabling environment for small-scale production.

Rural financial institutions have been used as means to alleviate poverty by empowering people to pool their resources together and create credit worthiness in each other. Despite the careful thought behind the establishment of Rural Financial Institutions (RFIs) and the government backing that they have continued to enjoy, they have not proved to be successful in alleviation of poverty in Kenya.

In fact, the protection that they get from the government has been cited as one of the reasons for their failure.

This research studied the history of rural financial organizations; their emergence in Kenya as tools of poverty alleviation, their performance over the years, the challenges that they continue to face in their operations and lastly, the recommendations that would improve their performance. This research also endeavored to prove that rural financial institutions are indeed the best vehicles for alleviation of poverty given more favourable conditions.

Rural financial institutions are an intervention strategy for combating poverty in the rural areas. The aim of RFIs is to overcome the structural causes of poverty and to achieve a lasting improvement and physical living conditions. In addition, they create a beneficial political framework that provides the necessary scope for self-organizations and self-help.

The rural financial institutions emerged in Kenya in the early 1970s. It was realized that only around one per cent of farmers were able to use institutional credit and these were mainly large-scale farmers. Most of the medium and small-scale farmers relied on informal lenders whose interest rates were often exorbitant. (Chambers 1983)

The government of Kenya recognized the need for bridging the gap between the rural producers and the formal credit institutions. This is how rural financial systems emerged with the creation of specialized credit institutions like Agricultural Credit Co-operative e.g. Agricultural Finance Corporation (AFC). Their main agenda was to provide credit at subsidized interest rates that would enable the farmers to invest in modern and efficient technology. Unfortunately, this ambitious goal was not realized by the majority of these credit institutions due to reasons like poor payment rates, over-reliance on government subsidies.

Due to their importance in alleviation of poverty in the rural areas, it is worth re-visiting this field to try and understand how it all went wrong and try to see how different recommendations that have been given by various scholars may save these institutions.

Those institutions that have been successful in implementing their goals seem to have some strategic factors in common. These (factors) were examined as the requirements for the successful operation of self-help financial systems.

A case of Karia Catholic Church Self-Help Group was used to further give a clear picture of how these institutions operate; their strengths and weaknesses. Members of this organization have provided important information on how they benefit from pooling their scarce resources together and trusting one another to provide the security required in acquiring a loan

1.2 **Statement of the Problem**

The rural population has always been unable to access institutional financial credit due to lack of collateral and their savings being small. Due to their unpredictable and inconsistent source of income, providing the rural population with credit services is too high a risk that formal financial institutions are unwilling to take.

In Kenya, RFIs have not been successful due to their over-reliance on government subsidies and poor repayment rates are some of these reasons. Their failure has left too many rural producers without alternative sources of credit and they have had to turn to commercial institutions (banks) that often encourage risky investments over which rural producers have little control and in whose failure, are threatened with over-indebtedness and bankruptcy (UN 1985).

Poverty alleviation being among the Millennium Development Goals is a focus of attention and the methods that have previously been used to achieve this are also under scrutiny. Are rural financial institutions as tools of rural poverty alleviation adequate to meet the needs or is there need for new and better strategies?

1.3 Research Objectives

The goal of this study was to determine the extent to which rural financial institutions help in alleviation of rural poverty. The specific objectives were:

- a) To identify the income generating activities funded by RFIs.
- b) To determine the relationship between the RFI services and alleviation of rural poverty in terms of income levels, literacy levels and accessibility to health services.
- c) To identify the strengths and weaknesses that RFIs have as tools of alleviation of rural poverty.

1.4 Research Questions

The main questions that this research sought to answer were: What activities are favored by members of RFIs who have acquired loans? What is the relationship between RFI services and alleviation of poverty with respect to income levels, literacy levels and accessibility to health care? Lastly, what are the strengths and weaknesses of RFIs as tools for alleviation of rural poverty?

1.5 Significance of the Study

The Millennium Development Goals intend on improving people's living standards mainly by reducing poverty levels all over the world. These goals intend to achieve this by providing universal education to all, gender equality, provision of better housing and better access to water and sewerage. For all these

goals to be achieved, the population has to have access to financial services at cost levels that do not plunge them deeper into the debt pit.

Rural financial institutions being among the widely used tools of alleviation of poverty, come under close observation in order to ascertain whether or not they are sufficient or effective enough to be used in the implementation of the millennium Development Goals.

Findings of this research would therefore assist policy makers -both government and non-governmental- to understand the vital role of RFI services in alleviating rural poverty. The findings would also enable the rural poor to identify the benefits of RFI services.

This research would be very useful to other researchers undertaking studies in micro finance, management of the various RFIs as well as the Government departments responsible for special programmes.

1.6 Definition of Significant Terms

Rural - areas characterized by sparse population, which are predominantly agricultural, and also characterized by under development as compared to the urban areas. Rural areas are also mostly inhabited by people belonging to the same tribes, clans and communities.

Rural poverty – This is defined as a multi-dimensional concept that includes shortage of income, deprivation in knowledge, life expectancy and life standards especially among the population residing in the countryside.

Rural financial institutions (RFIs) – These are organizations situated within the rural areas formed with the main objective of providing funds to individuals and any organized groups including merry-go-rounds who contribute money to help one another.

Transient poverty - temporary/periodical poverty that comes about as a result of the prevailing economic, political and socio-cultural conditions.

1.7 Organization of the Report

This research project was divided into five main chapters. The first chapter, the introduction, mainly gives the background of the study, problem statement, what the study intended to achieve as well as the research questions and the significance of the study.

The second chapter, literature review, is generally the secondary data gathered prior to the fieldwork. It gives a background on the nature of poverty with reference to what various scholars have had to say about poverty. The literature is the foundation of the research, based on what different scholars have had to say

about the performance of RFIs, we are able to have a vague picture of what could be on the ground.

The third chapter includes the methodology, which was used in data collection and data analysis throughout the fieldwork. It clearly lays down the types of data to be collected and used, methods of data collection, the sampling frame, the techniques used in sampling and methods of data analysis.

The fourth chapter gives the descriptive analyses and interpretation of the findings of the research. Here, the data that was collected was analysed using both descriptive and statistical methods of analysis and the results were interpreted as per the results of the analysis. The fifth and final chapter includes summary, discussion, conclusions and the recommendations of the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a background to the poverty concept. Different schools of thought have given the reasons and origin of poverty. The chapter goes further to give the dynamics and experience of poverty, showing how poverty affects people differently in terms of gender, age and location. Rural financial institutions are defined and their strengths and weaknesses as tools for poverty alleviation are examined. Their role in the provision of financial services and filling the gap left by commercial banks is highlighted in detail.

The chapter ends with the conceptual framework that shows that there is a direct linkage between rural financial institutions and rural poverty. The conceptual framework shows that the activities of RFIs specifically those in finance, have a direct impact on the levels of poverty.

2.2 The Nature of Rural Poverty

Progress in reducing rural poverty has stalled. In the 1990s, it fell to less than one third of the rate needed to meet the United Nations' commitment to halve world poverty by 2015. Although three quarters of the world's 1.2 billion extremely poor people live and work in rural areas, aid to agriculture, their main source of income, has fallen by two thirds. (UN Statistics, 2000)

In the *Rural Poverty Report 2001*, the International Fund for Agricultural Development argues that, to be successful, poverty-reduction policies must focus on rural areas. To overcome disadvantages stemming from remoteness, lack of education and health care, insecure and unproductive jobs, high fertility and (often) discrimination as women or ethnic minorities, the rural poor need: legally secure entitlements to assets (especially land and water); technology (above all for increasing the output and yield of food staples); access to markets; opportunities to participate in decentralized resource management; and access to microfinance.

The causes of rural poverty are complex and multidimensional. They involve, among other things, culture, climate, gender, markets, and public policy.

Likewise, the rural poor are quite diverse both in the problems they face and the possible solutions to these problems.

Broad economic stability, competitive markets, and public investment in physical and social infrastructure are widely recognized as important requirements for achieving sustained economic growth and a reduction in rural poverty. In addition, because the rural poor's links to the economy vary considerably, public policy should focus on issues such as their access to land and credit, education and health care, support services, and entitlements to food through well-designed public works programs and other transfer mechanisms.

About one-fifth of the world's population is afflicted by poverty—these people live on less than \$1 a day. Poverty is not only a state of existence but also a process with many dimensions and complexities. Poverty can be persistent

(chronic) or transient, but transient poverty, if acute, can trap succeeding generations. The poor adopt all kinds of strategies to mitigate and cope with their poverty. (UN, 2000)

To understand poverty, it is essential to examine the economic and social context, including institutions of the state, markets, communities, and households. Poverty differences cut across gender, ethnicity, age, location (rural versus urban), and income source. In households, children and women often suffer more than men. In the community, minority ethnic or religious groups suffer more than majority groups and the rural poor more than the urban poor; among the rural poor, landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies.

Rural poverty accounts for nearly 63 percent of poverty worldwide, reaching 90 percent in some countries like Bangladesh and between 65 and 90 percent in sub-Saharan Africa. (Exceptions to this pattern are several Latin American countries in which poverty is concentrated in urban areas.) In almost all countries, the conditions—in terms of personal consumption and access to education, health care, potable water and sanitation, housing, transport, and communications—faced by the rural poor are far worse than those faced by the urban poor. (UN statistics, 2000)

Persistently high levels of rural poverty, with or without overall economic growth, have contributed to rapid population growth and migration to urban areas. In fact, much urban poverty is created by the rural poor's efforts to get out of poverty by moving to cities. Distorted government policies, such as penalizing the agriculture sector and neglecting rural (social and physical) infrastructure, have been major contributors to both rural and urban poverty.

The links between poverty, economic growth, and income distribution have been studied quite extensively in recent literature on economic development. Absolute poverty can be alleviated if at least two conditions are met: economic growth must occur—or mean income must rise—on a sustained basis; and economic growth must be neutral with respect to income distribution or reduce income inequality.

Generally, poverty cannot be reduced if economic growth does not occur. In fact, the persistent poverty of a substantial portion of the population can dampen the prospects for economic growth. Also, the initial distribution of income (and wealth) can greatly affect the prospects for growth and alleviation of mass poverty. Substantial evidence suggests that a highly unequal distribution of income is not conducive to either economic growth or poverty reduction.

Experience has shown that if countries put in place incentive structures and complementary investments to ensure that better health and education lead to higher incomes, the poor will benefit doubly through increased current consumption and higher future incomes.

The pattern and stability of economic growth also matter. On the one hand, traditional capital-intensive, import-substituting, and urban-biased growth—induced by government policies on pricing, trade, and public expenditure—has generally not helped alleviate poverty. On the other hand, agricultural growth—where there is a low concentration of land ownership and labor-intensive technologies are used—has almost always helped reduce poverty. Finally, sharp drops in economic growth—resulting from shocks and economic adjustments—may increase the incidence of poverty. Even when growth resumes, the incidence of poverty may not improve if inequality has been worsened by the crisis.

A sustainable reduction in poverty calls for the creation of a pro-poor policy environment, and allocation of a greater volume of resources targeted to the poor with greater effectiveness. This needs to be complemented by better partnership among government, civil society and the private sector so that the poor are empowered to take responsibility for their own development.

2.3 **Why Does Poverty Exist**

It has been argued by different scholars like Lewis (1972) and Smelser (1976) that poverty exists due to: The behavior or personal failings of the individuals concerned and also due to the structure of the society. Structural poverty is the outcome of the unfairly structured political and economic system.

2.3.1 Poverty as a Result of Behaviour

The idea that the poor are responsible for their condition is old. It is associated to conventional class ideologies as the poor as lazy and lacking the qualities of the upper classes. It is also associated to racial doctrines that consider poverty as the normal outcome of inferiority (Lewis, 1972).

According to these views, poverty is caused by a combination of personal characteristics developed in negative social contexts/environments such as slums, which results in deviant behaviour. That is to say the poor are in a self-perpetuating vicious cycle. They are both the victims and origins of poverty.

These negative social contexts include: disorganized families, sense of inferiority, low value attached to work and education, inability to plan ahead and to respond to changing conditions, drug abuse and alcoholism.

Social scientists and social workers have criticized these explanations. They argue that empirical evidence shows that the majority of the poor are hardworking but have different values and qualities from others. They fight their conditions in which they find themselves and devise creative strategies to try to overcome poverty.

The political argument shows that the current political environment surrounding the study of poverty becomes a concept of inequality identified in terms of superiority-inferiority (Smelser 1976). There is similar ideological argument,

which supports public intervention to ameliorate poverty using social policies, safety nets and individual rehabilitation.

In all these, the poor are placed apart from the rest. Their urgent needs are satisfied at the minimum level possible, below the minimum a 'normal' citizen is entitled to expect.

2.3.2 Poverty as a Consequence of the Structure of the Society

Explanations on poverty based on structural cause looks for links between the main characteristics and the evolutionary trends in the social systems and the variations of poverty.

According to this approach, poverty is a condition in which the poor find themselves as a consequence of the workings of social systems (Findlay 1987). The social system refers to the economic, social; life, culture, ideas, values and history.

The focus of structural explanations of poverty has been on the economy. Economic growth or stagnation has provided for varied aspects of poverty to appear or disappear, poverty to increase or decrease.

The structural explanations or arguments cannot suffice to reduce poverty to the workings of the economy alone, that is, poverty cannot entirely be explained by

the economy, poverty is also a function of social, political, cultural and technological aspects of the society.

There are other powerful social structural causes that work independently or in association with the economy. Different societies have mechanisms to control and direct social mobility to define the meaning of poverty.

2.3.3 The Economic and Political Perspective

Numerous characteristics of a country's economy and society, as well as some external influences, create and perpetuate rural poverty: political instability and civil strife; systemic discrimination on the basis of gender, race, ethnicity, religion, or caste; ill-defined property rights or unfair enforcement of rights to agricultural land and other natural resources; high concentration of land ownership and asymmetrical tenancy arrangements; corrupt politicians and rent-seeking public bureaucracies; economic policies that discriminate against or exclude the rural poor from the development process and accentuate the effects of other poverty-creating processes; large and rapidly growing families with high dependency ratios; market imperfections owing to high concentration of land and other assets and distortionary public policies; and external shocks owing to changes in the state of nature (for example, climatic changes) and conditions in the international economy.

Biases in national economic and social policies can contribute to rural poverty by excluding the rural poor from the benefits of development and accentuating the

effects of other poverty-creating processes. Policy biases that generally work against the rural poor include: urban bias in public investment for infrastructure and provision of safety nets; implicit taxation of agricultural products through so-called support prices and an overvalued exchange rate; direct taxation of agricultural exports and import subsidies; subsidies for capital-intensive technologies; favoring export crops over food crops; and bias in favor of large landowners and commercial producers with respect to rights of land ownership and tenancy, publicly provided extension services, and access to (subsidized) credit.

These policies can have both short- and long-term effects on the rural poor. The effects are particularly significant in the context of the structural adjustment programs that many developing countries have undertaken to restore macroeconomic stability and expand the capacity of the economy to increase production, employment, and incomes.

2.4 The Experience and Dynamics of Poverty

Poverty is defined as a multi-dimensional concept that includes shortage of income, deprivation in knowledge, life expectancy and life standards.

The poverty line defined for purposes of international comparisons is one US dollar (\$1) per day. That is to say, income below the poverty line is insufficient to meet the minimum daily needs for food, shelter, clothing, transport etc (World Bank, 1975).

Research and surveys that have been done show that the poor are not a single group with a single problem of lack of money. Poverty has many dimensions such as: shortened lives, illiteracy, social exclusions and lack of materials/means to improve family status.

The dimensions can overlap. For example, men and women view poverty differently. Women have weaker access to and control over capital assets like land. Women without support, for example, widows without adult children are vulnerable to excess suffering.

Poverty is periodical. It is usually seasonal in rural areas where periods of low income coincide with periods of diseases and then seasonal rains destroy roads and isolate the poor from markets and essential services.

Most poor people rely on claims made on social safety nets at the household, community and societal levels. These claims are an important asset of low-income people, for example, children, the old, and the disabled.

Social integration is important for the poor because it affects the development and growth of social capital through networks of civic association, avoidance of conflict, and self-reliance. Therefore, social integration is an essential strategy to benefit the poor (Mc Nicol 1990).

The opposite of poverty is not necessarily wealth but security. Structural poverty excludes a portion of the population from national and social participation due to hunger, inadequate income, powerlessness, poor education and disease.

Transient poverty (temporary poverty) means a set of vulnerabilities in terms of income assets. Poverty here means the absence of security, which affects a wide section of Kenyan families. People need to see transparency and equity in the provision of services by the government. However, these services are not seen to benefit a majority of the poor. The poor cannot compete in a liberalized environment; they cannot afford education, health care or agricultural inputs (Mc Nicol 1990).

Failure to maintain social integration to build hope for poverty reduction may lead to violence against property and persons. This affects economic activity and the welfare of both the poor and the non-poor.

2.5 **Rural Poverty in Africa**

Poverty in Africa is predominantly rural. More than 70 per cent of the continent's poor people live in rural areas and depend on agriculture for food and livelihood, yet development assistance to agriculture is decreasing. In Sub-Saharan Africa, more than 218 million people live in extreme poverty. Among them are rural poor people in Eastern and Southern Africa, an area that has one of the world's highest concentrations of poor people. The incidence of poverty in Sub-Saharan Africa is

increasing faster than the population. Overall, the pace of poverty reduction in most of Africa has slowed since the 1970s.

Rural poverty in many areas of Africa has its roots in the colonial system and the policy and institutional restraints that it imposed on poor people. In recent decades, economic policies and institutional structures have been modified to close the income gap. Structural adjustments have dismantled existing rural systems, but have not always built new ones. In many transitional economies, the rural situation is marked by continuing stagnation, poor production, low incomes and the rising vulnerability of poor people. Lack of access to markets is a problem for many small-scale enterprises in Africa. The rural population is poorly organized and often isolated, beyond the reach of social safety nets and poverty programmes. Increasingly, government policies and investments in poverty reduction tend to favour urban over rural areas.

HIV/AIDS is changing the profile of rural poverty in Africa. It puts an unbearable strain on poor rural households, where labour is the primary income-earning asset. About two thirds of the 34 million people in the world with HIV/AIDS live on the African continent.

2.5.1 Poverty in Eastern and Southern Africa

Rural poverty is deepening in Eastern and Southern Africa, where most of the region's 130 million poor people live in rural areas. Ten of the 21 countries in the region have an average annual per capita income of less than US\$400. (IFAD 2001)

The progress of national and rural development is slow. Development assistance to agriculture has declined. This has a negative impact on smallholder farming, the basic source of livelihood for the rural poor. In general, agricultural productivity per worker is stagnating or decreasing.

More than 85 per cent of the rural poor live on land that has medium to high potential for increased productivity. The poorest people live in the desert or on semi-arid land that makes up almost 40 per cent of the land base of this part of Africa.

2.5.2 Poverty in Kenya

Over the past 30 years, poverty has been on the rise in Kenya. Poverty seems to be a paradox in a country that has the best-developed economy in eastern Africa, with relatively advanced agricultural and industrial sectors and substantial foreign exchange earnings from agricultural exports and tourism. Yet Kenya is a low-income country, with per capita income averaging about US\$360. It ranks 148th among 177 countries in the United Nations Development Programme's human

development index, which measures a country's development in terms of life expectancy, educational attainment and standard of living.

More than half of the country's 33.3 million people are poor, and 7.5 million of the poor live in extreme poverty. About 80 per cent of the populations, including three out of four poor people, live in rural zones. Most Kenyans live in areas having a medium to high potential for agriculture, which comprise about 18 per cent of the country's territory. Population density in high-potential areas is more than six times the country's average of 55 persons per km². While the poorest of the poor are found in the sparsely populated arid zones of the country, mainly in the north, over 80 per cent of rural poor people live in higher-potential areas surrounding Lake Victoria and in the Mount Kenya region.

2.5.3 A growing population and rising poverty levels

Kenya's population has tripled over the past 30 years, leading to increasing pressure on natural resources, a widening income gap and rising poverty levels that erode gains in education, health, food security, employment and incomes.

The causes of rural poverty include: low agricultural productivity, exacerbated by land degradation and insecure land tenure, unemployment and low wages, difficulty in accessing financing for self-employment, poor governance, and bad roads, high costs of health and education and HIV/AIDS.

HIV/AIDS is most prevalent among young and middle-aged Kenyans, the most productive segment of the population. Almost half of the people in Kenya are

under 15 years of age. An estimated 700 Kenyans die daily of HIV/AIDS-related causes. HIV/AIDS leaves orphans and woman-headed households even more vulnerable to poverty. The burden of diseases such as HIV/AIDS, malaria and water-borne diseases weighs heavily on both the country and Kenyan families, affecting income, food security and development potential. Life expectancy is down to 46 years, from 59 years in 1989. (UN Statistics, 2000)

Kenya's rural poor people include: small farmers, herders, farm labourers, unskilled and semi-skilled workers, households headed by women, people with disabilities and AIDS orphans. Women are particularly vulnerable because they do not have equal access to social and economic assets. For about 70 per cent of women, subsistence farming is the primary – and often the only – source of livelihood.

Rural Poor

“The extremes of rural poverty in the Third World are an outrage. Faced with the facts, few would disagree with the statement There are so many people who are so poor, the prospects of future misery are so appalling and present efforts to eliminate that misery are so inadequate”. (Chambers, 1983).

The rural poor depend largely on agriculture, fishing, forestry, and related small-scale industries and services. To understand how poverty affects these individuals and households, and to delineate the policy options for poverty reduction, we first need to know who the rural poor are.

The rural poor are not a homogeneous group. One important way to classify the rural poor is according to their access to agricultural land: cultivators have access to land as small landowners and tenants, and noncultivators are landless, unskilled workers. There is, however, much functional overlap between these groups, reflecting the poverty-mitigating strategies of the poor in response to changes in the economy and society.

Cultivators, who form the bulk of the rural poor in developing countries, are directly engaged in producing and managing crops and livestock. Since these households cannot sustain themselves on the small parcels of land they own or cultivate, they provide labor to others for both farm and nonfarm activities inside and outside their villages. Some members of these households migrate to towns or cities on either a rotational or a long-term basis. In many countries, both small landowners and tenants are under increasing pressure to get out of the agriculture sector altogether.

Noncultivators are perhaps the poorest among the rural poor. Their numbers have been rising rapidly because of the natural increase in population. These workers depend on seasonal demand for labor in agriculture and in rural informal, small-scale industries and services. The landless rural workers are vulnerable to fluctuations in the demand for labor, wage rates, and food prices. They find it even more difficult than small landowners and tenants to gain access to public infrastructure and services. In addition, unlike their counterparts in urban areas, they are often excluded from public sector safety nets (food rations, for example).

Rural women tend to suffer far more than rural men. Their poverty and low social status in most societies is a major contributor to chronic poverty. Substantial evidence from many countries shows that focusing on the needs and empowerment of women is one of the keys to human development.

6.1 What Do The Poor Own

To understand poverty creation in rural areas and its effects on different groups, we need to look at the assets that the poor own or to which they have access, and their links to the economy. The economic conditions faced by the rural poor are affected by a variety of assets (and the returns on them) held at the household, community, and supra-community levels. The poor's physical assets include natural capital (private and common property rights in land, pastures, forest, and water), machines and tools and structures, stocks of domestic animals and food, and financial capital (jewelry, insurance, savings, and access to credit).

Their human assets are the labor pools—comprising workers of varying ages, genders, skills, and health—in the households and communities. Their infrastructural assets are publicly and privately provided transport and communications, access to schools and health centers, storage, potable water, and sanitation. Their institutional assets include their legally protected rights and freedoms and the extent of their participation in decision making in households and communities, as well as at the supra-community level. The first two categories of assets are largely regulated through formal and informal networks among individuals and communities. Most rural people, particularly women and

those in landless households, are greatly handicapped by inadequate assets and the low and volatile returns on them.

The differences among the rural poor are more clearly reflected in their links to the economy, which determine how they use their assets and participate in production. All of the rural poor are engaged in the production of both tradable and nontradable goods and services. Artisans and unskilled workers provide many nontradable services and some nontradable products (such as staple foods) that small cultivators also produce. Only cultivators, however, have access to small parcels of land through ownership or (sharecropping) tenancy. They are also the only groups of poor people who own or rent physical capital such as tools, implements, and machinery. Artisans and small-scale farmers have only limited amounts of physical capital. They have only limited access to financial capital and acquire it largely through informal agents or institutions, except for tenants, who can use their landlords as conduits to formal credit. Borrowed capital is often costly and is used to maintain consumption during hard times or to buy supplies and equipment needed for farming. Households' labor is used both within the family—for work done by unpaid family members—and to earn the wages paid to landless, unskilled workers in farm and nonfarm activities.

All groups of the rural poor are vulnerable to serious risk owing to changes in weather, health, markets, investment, and public policy. The resulting fluctuations in the prices and quantities of their assets and of what they produce can either deepen their poverty or give them opportunities to escape from it. The main

reason is that the rural poor have a very low capacity to absorb abrupt financial shocks. In addition, economic crises and natural disasters can bring about sharp increases in poverty and make it more difficult for the poor to escape it.

Policies For Reducing Rural Poverty

To design policies that have a chance of effectively helping the rural poor, the focus of policy should be on four major groups: small landowners who cultivate their land; landless tenants who cultivate other people's land; landless laborers who depend on casual or long-term employment in the farm or nonfarm sectors; and women, who could also be part of any of the three preceding groups.

All of these groups will benefit from good macroeconomic management—which helps keep inflation in check and maintains unsubsidized prices—because it facilitates sustained economic growth through private investment and competitive markets. Needless to say, unfair laws or poor enforcement of existing laws, exclusion of the poor from decision making and pervasive corruption in the public sector are no less detrimental to the well-being of the poor than they are to the country's overall economic growth.

Achieving agricultural growth by applying new technologies is one of the most important ways to reduce rural poverty. The impact of such efforts on the rural poor, however, depends on initial conditions, the structure of relevant institutions, and incentives. Research shows that agricultural stagnation has harmed the rural poor in sub-Saharan Africa by creating food shortages and higher prices that have

reduced their ability to buy food and find work. Conversely, experience with the Green Revolution showed that rapid agricultural progress made a big difference in reducing rural poverty in parts of South Asia. Researchers have found that higher crop yields reduce both the number of rural poor and the severity of rural poverty.

But these effects are strong only if certain conditions are met: land and capital markets are not distorted by a high concentration of ownership of natural resources (agricultural land), including unfair tenancy contracts, public policy on pricing, taxes, and the exchange rate does not penalize agriculture and encourage or subsidize labor displacement; public investment in basic education and health care is high and used effectively; farmer literacy and good health have great influence on farm productivity; public sector support for agricultural research is strong and resulting improvements are made available to small farmers is effective; physical capital, like irrigation systems, access roads, is adequately maintained; safety nets and social assistance are available for the very poor, particularly the landless (casual) workers and rural women, in the form of public works programs, microfinance, and food subsidies; and the rural poor are directly involved in the identification, design, and implementation of programs to ensure effective use of resources and equitable distribution of benefits.

Since the rural poor are a varied group, we need to understand how macroeconomic changes and policies can affect them. The three major ways in which policies affect the rural poor are through markets, infrastructure (including public services), and transfers. The markets in which the rural poor participate are

those for products, inputs (labor and nonlabor), and finance (from formal and informal sources). Several important features of these markets can affect conditions in rural areas.

The infrastructure that directly affects the rural sector's productivity and the rural poor's quality of life includes the economic (transport, communications, extension services, and irrigation) and the social (education, health care, water, and sanitation). Given that most elements of a country's infrastructure are provided through public funding, the level of spending, cost effectiveness, quality of service, and access of the rural poor to infrastructure and public services have important effects on human capital and productivity in rural areas.

Transfers, which are both private and public, provide some insurance against anticipated and unanticipated economic shocks. Most of the rural poor depend on private transfers among households, extended families, and other kinship groups. Public transfers can take the form of redistribution of such assets as land, employment on public works projects, and targeted subsidies for inputs and some consumer products. These transfers supplement or displace private transfers, depending on the policy instrument and how it is used. But these channels—markets, infrastructure, and transfers—do not work in the same way for all of the rural poor because each group has quite different links to the economy.

Rural Financial Institutions

Given that the majority of the poor live in rural areas, the institutional context of rural institutions is pivotal to reducing poverty and fostering development. This is particularly true for countries where diverse institutions and organizations mediate the access of the poor to assets, technologies and markets. They also usually regulate customary practices and administrative processes that determine whether the poor benefit from such access or would be affected by it.

Additionally, there is overall agreement on the fact that the chance the poor have to influence rules and to help control organizations depends on their power and informed participation.

Why do institutions matter that much? Both formal and informal rules of the game and organizational entities can exclude or include different members of society from any given right, service, assistance and, ultimately, benefit.

Institutions also promote social cohesion and stability, reducing civil conflict and muting the adverse consequences of economic dislocation and change.

For the rural poor, good institutions and organizational entities are twice as important, as isolation and weak performing institutions impact considerably on their well-being. Additionally, the rural poor suffer from extremely limited provision of public goods, which further acts against actions aimed at reducing their poverty.

Finding ways to change existing institutional situations and behaviour is not obvious; finding sustainable solutions will probably require fostering higher political development and awareness to overcome political and institutional incentives that lead to inefficiencies and exclusion.

Rural Producers, that is, small farmers, craftsmen, the landless, etc, need an efficient and reliable access to financial resources. They need it to enhance their inputs, to meet their subsistence requirements before harvest, to make investments, to effect business transactions and to fund unusual requirements like illness, death, and weddings.

In Kenya efforts under development policies to install rural financial systems have focused on the creation of specialized credit institutions such as agricultural credit co-operation; agricultural banks e.g. Agricultural Finance Corporation. Hardly any of the goals set for the credit institutions were achieved because many of the newly established agricultural and co-operative banks could not survive without continued subsidies from the government. The system of agricultural credit co-operatives began to crumble and largely abandoned the rural businesses.

As government imposed an upper limit of interest rates, the interest margin was not wide enough for the financial institutions to perform the task assigned to them (lending to small rural enterprises) and to cover their costs. On the other hand, the payment rate especially on agricultural production credits was often less than fifty per cent of the funds lend out. This was due to: deficient credit evaluation, that is,

poor credit surveillance, inadequate advice given to inexperienced farmers, commercial failure of investments and poor repayment discipline among borrowers who regard credit provided by government as non-repayable transfers.

The majority of small and very small rural enterprises still have no access to institutional credit; that is, small farmers cannot go to financial banks to borrow money. In the majority of poor countries (like Kenya), rural demand for financial services continue to be met by private money lenders, traders, land owners, neighbours, pawn brokers and self-help organizations like credit and savings association.

7.2 Principles for the Successful Operation of Rural Financial Institutions

For rural financial institutions to be successful, the following principles should act as a guide and reference in all their operations:

The Linking of Saving and Credit: Continuous access to credit should depend not only on the punctual and full repayment of loans but also on regular saving. Funds saved should be used as reserves and for securing future loans. The volume of new loans should depend on amount saved.

Group Liability and Social Control: Collateral of loans is replaced by joint liability of credit groups, that is, instead of taking title deeds, a group acts as referees to ensure payment. The group forms the basis for social control and as

well as for joint productive and social efforts. Formation of small homogenous self-organized groups and socially homogenous neighborhood groups has the best chance of succeeding.

Unrestricted Use of Credit: To specify the only purposes for which credit maybe used is to ignore the actual needs of small rural producers because they do not divide their lives into different spheres in accordance with laws of business management. Members of the RFIs should be allowed to invest their loans the way they see best.

Consideration of Risks and Efficiency: The success of poverty-oriented savings and credit programmes depends on the realistic assessment of the credit risks and the economic efficiency of the target groups, that is, if the loans will be paid or not and also if the loans will be used appropriately. Proper evaluation would eventually determine the success or failure of the RFI. Risky ventures should be critically analysed for their

Combining Financial Education and Advice: While it is for the lending institutions to give financial advice, the social, technological business advice that is needed should be arrange and provided by the government. Credit groups facilitate the organizational task in this case, since delegated group members can act as multipliers.

Confidence Building and Community-Oriented Measures; Sharing the Establishment Face: Encouraging communal self-help can help to reduce the reluctance of marginalized social groups to help them individually and communally (build the communities' confidence that they can help themselves). The provision of additional funds to supplement the communities' effort both in kind and cash might provide the spark needed to set the more sustained process of self-help in motion.

Progressive Graduation of Groups: There is a big need for recognition and promotion of financial self-help groups that have formed without external support. People should be encouraged to form their own groups. After a short period of time, these groups can be deformed into networks that are then gradually entrusted with the task of raising funds and forging links with the formal sector.

Such groups should be encouraged to set up their own saving fund after an establishment phase. To promote the learning process, and to be recognized among members, money will then be lend to the group according to the rules it has laid down itself. Only when they have succeeded in mastering these procedures should financial self-help groups should then be linked with the formal sector.

The Conceptual Framework

The following is the conceptual framework that illustrates the relationship between the rural financial institutions and rural poverty. RFIs have a direct impact on the levels of rural poverty on condition that there are effective markets and an enabling environment.

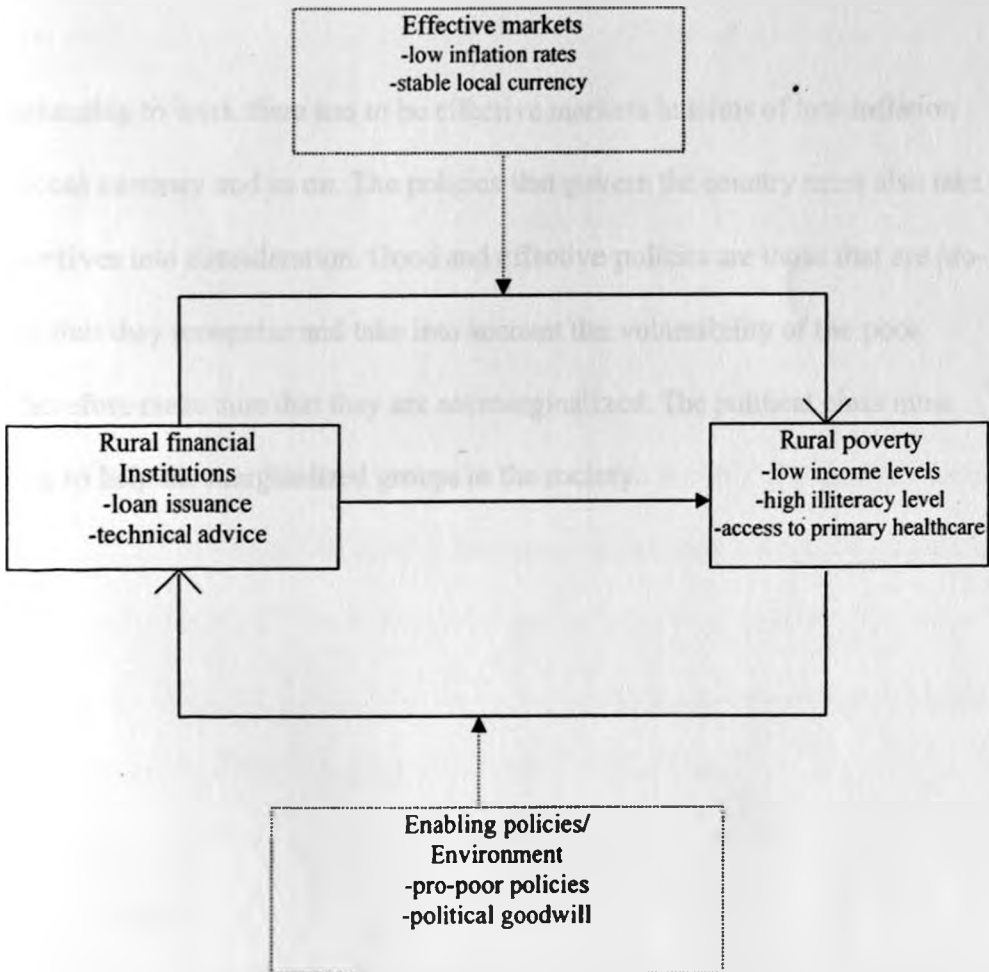


Figure 2.1: The relationship between rural financial institutions (independent variable) and rural poverty (dependent variable)

The conceptual framework shows the relationship between the independent variable - rural financial institutions- which provide services such as loan issuance, technical advice, savings accounts and the dependent variable- rural poverty whose indicators are low income levels, high illiteracy levels and inaccessibility to primary healthcare. The conceptual framework demonstrates that rural financial institutions services have a direct impact on levels of rural poverty.

For this relationship to work there has to be effective markets in terms of low inflation rates, stable local currency and so on. The policies that govern the country must also take certain perspectives into consideration. Good and effective policies are those that are pro-poor meaning that they recognize and take into account the vulnerability of the poor people and therefore make sure that they are not marginalized. The political class must also be willing to help the marginalized groups in the society.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter outlines how the research was done. It includes the research design which explains how the interviews, observation and questionnaires were administered. The sample size for this research is also defined within this chapter and the data instruments used to collect the data and the methods employed are well explained. The methods of data analysis close this chapter outlining the tools used to synthesize the numerous data obtained from the field.

Research Design

This research combined the survey and the observation methods. Survey was considered the best method in capturing the benefits of the RFI services as it enabled the acquisition of first hand information on how members have benefited from activities of the RFI. The observation method was very helpful in capturing data that was otherwise difficult to obtain using the questionnaires such as the standards of living of the respondents.

Target Population

The entire membership of the KCCSHG of 1870 people formed the population of the study. There were two types of members of the KCCSHG; there were those members who were registered as individuals and those others who were registered under merry-go-rounds but whose names were included for purposes of this

research. A list of names of all members of the co-operative was acquired from the KCCSHG offices.

3.4 Sampling Techniques and Sample Size

The simple random sampling method was used to get the sample. Each name on the list of all the members of KCCSHG was given a number 1 to 1870. Five hundred pieces of paper were picked using the lottery method. The sample size was therefore 500 to represent the total population. This sample size represented approximately 30% of the total population. (Hess, 1985)

3.5 Data Collection Instruments

This research made use of three instruments, namely the questionnaires (appendix 1), interview schedule (appendix 2) and the observation schedule (appendix 3). In the questionnaire, the respondents were exposed to both open-ended and close-ended questions. The open-ended questions asked the respondents to describe how their membership to the KCCSHG had helped improve their living standards. It also asked their opinions on the interest rates charged on loans. The closed-ended questions asked the respondents to give a range of their incomes before and after they had invested their loans and whether or not they had applied for loans or not.

The interview schedules (appendix 2), were meant for the management. Since the management was the key informant, a large amount of information was expected

from them. Information on the organization's procedures and policies, on loan issuing, investments and loan follow-up were sought from this interview. The problems and weaknesses that the organization faces were also highlighted during this interview.

The observation schedule (appendix 3), was used during the household visits when the questionnaires were being picked. The observation schedule sought to find out the projects that had been undertaken, to observe the respondents living conditions and also to verify information provided in the questionnaires.

3.5.1 **Instrument Reliability and Validity**

To ensure that the instruments collected the correct data, pilot studies were carried out to ensure that the questions asked were well understood by the respondents and that no ambiguity was experienced in trying to answer the questions. Four hundred and ninety (490) questionnaires were administered to the respondents and were asked the questions contained therein. In cases where the questions were ambiguous or not well understood, the questions were marked for corrections. Once the corrections were done, the corrected questionnaire was administered again.

During the second pilot study, the questions were well answered. After the two pilot studies, reliability coefficient was calculated using the SPSS in order to accurately compute the questionnaire's reliability. Appendix 4 shows the

calculations of the coefficient value using the Guttman Split-half method whose value was 0.7941 and the Spearman-Brown method whose value was 0.7988.

Triangulation was also used to verify information that otherwise seemed vague. Questions such as income levels before and after investment of loans were asked again in a different way in order to ascertain the correctness and accuracy of the answers given. Certain questions were asked to different people in order to find out the accuracy and honesty in the responses given.

3.6 Data Collection Methods

The respondents were left with the questionnaires for a period of one week to fill them at their own convenience. After a week the questionnaires were picked and in cases where the respondents had not duly filled them they were requested to do so. There were cases where the questionnaires were not filled by the respondents and these were taken as cases of non-responses.

The interview method was used to get key information from the management. Information such as the general background of the KCCSHG, the membership and the various operations of the RFI was acquired.

The other method of data collection that was used was the observation method. This was mainly during the household visits whereby the respondents showed the projects started using their loans. Observation was very helpful in the estimation

of the people's living standards by viewing their living conditions. It was also helpful in verifying the data given through the questionnaires.

3.7 Data Analysis

After collection of the filled questionnaires, the data was first edited, coded, classified and tabulated. Once the data had been edited and verified, it was then analysed using the Statistical Package for Social Sciences[®] (SPSS) computer software to obtain data in form of descriptive statistics such as percentages. Qualitative data which was acquired through interviews with the managers of the KCCSHG was also analyzed using descriptive statistics such as percentages.

CHAPTER FOUR

DESCRIPTIVE DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter describes the data collected from the field. It gives the analysis and graphical presentation of the findings. It starts by giving the background information of the KCCSHG and continues to logically give the analysis of each aspect of the research.

4.2 Response Rate

Out of the 500 questionnaires administered, 483 were returned with all the questions answered. Seven questionnaires were not returned and the respondents did not fill the questionnaires. This research therefore had a response rate of 96.6%. This is an acceptable level because it shows that this research was able to acquire 96.6% of the total data it had planned to collect.

4.3 The Objectives of Rural Financial Institutions

The major aim of the group was poverty eradication. Specifically, the objectives of RFIs as provided by the management are empowering the poor to have greater control over their lives, promoting savings and deposits, educating the members to become responsible people and on proper use of credit and investment opportunities.

Objectives	Percentages
1) Empowering the poor so that they are able to have greater control over their lives	25%
2) Promoting members financially by providing opportunity to accumulate savings.	25%
3) Educating members to become responsible people	25%
4) Educating members on proper use of credit and investment opportunities	25%
Total	100%

Table 4.1: Objectives of Rural Financial institutions

4.4 Services Rendered by RFIs

The following are the services provided by RFIs as shown in table 4.2 below:

Service	Number of Respondents	Percentage
1) Technical courses in agriculture and finance	76	15.7%
2) Coffee payments	57	11.8%
3) Deposit accounts	54	11.2%
4) Loan issuance	298	61.7%
5) Dairy payments	166	43.4%
Total	483	100%

Table 4.2: Services rendered by RFIS

The table above highlights the services rendered to the members of RFIs which include payments to coffee (11.8%) and dairy farmers (43.4%), technical courses in agriculture and finance (15.7%), issuance of loans and provision deposit accounts (11.2%).

Other services (projects) that the co-operative provides include Sacred Heart Nursery School, The Sacred Heart Mobile Clinic, and Computer Classes which are offered at subsidized prices.

4.5 Strengths of Rural Financial Institutions

KCCSHG as a rural financial institution has several strengths that enable it to perform its functions effectively as shown in table 4.3 below:

Strength	Percentage
1) Religious-based principles that guide all its operations	20%
2) Committed and hard working members	20%
3) Qualified and dedicated staff	20%
4) Sense of cohesion among all members	20%
5) Viable investments that yield good returns	20%
Total	100%

Table 4.3: Strengths of Rural Financial Institutions

The table above shows the strengths that RFIs as tools of rural poverty have and which enable them to carry out their activities successfully. They include the religious based principles which guide all their operations, their qualified and dedicated staff members, hardworking and committed members as well as the cohesion among the members who help to raise each other's welfare.

4.6 Problems Facing Rural Financial Institutions

Rural financial institutions face various problems in their operations which hinder them from fully exploiting their potential. These problems are shown in table 4.4 below:

Problem	Percentage
1) Poor attendance to meetings and seminars	25%
2) Lack of payment of monthly contributions on regular basis	25%
3) Defaulting on loan repayment	25%
4) Slow decision making processes while awaiting authorization from head office.	25%
Total	100%

Table 4.4: Problems facing rural financial institutions

As shown in the table above, the problems affecting RFIs are poor attendance to meetings and seminars, lack of regular contributions as the poor do not have a steady source of income, lack of loan repayment and slow decision making processes due to bureaucracy.

4.7 Analysis of the Respondents' General Information

The following is the analysis of the respondents' general information on their ages, gender/sex, marital status, educational levels and the number of years that each respondent has been a member of the RFI.

4.7.1 Respondents' Age

The respondents were asked to give their respective ages and the following is a summary of the findings as shown in table 4.5 below:

Age	Frequency (n) (Out of 483 units)	PERCENTAGE
20-30	54	11.2%
31-40	152	31.5%
41-50	170	35.2%
51-60	91	18.8%
61 and over	16	3.3%
Total	483	100%

Table 4.5: analysis of the respondents' age

The respondents whose ages ranged between the 20-30 age bracket were about 11.2% of the total sample while those within the 31-40 age bracket were 31.5%, 41-50 age bracket were 35.2%, 51-60 age bracket were 18.8% and those within the 61 and over age bracket were about 3.3% of the total sample.

4.7.2 Respondents' Gender

The respondents were asked to give their respective genders as shown in table 4.6 below:

Gender	Number of Respondents	Frequency
Male	29	6.0%
Female	454	94.0%
Total	483	100%

Table 4.6: analysis of the respondents' gender

Majority of the respondents were females who formed 94% of the sample while the males were six percent.

4.7.3 Respondents' Marital Status

The respondents were asked to give their marital status and the results are as shown in table 4.7 below:

Marital Status	Number of Respondents	Frequency
Single	95	19.7%
Married	305	63.1%
Divorced	37	7.7%
Widowed	46	9.5%
Total	483	100%

Table 4.7: Analysis of respondents' marital status

About 20% percent of the respondents were single, 63.1% of them were married, about 8% of them were divorced and 9.5% of them were widowed.

4.7.4 Respondents' Education Levels

The respondents were then asked to give their education background and the results are shown in table 4.8 below:

Education Level	Number of Respondents	Percentage
No Formal Education	24	5.0%
Primary	257	53.2%
Secondary	170	35.2%
College	32	6.6%
Total	483	100%

Table 4.8: Analysis of respondents' education levels

Five percent of the respondents had no formal education, 53.2% of them had the basic primary education while 35.2% of them had secondary education. Only 6.6% of them had college education.

4.7.5 Years of Membership

The respondents were then asked to give the number of years they had been members of the KCCSHG. The following were the results they gave as shown on table 4.9 below:

Years of Membership	Number of Respondents	Percentage
1-3	67	13.9%
4-6	88	18.2%
7-9	92	19.0%
10-12	112	23.2%
13-15	124	25.7%
Total	483	100%

Table 4.9: Analysis of the respondents' years of membership

About 14% of the respondents had been members for 1-3 years, 18.2% of them for 4-6 years, 19% of them for 7-9 years, 23.2% of them for 10-12 years and the majority of them (25.7%) had been members for 13-15 years.

4.8 Analysis of Information on Loan Acquisition

The following is the analysis of the information on loan acquisition based on whether or not the respondents had applied for loans or not, the number of applications, whether or not the applications had been approved, the amount granted and the period it took for the loans to be granted.

4.8.1 Application for Loans

The respondents were asked whether or not they had applied for loans from the RFI. The results are as shown in table 4.10 below:

Application Of Loans	Number of Respondents	Percentage
Yes	473	98%
No	10	2%
Total	483	100%

Table 4.10: analysis of information on applications for loans

Out of the 483 people who answered the questionnaires, 98% of them had applied for a loan while only 2% of them had never applied for a loan.

4.8.2 Number of Applications

The respondents were asked to give the number of times they had applied for loans. The results are as shown in table 4.11 below:

Number of Applications	Number of Respondents	Percentage
Never Applied	10	2.1%
Once	25	5.2%
More Than Once	448	92.8%
Total	483	100%

Table 4.11: Analysis of the number of applications

About 93% of the respondents had applied for loans more than once, while 5.2% of them had only applied once. Two percent of the respondents had never applied for loans.

4.8.3 Application Approval

The respondents were asked whether or not all their loan applications had been approved. The results are as shown in table 4.12 below:

Application Approval	Number of Respondents	Percentage
Never Applied	10	2.1%
All Applications Approved	420	87.0%
Some Applications Denied	53	11.0%
Total	483	100%

Table 4.12: Analysis of the loan approvals

Eighty seven percent of the respondents had all their loan applications approved while 11% of them had some of their applications denied. The reasons some loan applications were denied ranged from lack of sufficient guarantors, mistakes and errors in the loan application form, e.g. signature, difference in amount written in figure and words and pending loan repayment.

4.8.4 Amount Granted

The respondents were asked whether or not they had been granted the whole amounts they had applied for. The results are as shown in table 4.13 below:

Amount Granted	Number of People	Percentage
Never Applied	10	2%
Whole	454	94%
Less Than Whole	19	4%
Total	483	100%

Table 4.13: Analysis of the amount granted

The respondents were asked whether or not they had been granted the whole amounts that they had applied for. The following were the results: about 94% of the respondents had received the whole amounts they had applied for, about 4% of them had been given less amounts than they had applied for. Two percent of the respondents had not applied for loans.

4.8.5 Period of Approval

The respondents were asked the number of days it took for their loan applications to be granted. The results are as shown in the table 4.14 below:

Period of Approval	Number of Respondents	Percentage
1-7 days	395	82%
8-14 days	72	15%
15-21 days	9	1.9%
22-28 days	7	1.4%
28 days and over	0	0%
Total	483	100%

Table 4.14: Analysis of the period of approval

Eighty two percent of the respondents said that it took 1-7 days, about 15% of them said that it took 8-14 days, 1.9% said that it took 15-21 days while 1.4 % said that it took 21days and over. None of the respondents' loan applications took more than 28 days.

4.9 Analysis of Information on Investments

The following is an analysis of the information on investments based on the type of investments, income before and after investment of loans, and the respondents' opinions on the interest rates charged on loans.

4.9.1 Type of Investments

The respondents were asked to give the type of investments they engaged in after being awarded loans. The following were the results as shown in table 4.15 below:

Types Of Investments	Number of Respondents	Percentage
Poultry	126	26.6%
Dairy	160	33.8%%
Business	92	19.5%
School fees	56	15.0%
Other-real estate, travel etc	39	8.2%
Total	473	100%

Table 4.15: Analysis of information on investments

About 27% of the respondents had invested in poultry farming, while 33.8% of them had invested in dairy farming, 20% in businesses, 15% in school fees and 8.2% in other investments such as real estate.

During the oral interview, the respondents gave their reasons for favouring particular types of investments. Dairy farming was favoured among the members because of the fast returns it offered and the close proximity of Kiambu District to Nairobi which provides ready market for milk products. Another reason for the

popularity of dairy farming was the availability of the information offered by the various educational workshops conducted by the co-operatives and the recent Government reforms in this sector. Karia village is not endowed with large farms and most people live on half an acre farms. Due to the small space that poultry keeping requires, it was the second best option favoured among the investors.

4.9.2 Income Range before Loans

Respondents were asked to give their monthly income ranges before investment of their loans. The results are as shown in table 4.16 below:

Income Before Loan (Kshs)	Number of Respondents	Percentage
< 1500	38	13.9%
1501-3000	73	26.7%
3001-4500	123	45.0%
4501-6000	109	39.9%
6001-7500	78	28.6%
7501-9000	34	12.5%
>9001	18	6.6%
Total	473	100%

Table 4.16: Analysis of the income range before investment of the loans

About 13.9% of the respondents had income of less than Kshs. 1500, about 26.7% of them had income of Kshs. 1501 -3000, 45% of them with Kshs. 3001-4500,

about forty percent of them with Kshs 4501-6000, 28.6% of them with Kshs 6001-7500, 12.5% of them with Kshs 7501-9000 and 6.6% with income levels of more than Kshs 9001.

4.9.3 Income Range After Loans

The respondents were asked to give their monthly income ranges after investment of their loans. The following were the results as shown in table 4.17 below:

Income After Loans (Kshs)	Number of Respondents	Percentage
<1500	4	0.8%
1501-3000	15	3.1%
3001-4500	55	11.6%
4501-6000	120	25.4%
6001-7500	148	31.3%
7501-9000	99	20.9%
>9001	32	6.8%
Total	473	100%

Table 4.17: Analysis of the income ranges after loans

The respondents were then asked to give their income ranges after investment of their loans. The following were the results: Less than one percent of the respondents had incomes of less than 1500 shillings; about 3% of them had incomes of between 1501-3000, 11.6% of them with Kshs. 3001-4500, 25.4% of them with Kshs. 4501-6000, thirty one percent of them with Kshs 6001-7500,

twenty one percent of them with income of Kshs 7501-9000 and 6.8% of the respondents had incomes of more than nine thousand shillings.

4.9.4 Interest Rates Charged on Loans

The respondents were asked to give their opinions on the interest rates charged on loans. The following were the results as shown in table 4.18 below:

Interest Rates Charged on Loans	Number of Respondents	Percentage
Interest rates are fair	472	97.7%
Interest rates are too high	11	2.3%
Total	483	100%

Table 4.18: Analysis of the interest rates charged on loans

About 97.7% of the respondents said that the interest rate payable to loans were fair whereas 2.3% of them said that the interest rates were too high.

4.9.5 Benefits of the KCCSHG

The respondents were asked to give ways in which their membership to KCCSHG had benefited them. The results are as shown in table 4.19 below:

Benefit	Number of Respondents	Percentage
Technical skills in agriculture and finance	190	39.3%
Affordable financial services	167	34.6%
Access to healthcare	76	15.7%
Access to education	45	9.3%
Sense of cohesion and harmony among the members	5	1.0%
Total	483	100%

Table 4.19: Analysis of the benefits of RFIs

Apart from the increase in their income levels due to investments, respondents said that they had also acquired technical skills such as finance and farming.

Access to affordable financial services and advice was a common response given by the respondents. Access to health care was also another benefit cited by the respondents. KCCSHG operates a mobile health clinic which provides dental, reproductive, and health care. Access to education due to the ability of the respondents to pay school fees was another benefit. Another benefit was the sense of togetherness and cohesion that is created by the membership to KCCSHG.

4.9.6 Suggestions for Improving the Services of KCCSHG

The respondents were asked to give suggestions on ways through which services of KCCSHG could be improved. The responses given are presented in table 4.20 below:

Suggestions	Number of Respondents	Percentage
Confidentiality of members' financial matters	212	43.9%
Stringent methods of loan follow-up	154	31.9%
Computerisation of the RFI's processes	71	14.7%
Appropriate location and size of the institution	46	9.5%
Total	483	100%

Table 4.20: Analysis of the suggestions for improving RFI services

The table shows that maintenance of confidentiality especially in terms of individuals' financial status (43.9%) is one way of improving services of KCCSHG. Secondly, better and stringent methods (31.9%) should be used in loan follow-up to ensure that loans are paid back in time. Thirdly, all services should be computerized to ensure better and faster services. Some of the respondents (9.5%) said that the premises within which the offices of KCCSHG are situated were not large enough to accommodate the clients. They suggested that a new and bigger building be constructed or bought.

CHAPTER FIVE
SUMMARY, DISCUSSION, CONCLUSIONS AND
RECOMMENDATIONS

5.1 Introduction

This chapter summarizes, discusses and concludes the findings of this research. Recommendations on how RFIs can improve their services and ensure success in the achievement of their goals are also within this chapter. The chapter ends with a conclusion on whether or not RFIs are effective tools of poverty alleviation or not.

5.2 Summary of Findings

The following is a summary of the findings of the research based on the three objectives, namely: To identify the income generating activities funded by RFIs, to determine the relationship between RFI services and alleviation of poverty and lastly, to identify the strengths and weaknesses that RFIs have as tools of alleviation of rural poverty.

5.2.1 Income Generating Activities Funded by RFIs

The first objective of this research was to identify the income generating activities that are funded through the financial services provided by the rural financial institutions. The activities funded through the activities of RFIs include dairy farming which formed about 34%, poultry farming which was 26%, business

forming about 20%, school fees which was about 13% and other activities like real estate which formed about 8% of the total sample size.

5.2.2 Relationship between the RFI Services and Poverty Alleviation

The other objective of this research was to find the relationship between the RFI services and alleviation of poverty in terms of income levels, literacy levels and accessibility to healthcare services. The findings of this research were that before the loans acquired from KCCSHG, the majority of the respondents'-about twenty eight percent- income levels lay within the 3001-4500 shillings bracket whereas after the investment of loans the majority of them-thirty one percent- were lying within the 6001-7500 shillings income bracket.

In terms of literacy levels, the findings of this research were that about 13% of the respondents apply for loans in order to pay school fees. In addition, KCCSHG is involved in provision of accessible and affordable healthcare.

5.2.3 The Strengths and Weaknesses of Rural Financial Institutions

The third and final objective of this research was to identify the strengths and weaknesses that rural financial institutions have as tools of poverty alleviation.

The strengths that are inherent in rural financial institutions are: Religious-based principles that guide all their operations. The members are hard working and are committed to ensuring the organizations are successful in achieving their goals.

The staff are qualified and dedicated in providing services to the clients. The

sense of cohesion and togetherness that the organizations have created among their members is very important as they try to uplift their lives. The organizations have been able to invest their members' savings in profitable ventures which give them good returns.

The weaknesses affecting the rural financial institutions are: Poor attendance by members during the AGM and Educational Seminars. Some members do not pay their monthly contributions on monthly basis. They later become dormant members. Some members refuse to pay their loans and consequently their guarantors are followed to recover their loan balance. If people do not repay the loans, the organizations are not able to meet their clients' needs due to insufficient funds. It sometimes takes a lot of time to act on any resolutions reached by all members because clearance has to be obtained from the head offices in Nairobi.

From the findings of this research, we see that rural areas being mainly agricultural, most of the activities that are funded using the loans acquired from RFIs are those that have to do with farming. About 34% of the respondents had invested their loans either in dairy or poultry farming. There are those respondents who invested their loans in businesses and education.

Out of the 483 respondents, 53.4% of them had the basic primary education while about 5% of them had no formal education. This translates in low literacy levels among the rural population and this affects them during application of loans and

signing of contracts. The availability of funds to invest in education would ultimately translate in more people being educated and therefore an increase in literacy levels.

From the findings of this research, rural financial institutions play a key role in enabling the rural population in uplifting their living standards and escaping the poverty trap. RFIs' main objective is promoting members financially by according them an opportunity to accumulate their savings and deposits and create a source of funds from which loans can be made available. The loans given to the members are at low interest rates in order to reduce the financial burden on the rural population.

In terms of provision of healthcare services, RFIs bring the services closer to the people by opening clinics and operating mobile clinics to reach those who are marginalized due to their location. RFI are not only involved in providing funds for education purposes they also run schools which provide education at subsidized costs.

Rural financial institutions have certain strengths that enable them to provide financial services to people who are considered as credit unworthy by other formal financial institutions. They include the principles under which they base all their operations. These principles such as the unrestricted use of credit, consideration of risks and efficiency, combining financial education and advice,

group liability and social control provide a framework that enables RFIs to effectively execute their role.

Membership to RFIs is voluntary and therefore members are stakeholders of the organization. The members are hard working and are committed to ensuring the organization is successful in achieving its goals. The staff members are also qualified and dedicated in providing services to the clients. The sense of cohesion and togetherness that the RFIs create among their members is very important as they try to uplift themselves out of poverty.

5.3 Conclusions

The following conclusions based on the findings of this research can be made:

First, the membership of rural financial institutions is comprised of married females of ages between 41 and 50 years and who have the basic primary education. Secondly, majority of the members of RFIs apply for loans several times and most of them have all their loan applications approved. Thirdly, loan applications from RFIs take an average of 7 days to be evaluated and approved.

Fourthly, members of rural financial institutions apply for loans in order to engage in agricultural-income generating activities mainly dairy and poultry farming. Other investments made include business ventures and investment in education. Fifthly, majority of the members of the RFIs have incomes ranging between 3001-4500 shillings per month before acquiring loans and investment of

their loans. After investment, their incomes were noticed to increase to between 6001-7500 shillings per month.

Sixthly, members of rural financial institutions experience improvement in their living standards through access to education, availability of cheap and effective technical and financial services, access to affordable healthcare and harmony and cohesion within the community. The rates payable to loans issued by RFIs are fair and the members are comfortable with the repayment arrangement made with the organizations.

Finally, the suggestions towards improving the services of RFIs include: maintenance of confidentiality especially in terms of individuals' financial status. Better and stringent methods to be used in loan follow-up to ensure that loans are paid back in time. All services to be computerized to ensure better and faster services.

5.4 **Recommendations**

The following are the recommendations for improving rural financial institutions and ensuring their effectiveness as tools for alleviation of rural poverty:

- a) Ensuring that the communication lines between the institutions and the client is always open to both sides. Members of RFIs need to be able to ask any questions pertaining to their savings and to seek advice on investment.

- b) Maintenance of confidentiality of clients' financial information is crucial for security purposes. Clients need to know that their personal information will not be divulged and that it is not available to members of the public.
- c) Computerization of all processes of RFIs is also important because it would ensure prompt services, and better and secure records.
- d) Better and stringent methods of loan follow-up should be formulated to ensure prompt loan repayment. Lack of loan repayment means that RFIs do not have sufficient funds to give loans to its members. Severe penalties should be given to those who default in loan repayment.

5.5 **Suggestions for Further Research**

The following areas are suggested as good topics for further research:

- 1) Measures to alleviate the challenges facing RFIs as tools of rural poverty reduction.
- 2) Identification of the income generating activities funded by loans given by RFIs which yield higher returns than the others.

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Appendices

Appendix 1: QUESTIONNAIRE

Please answer all questions on the space provided. In case the space is not sufficient, please write on a separate paper clearly indicating the question number and pin on the back of the questionnaire.

1 GENERAL INFORMATION

- a) Age.....
- b) Gender.....
- c) Marital Status.....
- d) Education Level.....
- e) Number of years of membership:

2 INFORMATION ON LOAN ACQUISITION

- a) Have you ever applied for a loan: yes..... no.....
- b) How many times have you applied for a loan:
- c) Were all your loan applications approved: yes no.....
- d) If not, how many were approved
- e) What were the reasons given for the disapproval
- f) When approved, were you granted the whole amount you applied for:
yes..... no.....
- g) How long did it take between the time of application of loan and the granting: 1 day... 7 days.... 14 days ... 30 days ... other

3 INFORMATION ON INVESTMENTS

a) How did you invest your loan? Poultry.... dairy shop school fees other

b) What was your income range before you invested your loan?(Kshs)

<1500..... 1501-3000..... 3001-4500..... 4501-6000 6001-7500 7501-9000 >9001.....

c) What was your income range after investment of your loan?(Kshs)

<1500..... 1501-3000..... 3001-4500..... 4501-6000 6001-7500 7501-9000 >9001.....

4 How has your membership to the RFI helped in improving your living standards?

.....

5 What is your opinion on the interest rates payable to a loan?

.....

6 What are your suggestions towards improving the services offered by RFIs?

.....

Appendix 2: Interview Schedule

1. What are the main objectives of your organization?
2. Apart from financial services, what other services does the institution offer to its clients?
3. What monitoring and evaluation measures are employed to ensure sustainability of your organization?
4. What are the strengths and weaknesses that enable your organization to be successful in rendering its services?
5. What are the major problems do you encounter as a rural financial institution?
6. In your opinion, how can these problems be overcome?
7. What measures do you take to ensure repayment of loans?
8. Do you allow participation of the members in the management of the organization?

Appendix 3: Observation Schedule

- 1) Observe the type of housing, sanitation and source of water.
- 2) Observe the type of investments

Appendix 4: Reliability Analysis

RELIABILITY ANALYSIS - SCALE (ALPHA)

Reliability Coefficients

N of Cases = 490.0

N of Items = 2

Alpha = .7941

RELIABILITY ANALYSIS - SCALE (SPLIT)

Reliability Coefficients

N of Cases = 490.0

N of Items = 2

Correlation between forms = .6650
Brown = .7988

Equal-length Spearman-

Guttman Split-half = .7941
=.7988

Unequal-length Spearman-Brown

1 Items in part 1

1 Items in part 2

Alpha for part 1 = 1.0000

Alpha for part 2 = 1.0000

Above is an excerpt showing the coefficient alpha indicating the reliability of the questionnaires administered during the research. The questionnaires were found to have a reliability of 0.7941 (split-half method) and 0.7988 (Spearman-Brown method).

Appendix 5: Work Plan

ACTIVITY	DATE	EXPECTED OUTCOME	RESPONSIBILITY
Administration of questionnaires	April 3,2008	Acceptance by respondents to fill the questionnaire within 7 days	Judy and team
Interview with the management	April 6,2008	Acquiring key information about the operation of the RFI.	Judy
Household visits	April 6-8,2008	Observation of people's livelihoods and their various projects	Judy
Collection of the questionnaires	April 10,2008	Collection of complete and filled questionnaires	Judy and team
Data analysis	April 11-20,2008	Final data that is conclusive	Judy
Completion of the report	May 15,2008	Full report that is ready for submission	Judy

Appendix 6: Budget

ITEM	COSTS (Kshs)
Printing and photocopying costs	15000
Stationery	3000
Transport costs	3000
Wages	1500
Food and drinks	1500
Miscellaneous	5000
TOTAL	29000

Appendix 7: Photographs

The following are photographs taken during the research which show the offices of KCCSHG (photo 1), A dairy farmer showing her investment (photo 2) and another farmer (photo 3), showing her investment in poultry.



Photo 1: KCCSHG Offices



Photo 2: A dairy farmer at work



photo 3: A poultry farmer at work

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