

DETERMINANTS OF THE SUSTAINABILITY OF THE VILLAGE MICRO-FINANCE PROJECT: THE CASE OF KALAMA DIVISION OF MACHAKOS COUNTY, KENYA

BY

MERCY MWIKALI MUTUKU

**A Research Project Submitted in Partial Fulfilment of the Requirements for the Award of
Masters Degree in Masters of Arts in Project Planning and Management of The
University of Nairobi**

2015

DECLARATION

I declare that this is my original work and has not been presented for examination in any other institution for the award of a degree or a diploma.

Sign: _____

Date: _____

Mercy Mwikali Mutuku

L50/70609/2013

This Research Project is submitted for examination with my approval as the university supervisor, to the Department of Extramural Studies, School of Continuing and Distance Studies of the University of Nairobi.

Sign: _____

Date: _____

Mrs. Dorcas Mwaura

Department of Extramural Studies

University of Nairobi

DEDICATION

This research project is dedicated to my parents Mr. and Mrs. Elijah Mutuku for their moral and financial support during the entire course. May God bless them abundantly.

ACKNOWLEDGEMENT

My sincere appreciation to my supervisor Mrs. Dorcas Mwaura who dedicated her time, gave guidance and valuable input in this research study. Many thanks to the lecturers at the University of Nairobi for taking me through the courses of the Project Planning and Management that enriched this research study and without which the successful study completion would not have been possible. Special regards to Build Africa Kenya for giving me an opportunity to work in Kalama Division and allow me carry out the research study in therein. I also would like to thank my family and friends for their moral support and encouragement during the entire course.

TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENT	iii
LIST OF FIGURES.....	viii
LIST OF ABBREVIATIONS AND ACRONYMS.....	ix
ABSTRACT	x
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem	3
1.3 Purpose of the Study.....	4
1.4 Objectives of the Study.....	4
1.5 Research Questions.....	4
1.6 Significance of the Study.....	4
1.7 Delimitation of the Study	5
1.8 Limitations of the Study	5
1.9 Basic assumptions of the Study	5
1.10 Definition of significant terms used in the study.....	6
1.11 Organization of the Study.....	7
CHAPTER TWO: LITERATURE REVIEW	8
2.1 Introduction	8
2.2 Background of Micro-Finance.....	8
2.3 Theoretical framework	10
2.4 Models of microfinance.....	10
2.4.1: Rotating Savings and Credit Association (ROSCAs).....	10
2.4.2: Village Banking Model.....	10
2.4.3: The VSLA Methodology	11

2.4 Importance of Micro-Finance	12
2.5 Financial Literacy of the VSLA members.....	13
2.6 Membership Selection into the Village Microfinance.....	14
2.7 Training content by the TOTs	14
2.8 Leadership Aspects in the Village Microfinance	16
2.10 Summary of the reviewed literature and knowledge Gaps.....	19
CHAPTER THREE: RESEARCH METHODOLOGY.....	20
3.1 Introduction	20
3.2 Research Design	20
3.3 Target population.....	20
3.4 Sample size & Sampling procedure.....	21
3.5 Data Collection Methods	21
3.5.1 Pilot Study.....	22
3.6 Validity of the Research Instruments	22
3.7 Reliability	22
3.8 Data Analysis Procedures	23
3.9 Ethical Issues	29
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION	30
4.1: Introduction	30
4.2: Questionnaire response rate:.....	30
4.2.2: Demographic information of the respondents	30
4.2.3: General Micro-Finance information	32
4.3.1: Financial Literacy	34
4.3.2: Member Selection	39
4.3.3: Training content by the TOTs.....	42
4.3.4: Leadership Aspects	45

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	49
5.1: Introduction	49
5.2: Summary of Findings	49
5.2.1: Member Selection	49
5.2.2: Financial Literacy	49
5.2.3: Training Content by ToTs.....	50
5.2.4: Leadership Aspects	50
5.3: Discussion of the Research Findings.....	50
5.4: Conclusions of the Study.....	53
5.5: Recommendations	53
5.6: Suggestions for Further Research.....	54
REFERENCES.....	55
APPENDICES.....	58
Appendix I: Letter of Transmittal	58
Appendix II: Questionnaire for women in the Village Microfinance Project.....	59
Appendix III: Questionnaire for the Key Informants (CBTs/T.o.Ts)	64

LIST OF TABLES

Table 3.1: Distribution of Target Population	20
Table 3.2: Operationalization of Variables	24
Table 4.1: Questionnaire response rate	30
Table 4.2: Demographic information of the respondents.....	30
Table 4.3: Age groups	31
Table 4.4: Marital status.....	32
Table 4.5: Level of schooling.....	32
Table 4.6: Number of shares in the VSLA.....	33
Table 4.7: Level of awareness on VSLA methodology	34
Table 4.8: Importance of financial knowledge in VSLA operations	34
Table 4.9: Awareness on record keeping	35
Table 4.10: Accessibility of savings and loans records	36
Table 4.11: Financial literacy vis-a-vis misappropriation.....	36
Table 4.12: Prevalent VSLA Challenges	37
Table 4.13: VSLAs understanding on loan repayment default penalties.....	38
Table 4.14: Relevance of VSLA financial management.....	38
Table 4.15: Village microfinance member selection criteria	39
Table 4.16: Adherence to group meetings	40
Table 4.17: Levels of trust amongst VSLA members.....	40
Table 4.18: Frequency of member exit in one saving cycle.....	41
Table 4.19: Awareness on the VSLA methodology.....	42
Table 4.20: VSLAs member training on various aspects.....	43
Table 4.21: VSLAs member capacity building trainings	43
Table 4.22: VSLAs understanding of the sustainability concept	44
Table 4.23: VSLA impact	45
Table 4.24: VSLA member understanding on group constitution	46
Table 4.25: Influence of group leadership on the VSLA sustainability.....	46
Table 4.26: Frequency of member re-election in one savings cycle	47
Table 4.27: VSLA challenges resolved by the leaders.....	47
Table 4.28: VSLA membership in the next 2 years under the current leadership	48

LIST OF FIGURES

Figure 1: Conceptual Framework.....	18
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LIST OF ABBREVIATIONS AND ACRONYMS

ASCA – Accumulating Savings and Credit Association

BDS - Business Development Studies

CARE - Cooperative for Assistance and Relief Everywhere

CBT - Community Based Trainer

MFI – Micro Finance Institution

MSE's – Micro and Small Enterprises

NGO – Non-Governmental Organization

ROSCAS – Rotating Savings and Credit Associations

SACCO - Savings and Credit Cooperative Organization

T.O.T – Trainer of Trainers

VSLA – Village Savings and Loans Associations

ABSTRACT

The invention of Village microfinance; Village Savings and Loans Associations methodology of microfinance by CARE International changed the financial industry at a time when many people had no access to affordable financial services. The village microfinance has had massive impact on the livelihoods of its beneficiaries. It has given the rural poor and the marginalized financial power to save and loan using their own pool of income. This has had a lot of impact in the household level by improving their livelihoods, education access. However, the village microfinance is faced with various sustainability challenges, which if not addressed could affect the operations of the VSLAs in the long-term. The study examined the determinants of the sustainability of village microfinance by looking into various components such as the financial literacy of the members, member selection, training content by the TOTs and the leadership aspects. Descriptive research design was used to collect quantitative data from a target population of 1,200 village microfinance members and 6 T.o.Ts using a sample size of 120 women, and 3 TOTs within Kalama Division. Data collection was done through the use of questionnaires which were administered to the respondents who are members of the village microfinance. In order to ensure authenticity, data collected was cross examined, coded and then analyzed using the SPSS so as to give recommendations to either scale up the village microfinance project or develop viable sustainability strategies. The research study established that in as much as the village microfinance project had greatly benefitted the members; there were several factors influencing its sustainability. These included member selection, financial literacy, training content by the ToTs and the leadership aspects. The research established that 96% of Member selection criteria greatly influenced the sustainability of the village microfinance since most members formed the groups based on trust, which disintegrated when numerous cases of mistrust occurred. Financial literacy affected the sustainability of the village microfinance to a significant extent of 81% but did not threaten its sustainability since it was knowledge that the members could acquire and ensure the sustainability, unless any cases of misappropriation occurred. 54% of the respondents were of the opinion that the training content by the ToTs was influential in the sustainability of the village microfinance, since the operations of the village microfinance were mainly savings and loans. However, the members required sustainable income generating activities from which they could boost their savings ability for viable and long-term village microfinance operations. 94% of the respondents agreed that leadership was another factor that greatly influenced the sustainability of the village microfinance projects in Kalama division of Machakos County. The research established that most of the village microfinance members were keen to elect leaders that were trustworthy and had essential leadership and conflict management skills to enhance their microfinance operations, lack of which most of the village microfinance groups disintegrated after their savings were misappropriated by their leaders. The research study recommended further research on the sustainable recruitment of the village microfinance ToTs and viable income activities for the village microfinance members, as well as effective measures of mitigating against and dealing with loan delinquencies.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Village banking describes a community-based credit and savings association, run by a village itself. The model was founded by John Hatch, the founder of the American NGO Finca (Besley, T., S. Coate & G. Loury (1993). With this lending model, 25 to 50 low income members of a village, mostly women, join to take out a relatively large loan from a MFI and act as guarantors at the same time. After receiving the loan a self-appointed village committee decides who gets smaller loans out of the group. This model further enables saving deposits. The normal payback periods range from 4 to 12 months and only after completion a new loan can be taken for the community. The role of the MFI is to assist only in administration and technical issues (Armandriz de A. Beatrice & Morduch, J. (2005).

Village banking was developed in the 1980s by a number of international nongovernmental organizations (NGOs) such as FINCA International, CARE, and Action-Aid. The original method called for the formation of self-managed peer lending groups that would receive external loans at first and then gradually mobilize internal savings to self-capitalize operations so that autonomy would be reached in three years.

This concept of graduation, however, was replaced in the 1990s in favour of an on-going relationship between the village banks and the external source of funding (for example, NGOs). Some of the general characteristics of village banking include mandatory savings in order to receive loans, blockage of credit to the entire village bank if even one person does not repay, the possibility of on-lending the savings held in an internal account, and standardized and simultaneous loan terms. The village banking method has been adapted in many different ways. There are two approaches; one is mainly focused on training of the VSLA members and enterprise development, while the other is focused on the provision of financial services (Adongo J & Stork C. 2005).

The invention of Village banking and microfinance has been a major breakthrough for the livelihoods in rural communities. Communities previously unable to afford and access credit services from the microfinance institutions, are now more empowered to save and access loans at very little interest rates, whilst developing capacity for income generating activities for enhanced self-reliance (Allen. H & Staehle M 2007).

Sustainability refers to the long- term continuation of the Microfinance programme after the project activities have been discontinued (Ahlin & Lin, 2006). It entails that appropriate systems and processes have been put in place that will enable the Microfinance services to be available on a continuous basis and the clients continue to benefit from these services in a routine manner. This also would mean that the programme would meet the needs of the members through resources raised on their own strength, either from among themselves or from external sources. Though sustainability does get understood immediately in the financial terms or the resource terms, it actually has broader dimensions, of which financial sustainability is only one major dimension (Ahlin & Lin, 2006).

Most of the world's poor population lack access to affordable financial services. According to one World Bank estimate, 2.5 billion people don't have access to formal financial services. Globally, Microfinance projects have generally focused on providing credit to foster enterprise development. For a long time, people in the rural communities have been saving from their homes and lending to their fellow neighbours at no interest. However, this method presented barriers because one needed to know and trust the person they were lending the money to. Additionally, the money borrowed was not sufficient for the all their entire needs, or for any viable business investments. For Africa's poorest and most marginalized households, few financial institutions exist to serve them, and where institutions exist, they generally have inappropriate financial products and services. (CARE, 2010)

The village Microfinance Project in Kalama Division is implemented through the VSLA Model was first implemented in 2001 by the CARE Non-Governmental Organization. This model has since been adopted by other NGOs all over Africa, but each organization implements it in a different name, such as Build Africa Kenya, which has implemented the village Microfinance model in Kalama Sub County as Village Savings and Loan Association (VSLA). Kalama Division is located approximately 20km from Machakos County, with a population of around 41,000 people. The village microfinance project has a total of 1,200 women and few men who meet weekly to save together and take small loans from those savings. The groups run in cycles of one year, after which the accumulated savings and the loan profits are distributed back to members, and any outstanding issues resolved. Community Based Trainers (CBTs), who have been trained as ToTs of the Microfinance model are responsible for the formation and training of new VSLA groups. The CBTs then do frequent monitoring, ensure quality control and give technical assistance to the VSLAs as is needed by the members.

Although VSLAs may provide a variety of social and financial benefits and impose savings discipline, their sustainability is unclear. The sustainability of the VSLA model could be enhanced by integrating complimentary training programs into the VSLA training methodology which are currently lacking, ensuring that there are structured VSLA group savings, lending criteria and repayment schedules that take into account how seasonality affects member needs and capabilities, providing financial literacy to VSLA members to reduce vulnerability, business development skills, establishing collaboration with strategic partners and exploring new and innovative technologies.

According to Allen H. (2007) there is also need to develop awareness within the local communities on the role and impact of female VSLA members as well as ensuring transparency and efficiency in VSLA group transactions through the development of appropriate record keeping systems. Very few studies have been focused on the on-going performance and sustainability of the VSLAs. Therefore, this study seeks to examine the factors influencing the sustainability of the VSLAs, with a case study of Kalama Sub-County in Machakos County.

1.2 Statement of the Problem

The village Microfinance projects have been of great impact in Africa as a whole, and particularly in Kalama Division of Machakos County. Livelihoods and the levels of education have improved as a result of increase membership into the VSLA groups (Village Savings and Loans Associations), including the formation of new ones. However, the sustainability of the VSLAs is unclear. (CARE, 2010) Most of the VSLAs do very well whilst under support on capacity building by the supporting NGOs. Once the NGOs end their projects or are no longer paying the CBTs who are the VSLA TOTs, the groups disintegrate gradually, with most members withdrawing their savings. (CARE, 2010)

Additionally, various problems within the VSLAs compromise the sustainability of the VSLAs, which include: Loan repayment default and biased lending patterns, poor quality leadership, lack of financial literacy and numeracy skills leading to poor cash management experience, lack of knowledge in book keeping and non-compliance with the group's constitution, including the lack of business skills to maximize their pool of income for sustained savings. Therefore, what are the determinants of the sustainability of the village microfinance project?

1.3 Purpose of the Study

The purpose of the study was to examine the determinants of the sustainability of the Village Microfinance projects which have contributed largely to improved livelihoods in the rural areas of Machakos County, and specifically, Kalama Division.

1.4 Objectives of the Study

1. To establish how financial literacy influences the sustainability of Village Microfinance project in Kalama division.
2. To assess the extent to which membership selection influences the sustainability of Village Microfinance project in Kalama division.
3. To evaluate how the training content by the trainer of trainers influences the sustainability of VSLAS in Kalama division.
4. To determine how group leadership influences the sustainability of Village Microfinance project in Kalama division.

1.5 Research Questions

1. How does financial literacy influence the sustainability of Village Microfinance project in Kalama division?
2. To what extent does membership selection influences the sustainability of Village Microfinance project in Kalama division?
3. How does the training content by the trainer of trainers influence the sustainability of VSLAS in Kalama division?
4. How does the group leadership influence the sustainability of Village Microfinance project in Kalama division?

1.6 Significance of the Study

This study will be of importance to the NGOs implementing the village micro-finance projects in the rural areas to help make better their interventions, establish sustainable strategies or scale up the village micro-finance projects.

The study will also provide valuable information to the Micro-Finance Institutions (MFIs) to determine ways in which they could devolve their micro-finance and make it more affordable and workable in the rural areas, where their presence is yet to be realized.

1.7 Delimitation of the Study

The study targeted women who were members of the village microfinance, as well as CBTs who had been the TOTs of the village micro-finance project as the key informants of the study. Questionnaires were administered to 120 women out of the total 1,200 women who were members of the village microfinance in Kalama Sub-County. 3 CBTs were interviewed out of the total 6 who were the village microfinance T.O.Ts in Kalama Sub-County.

1.8 Limitations of the Study

The target respondents were of mixed age groups and most of them did have the required literacy for the data collection. However, there were no language barriers, as the respondents had their questions translated to a language they could understand.

Most respondents were reluctant to share information on their group dynamics and underlying challenges in fear of their fellow group members. This was countered by assuring the respondents of extreme confidentiality of any information shared in the data collection, including their financial details.

1.9 Basic assumptions of the Study

The study was hoped to run smoothly under a manageable budget within the stipulated time, which was the case.

It was hoped that the respondents in the target population would be honest to give authentic information otherwise the data collected will be vague; and this was the case as the respondents opened up after they were assured of the confidentiality of their responses.

The CBTs having trained the VSLA members on the savings methodology were still in touch with the village microfinance members and provided more insight and better guiding information on how they supported the village microfinance project.

It was hoped that during the research, the respondents would be hostile and would not participate the research process positively. However, the research permit from the University of Nairobi, and the permit letter to the respondents assured them of information privacy and gave them confidence to fully participate in the data collection. The sample population interviewed was a representative of the whole village microfinance project in Kalama Division.

1.10 Definition of significant terms used in the study

Sustainability – This refers to the long- term continuation of the village microfinance programme after the exit of the implementing organizations.

Village microfinance - This refers to the village microfinance savings and loans mechanism, where women pool their savings, from which they take loans and repay with a lower interest so as to grow their savings.

Financial literacy- This refers to the ability to understand how money works, how to manage it, earn or make it, how to invest it, and how to make basic mathematical accountability.

Member selection-This refers to the process by which the persons willing to be part of the village microfinance project decide on who gets to be a member of the micro-finance, based on the criteria of trustworthiness.

Training content by T.o.Ts- This refers to the curriculum with which the T.o.Ts train the new members who have joined or are willing to join the village microfinance scheme. The curriculum entails; the savings, loans, interest calculation and payment, as well as other terms of the village microfinance operations.

Leadership Aspects- This refers to the traits and characteristics essential for the village microfinance leaders to effectively and efficiently manage the operations of the village microfinance. Such aspects include management of the group dynamics, conflict management and proper group management.

Apex Organisation – The VSLA implementing NGO that trains the CBTs/T.O.Ts in order to train women that would like to form or join the village microfinance.

Share – The amount of money contributed by each VSLA member so as to qualify for membership, and as part of his/her savings.

Loan delinquency - This is defined as a situation where a VSLA member borrows money from the pool of savings and gets late in repayment or even defaulting repayment.

Saving/Graduation Cycle/Share-out - This is the duration between when a VSLA group begins savings, and when they come together after a given period of time, usually one year, to share their interests and savings. After which they decide if or not they should continue with the microfinance scheme, based on various factors.

Group Constitution – This is the village microfinance’s bylaws which the members should comply with. They help enforce discipline in saving, loan repayment consistency and the attendance to group meetings.

1.11 Organization of the Study

The first chapter of this study looked into the background of Village Microfinance project, the problem statement, the purpose of the study, the objectives of the study, research questions, the limitations, delimitations and basic assumptions of the study as well as the definition of terms. The next Chapter Two looked into the literature review of the study (the Theoretical and Conceptual Framework), summary of the literature review and knowledge gaps. Chapter Three covers the research methodology, which includes the sample size and procedures, and the methods of data collection and analysis. Chapter Four covers the analysis of data collected and the presentation of results. Chapter Five provides a summary of the study's findings and recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will discuss the background of microfinance, the evolution of the village microfinance and village banking over the years and the objectives of this research study in regard to the microfinance knowledge gaps from the previous studies.

2.2 Background of Micro-Finance

Microfinance is commonly associated with small, working capital loans that are invested in microenterprises or income-generating activities (Arsyad, 2005) Such microenterprises are often family owned and have less than five employees, sometimes based out of the home, as for instance small retail kiosk, sewing workshops, carpentry shops and market stalls (Marr, 2005). Microfinance, according to Yaroa, J (1992) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services.

The village microfinance project in Kalama Division is formed based on the ASCA Microfinance where interested community members come together to form saving groups. They then meet weekly or monthly as per their own arrangements; save small amount of money as agreed in their bylaws for a given period of time, which is usually one year. Once they have accumulated enough savings, they then begin to borrow loans from their pool of income as a small interest rate. (CARE, 2010)

The VSLA model overcomes many of these obstacles and promises to reach the very poor and rural population better than formal, centralized microfinance institutions. It essentially enables the poor to become their own bankers. A VSLA allows for variable savings, unlimited savings withdrawal, and loans with variable terms and flexible repayment conditions. (Mutesasira, 1999) A single association consists of 15 to 30 people who save a small amount every week. A share is usually 100 -300 Kshs. with members contributing up to three shares every week. However, each group is able to determine their own share value and the maximum number members can contribute each week. The value of each share remains low so as to allow the poorest members to participate. The group’s funds are kept in a cash box that is fitted with three padlocks, the keys of which are held by different officers in the group. This system

improves transparency and makes it easier to refuse loans to non-members, such as one's husband (Allen & Staehle 2007).

In addition to the savings fund, the cash box holds the social fund and the education fund. The social fund is a self-insurance mechanism, which can provide members with a small amount in the case of emergencies. Each member contributes a set value every week, usually between Kshs. 100-300 depending on the group. In the event of an emergency such as a fire or the death of a family member, the fund dispenses a fixed amount, generally between Kshs. 5,000 – 10,000. No interest is charged for loans from the social fund and although members are expected to pay back the loans, repayment is not strictly enforced. The social fund is managed separately from the savings and loan fund and is not shared out at the end of the cycle and is thus carried over to the next cycle. Like the social fund, weekly contributions to the education fund vary between groups, but generally fall in the range of Kshs. 100 - 300 per week. The education fund is used to pay the nominal monthly training fee and to buy the necessary materials, such as passbooks and the lockbox. (CARE, 2010)

The members pool their savings every week. After several months, the savings or shares accumulated by the group become large enough to launch the loan function. All members have the right to take out a loan regardless of the number of shares they have contributed, but can only take out a loan equal to at most three times the value of their shares. Most loans are short-term, generally around one month, at an interest rate determined by the group, usually 5 percent per month – this is low compared to moneylenders who often charge up to 30 percent per month, but slightly higher than NGO-MFIs, which generally charge less than 4 percent per month (Allen & Staehle 2007). Each group is able to set their own repayment terms. However, a VSLA never fines borrowers for late loan repayment as this may aggravate any underlying crisis the household may be facing.

On a date chosen by the members, usually after about a year, the savings and accrued interest are divided among the members in proportion to each individual's savings. This event, known as an "auction audit," is usually scheduled so as to occur when members are most likely to need money, such as at the start of the school year or before a major holiday, in order to encourage the use of savings to meet pressing needs and discourage their use for unnecessary expenditures. After the disbursement of funds, the groups normally re-form immediately and start a new cycle of savings and lending.

The VSLA model is lauded for its transparency and adaptability for illiterate members. All operations (deposits, withdrawals, loans, loan repayments) occur at weekly meetings with the entire group present so that all activities remain transparent. Record keeping was also designed to be as simple and as transparent as possible. Each member has an individual passbook, which is stamped every week, with each stamp representing one share. Only the starting and closing balance of the social fund as well as loan disbursement is recorded in the group ledger (Allen & Staehle 2007).

2.3 Theoretical framework

The invention of Village banking and microfinance has been a major breakthrough for the livelihoods in rural communities. Communities previously unable to afford and access credit services from the microfinance institutions, are now more empowered to save and access loans at very little interest rates, whilst developing capacity for income generating activities for enhanced self-reliance (Allen. H & Staehle M 2007).

There are various microfinance models that have been adopted in the rural communities. Such models have been discussed as below.

2.4 Models of microfinance

2.4.1: Rotating Savings and Credit Association (ROSCAs)

These are formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbours and friends, and the group provides an opportunity for social interaction and are very popular with women. They are also called merry-go-rounds or Self-Help Groups (Fisher and Sriram, 2002).

2.4.2: Village Banking Model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000).

The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005). The sponsoring MFI lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Holt (1994, p.158) "the model anticipates that female participation in village banks will enhance social status and intra-household bargaining power".

2.4.3: The VSLA Methodology

A VSLA is an Accumulating Savings and Credit Association (ASCA), which requires no external borrowing by, or donations to, the loan portfolio – it is entirely self-sufficient. Its work, therefore, falls within the informal sector. It differs from a Savings and Credit Cooperative Organization (SACCO) in that it does not receive external funding, only training, and is not formally registered with the government, which allows it to operate with less formal bookkeeping and thus be more user-friendly for illiterate members. (Mutesasira, 1999)

VSLAs are built entirely on member savings and interest from loans; they receive no direct capital investment from CARE or any other supporting organization. CARE's role is to supply extensive training on group dynamics, governance and money management. VSLA training is based on a four-phase curriculum. During the first phase - an intensive, three-month period - a field officer from CARE visits the group every week and holds training sessions on group dynamics. The field officer also selects and trains a Community Based Trainer (CBT/T.O.T) who lives in the target community. However, CARE quickly realized that even mature groups could benefit from additional monitoring and technical support. In order to respond to such needs while maintaining a degree of self-sustainability, CARE developed a system known as an Apex Organization, which would support and monitor existing groups while fostering the growth of new groups, allowing CARE to move onto new areas. (CARE, 2010)

However, the sustainability of the VSLAs is not certain. In Nepal, an evaluation done by CARE on Savings and Loans Associations found out that the aspect of sustainability was lacking. In Kenya, and Kalama to be specific, the VSLA groups have been trained under various NGOs who train the CBTs as their T.o.Ts. Once the NGOs have completed their projects and supported the formation of the VSLA groups, they exit. Most of the time, the CBTs are remunerated by the NGOs, so that they can support the VSLA groups on the savings methodologies until they can function well on their own. Studies are yet to be done on the impact of exit of the initiating NGOs exit, and how the CBTs can continue to support the VSLA groups even without remuneration from the initiating NGOs. Some of the VSLA members end up losing trust in their membership since they have not yet owned the Village microfinance project by the time the initiating NGOs exit. (CARE, 2010)

2.4 Importance of Micro-Finance

Microfinance has become an important tool for poverty reduction in many parts of the world. Microfinance institutions (MFIs) target the poor through innovative approaches which include group lending, progressive lending, regular repayment schedules, and collateral substitutes. From banker's perspective, a microfinance institution is said to have reached sustainability when the operating income from the loan is sufficient to cover all the operating costs (Sebstad, J & M. Cohen, 2000).

It is a fact that about 4 billion people worldwide live on less than US\$2 per day (Sundaresan, 2008) and poverty is one of the major problems that is still prevailing in today's world. Currently the eight Millennium Development Goals, to be reached by 2015, are a worldwide attempt that might really help to fight poverty.

Surprisingly more than 3 billion poor people seek access to basic financial services worldwide (Sa-Dhan, 2008) and were ignored by commercial banks for a very long time. For commercial banks the poor were seen as "unbankable" for decades because they cannot provide collateral. Robinson estimates that about 90 percent of the people in developing countries have no access to institutional financial services (Armandriz de A. et al 2005): Microfinance offers financial services to those who are not served by the traditional financial sector.

Millions of people in developing countries have been given access to formal financial services through microfinance programs. Nevertheless, millions of potential clients still remain un-

served and the demand for financial services far exceeds the currently available supply. This gap led to the invention of the Village Savings and Loans Association, better known as Village Banking or Village Microfinance (Marr, 2002).

2.5 Financial Literacy of the VSLA members

Financial literacy: The teaching of adults through integrating business skills and financial management with primary literacy. Financial literacy for village microfinance is a unique combination of microfinance implementation, the teaching of business management and literacy in the context of finance, and its local relevance (Besley, T., S. Coate & G. Loury 1993). Financial literacy encourages villagers to use the abundant resources available to them and the opportunities that have not yet been exploited in the local market. It also aims to protect villagers from aggressive money lenders who may exploit the borrower's lack of financial knowledge and literacy (Besley, T., S. Coate & G. Loury 1993).

Financial literacy empowers the VSLA members, making them knowledgeable about finance in a way that is relevant to their lives and allowing them to use this knowledge to evaluate products and make informed decisions. Those who are financially literate are more likely to save and engage in safe financial products (Besley, T., S. Coate & G. Loury 1993). There is widespread agreement that levels of financial literacy worldwide are low, especially in developing countries, and that MFI members tend to overestimate their financial skills and knowledge (Besley, T. et al 1993). Financial literacy amongst the VSLA members is important in enabling them have basic knowledge on record keeping of their savings and the accountability of the loan lending and repayments. The VSLA members through financial literacy are able to account for their household income (Sebstad, J & M. Cohen, 2000).

The study will establish how financial literacy influences the sustainability of Village Microfinance project in Kalama sub-county. The idea of the Village Microfinance is that, the community members come together and form a savings and loans group. There is an outlined methodology for the financial management. Despite having numerous advantages to the beneficiaries, the microfinance project still faces possibilities of breaking down if the group members are not financially able to manage their group savings and loans.

2.6 Membership Selection into the Village Microfinance

An external agency such as CARE, Oxfam or a local development organization introduces the concept of savings and loan services to the community and then facilitates the formation of the VSLAs comprised by 15 to 30 persons. Because trust is fundamental to the effective functioning of the VSLAs members select themselves based on pure trust, so as to form a group (Allen, H. & M. Staehle 2007).

Member selection is based on mutual trust and knowing each other well enough. Gender composition influences the survival of the VSLA groups. According to CARE (2010), successful VSLAs are formed on the basis of mutual trust during the formation and selection of the members. Mostly, family members within a community may not form a VSLA group due to the wrangles, mistrust and misunderstandings that may arise (Luft J, 1970).

The research will determine the extent to which member selection; management influence the sustainability of Village Microfinance project in Kalama sub-county. The VSLA are initiated basically on mutual trust amongst each of the group members. The VSLA methodology outlines that the members should be selected purely on trust basis. Therefore, this means that in as much as they Village Microfinance is of great importance, the member composition determines the lifetime of the VSLA group. This study will look into the ways in which the member selection affects the sustainability of this village microfinance.

2.7 Training content by the TOTs

The VSLA entails the training of CBTs prior to the formation of the village microfinance. The VSLA's Business Development Services (BDS) approach typically calls for market-based solutions, in which services are rendered for a fee equal to or higher than marginal costs. If, however, the services provided are of unclear value to the more inexperienced entrepreneurs, this approach may create an adverse selection effect: those for whom impact may be highest will be least likely to pay the fee and join the program (Allen, H. & M. Staehle 2007).

An Apex organization is owned by the affiliated VSLA groups. It provides a number of services to members of the VSLA, but, like CARE, it does not provide direct loan capital. The objectives of an Apex organization are: to serve as an umbrella organization by promoting and protecting the interests of existing VSLA groups; to assist in formation of new groups; to provide VSLA kits (cash boxes, pass books, etc.) and other materials; to supervise the quality

and standards of performance of affiliated VSLA groups; to monitor groups and collect monthly data; and, finally, to assist affiliated VSLAs through capacity building (Allen, H. & M. Staehle 2007).

The Apex organization is responsible for the selection and training of new Community Based Trainers (CBTs), who, in turn, are responsible for of VSLA members in the newly formed microfinance groups. The training of new groups under the Apex organization essentially follows CARE's four-phase curriculum described above. The greatest difference is that after a group is fully mature, they continue to receive monthly visits from a TOT, either the original TOT who carried out the initial training or the newly trained and certified TOT from the local community. At this point, the role of the TOT becomes one of monitoring and technical assistance (Allen, H. et al 2007). He or She is expected to visit a mature group once a month to ensure quality control and before the final pay-out of each cycle.

For proper implementation structure of the VSLA methodology, the Trainer of trainers have to be well versed with the VSLA methodology , have knowledge on the proper savings and loans methods, so as to sensitize the community members who express interest in forming the VSLA groups. Well trained CBTs/TOTs help in changing the attitudes of the community members towards attitudes towards savings, and attainment of entrepreneurial, savings and loans skills (Yaroa J.1992).

Besides the VSLA methodology, the CBTs need to have essential business development skills to empower the VSLA members in initiating income generating activities. The study will examine how the training content by the T.o.Ts (CBT) influences the sustainability of VSLAS in Kalama sub-county. Mostly, the apex organizations coach the CBTs on the VSLA methodology per se. This means that the VSLA groups will only focus on savings and loans only. This does not sustain the VSLA for long, since most members exit once they have pooled enough money over the VSLA cycles. This study will determine how the content of the village microfinance project delivered by the CBTs to the community influences the sustainability of the microfinance projects.

2.8 Leadership Aspects in the Village Microfinance

Identification and nourishing good community leaders help in bringing the community together and in giving a representative voice to the community in articulating its needs and wishes. Many microfinance programmes have leadership training components built into them. Good leaders instil discipline among the borrowers, leading to better financial management. Good management of an enterprise not only ensures that finance is invested properly and profitably, it also leads to long-term financial independence (Armandriz de A. Beatrice & Morduch, J. (2005).

The level of education influences the ability of the T.o.Ts to handle challenges that may occur within the various VSLA groups. The group leaders of the VSLA need to have the capacity to ensure that the VSLA's savings and loans scheme is run smoothly without any major challenges. Essential leadership aspects amongst the VSLA members ensure that there is proper responsibility and control of members within the VSLA. This reduces the cases of loan default, non-attendance to group meetings or mismanagement of the savings non-compliance to group's constitution, non-attendance to group meetings, lack of trust amongst group members and lack of sustained interest in the VSLA group (Sundaresan S, 2000).

The study will determine how group leadership influence the sustainability of Village Microfinance project in Kalama sub-county. The research study will investigate on any aspects of leadership amongst the VSLA groups that may affect their sustainability. This will focus mainly on conflict resolution and management amongst the VSLA groups, which are known to bring down group membership.

2.9 The Sustainability Aspect of Village Micro-finance

Financial sustainability is defined has been defined by various researchers differently. As such there is no clear cut definition of the word financial sustainability. The Financial Self Sufficiency is an approximate indicator of the impact of subsidies on an organization's sustainability. In micro-finance, sustainability can be considered at several levels of institutional, group, and individual and can relate to organizational, managerial, and financial aspects (Adongo J. et al 2005).

The concept of sustainability of microfinance can be divided into four interrelated ideas; namely, financial viability, economic viability, institutional viability and borrower viability.

Financial viability relates to the fact that a lending institution should at least equate the cost per each unit of currency lent to the price it charges its borrowers (i.e. the interest rate).

Economic viability relates to meeting the economic cost of funds (opportunity cost) used for credit and other operations with the income it generates from its lending activities. Regarding indicator of financial sustainability, Sa-Dhan (2008) pointed out that loan repayment (measured by default rate) could be another indicator for financial sustainability of MFIs; because, low default rate would help to realize future lending.

Scoones, I. (1998) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Short-term loan would worsen the welfare of the poor (Navajas et al., 2000). Scoones, I. (1998) also stated that the financial un-sustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. Scoones, I. (1998) indicated, "Measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses."

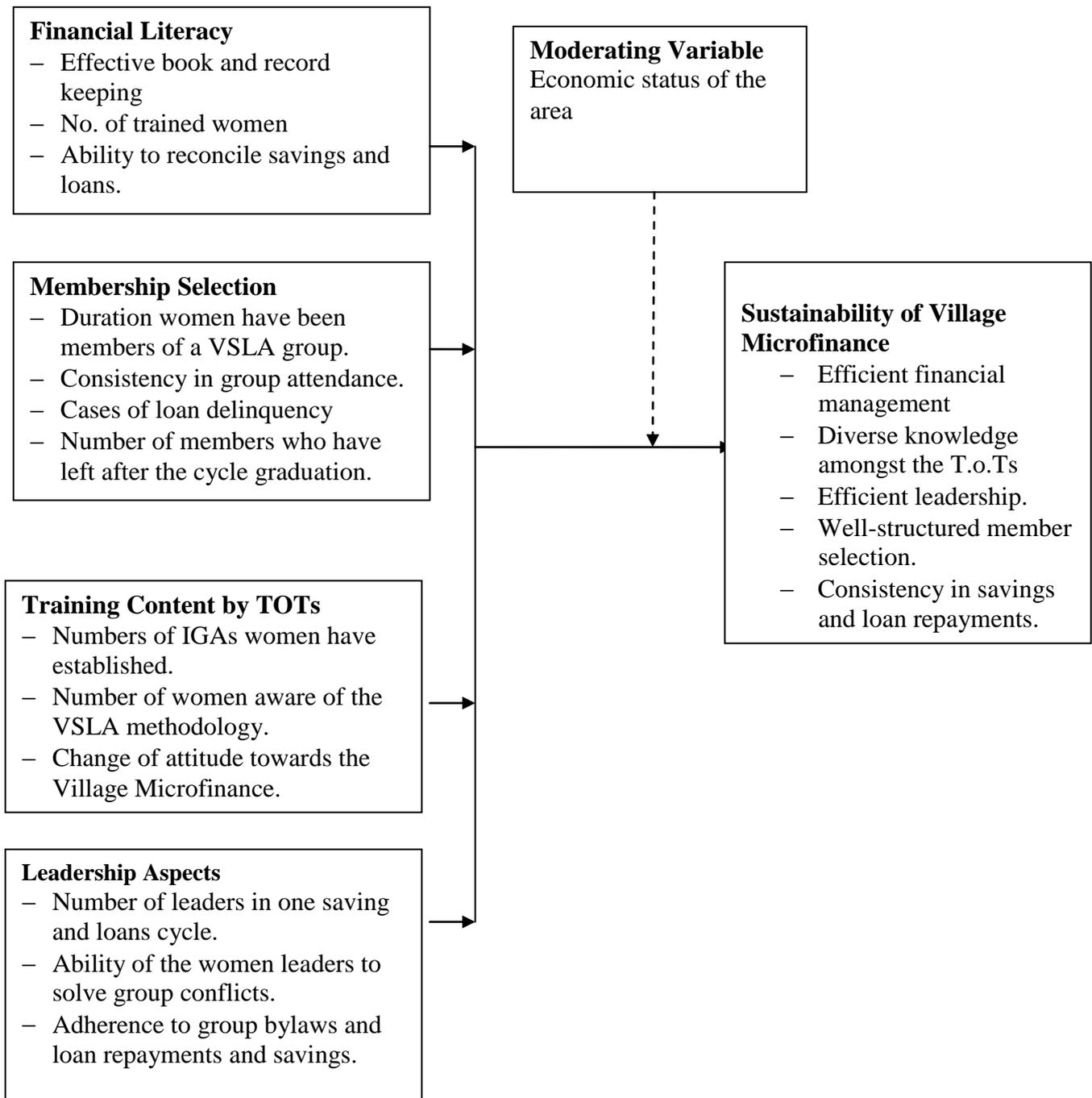
Previous studies on village banking and micro-finance have strongly indicated that the village micro-finance programs, which target more poor people, more rural inhabitants, the more uneducated people, and more women than are found in the general population, tend to be less sustainable especially when they are initiated by Apex Non-Governmental Organizations, in which case they crumble once the NGOs exit Manfred Zeller & Richard L. Meyer (2002). The support of the Apex NGOs to the village microfinance associations notwithstanding, other various factors affect the sustainability of the Village micro-finance project in the rural areas.

Figure 1: Conceptual Framework

The research study will entail two variable; the independent and dependent variables. The independent variables will be the factors influencing the sustainability of village microfinance, which is the dependent variable.

Independent Variables

Dependent Variable



The levels of financial literacy, criteria for membership selection, training content by T.o.Ts and the various leadership aspects influence the sustainability of the village microfinance.

2.10 Summary of the reviewed literature and knowledge Gaps

Previous studies have shown that the Village Microfinance projects have an impact to the poverty alleviation in the rural communities. They are very effective when there is a well-structured financial management system, including the savings and loans repayment. Other aspects such as group membership dynamics are yet to be explored as potential factors that may influence the sustainability of the Village micro-finance projects. Studies on the CARE VSLA projects recommended there is a significant relationship between financial literacy and sustainability of the village micro-finance. The recommendations given were that; such village microfinance groups should be accorded more financial literacy trainings, leadership and group dynamics for the benefit of their groups. The study also suggested that a study should be conducted to determine the influence of loan fund utilization rate on choice of income generating activities and influence of record keeping and loan loss among village savings and loans associations, from a Village microfinance sustainability perspective.

The knowledge gaps to be addressed by this study include: The financial literacy, VSLA membership selection, training content by the T.o.Ts and Leadership aspects as factors influencing the sustainability of the village microfinance project in Kalama Division.

Village microfinance has been the greatest invention in history of finance. It has made access to finance by the marginalized very easy and affordable. Most of the Microfinance institutions have not ventured into the villages, given that the income base in the grass-root communities is very low and the opportunity for growth is not competitive. The invention of the Village Savings and Loans Associations by CARE International provided the most affordable way of increasing household income in the villages by empowering the communities to form groups based on trust, and pool their small income together. From their savings, they are able to access loans at a very low interest. However, there are various determinants of the sustainability of the village microfinance, which this research study will look into.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter looks into the methods that were be used in the survey of the factors influencing sustainability of Village Microfinance in Kalama Division. The chapter covers the research design, target population, sampling procedure, and methods of data collection, validity of the research instruments, reliability of the research instruments, methods of data analysis, and the ethical issues.

3.2 Research Design

A research design is the conceptual structure in which research is conducted (Kothari, 2003). The research study was done through a descriptive survey design where quantitative data was collected and analysed to look into the various determinants of the village microfinance sustainability in Kalama Division. The descriptive design maintains a high level of confidentiality. It is convenient and enables data to be collected faster, enables questions to be asked personally in an interview or impersonal through a questionnaire about things which cannot be easily observed. It also gives the researcher an opportunity to get an accurate view of responses to issues as well as test theories on social relationship at both individual as well as group levels (Kothari, 2003)

3.3 Target population

The study's target population was drawn from Kalama Division and focused on the members of the VSLA in Kalama Division, which comprises of 1,200 women in total and 6 CBTs/T.o.Ts. Out of the total population of the 1,200 women in the village microfinance, only 10% were targeted, and 3 CBTs as half of the T.o.Ts of the village microfinance project.

The target population was distributed as presented in table below:

Table 3.1: Distribution of Target Population

Category	Population	Sample Size
Women	1,200	120
CBTs/T.o.Ts	6	3
Total	1,206	123

3.4 Sample size & Sampling procedure

Sampling is the procedure by which a researcher gathers people or things to study (Kombo & Tromp, 2006). A sample is a finite part of a statistical population selected for observation and analysis (Best & Kahn, 2007). The sample size was 120 women in the Village microfinance project in Kalama Division. 3 out of the total 6 CBTs were selected for the research study.

Stratified sampling method was used in the research study to classify the respondents into various categories of participation in the study. The actual sample size was arrived at by applying Mugenda and Mugenda's (2003) recommendation of a sample of 10-30% of the target population. However, in a small universe, a larger population could be selected. In this research study, 10% of the target population of women shall be selected and 50% of the T.o.Ts. According to (Deming, 1960) the sample size must be large enough to provide the degree of measurement precision and accuracy. Given that the total number of T.o.Ts is 6, 50% of the total target population provided more precision and thus 3 out of the 6 were selected as the representative.

3.5 Data Collection Methods

The study was based on both secondary and primary data. Secondary data was collected from previous research studies carried out and documented in the form of books, journals and articles. The primary data was collected through the administration of questionnaires to the respondents. The research instruments were first tested in the field before being used in the actual data collection. These research instruments were structured according to the research objectives. Questionnaires were then administered to the 120 women and 3 CBTs/T.O.Ts in the village microfinance of Kalama Division.

The questionnaires were administered to the women as the respondents and the CBTs/T.O.Ts as the key informants. The key informants were the respondents who provided deep information regarding the village microfinance; and who are referred to as the Community Based Trainers/TOTs. The questionnaires were administered to individual members of the village microfinance project.

3.5.1 Pilot Study

A pilot study was conducted so as to improve the quality of the research instruments and data collection procedures. It was necessary to carry out a pilot study on a sample of the target population to avoid contamination and to test the reliability and validity of the research instruments. The pilot study gave pointers on how to improve the validity and reliability of the strengths and difficulties in the questionnaires by identifying questions or elements that are ambiguous or unclear to the respondents. Therefore, the pilot study was carried out on 1 key informant and 5 village microfinance respondents.

3.6 Validity of the Research Instruments

Mugenda and Mugenda (2003) described validity of a research instrument as the degree to which it accurately measures what it purports to measure. To establish the validity of the research instruments to be used, the items in the questionnaires were reviewed against the research objectives to ascertain their accuracy.

The pilot study was carried out and helped make various changes from anticipated challenges that may be faced during the data collection. To ensure first-hand information was collected, the data questionnaires were administered to the village microfinance respondents, individually.

3.7 Reliability

Reliability is another important measurement in research. Reliability refers to the consistency of the scores to be obtained in the research, that is, how consistent the scores are for each individual from one administration of an instrument to another, and from one item to another (Gakuu & Kidombo, 2008).

In order to reduce the levels of biases and increase the levels of reliability, the research instruments were extensively discussed with experts in research and the subject area in order to ensure their appropriateness. The researcher also sought guidance from the project Supervisor. Additionally, a pre-test of the questionnaires was carried out on a sample of the target population, so as to ensure that the data collection was not ambiguous, and that it was relevant to the objectives of the research study. The piloting enabled any necessary adjustments to be made to the data collection tools.

3.8 Data Analysis Procedures

Upon completion of the data collection, the researcher checked out the completeness, validity, accuracy and consistency of the questionnaires. The data was then arranged and grouped according to the particular research questions. The data obtained from the questionnaires was based on the research questions and analysed by descriptive statistics that included percentages. The statistical package for social sciences (SPSS) was used in establishing the data associations, analysing the data and helped in coming up with the findings of the research, the conclusions and the recommendations for further research, in line with the objectives of the research study. The collected data was screened and cleaned for errors, coded, keyed in and the analysis generated in the form of graphs and frequency distribution tables.

Table 3.2: Operationalization of Variables

Research Objectives	Variable	Indicators of the Variables	Measurement Scale	Data Collection Methods	Type of Analysis	Level of Analysis
<ul style="list-style-type: none"> - To establish how financial literacy influences the sustainability of Village Microfinance 	<ul style="list-style-type: none"> - Financial literacy amongst the members of the Microfinance. 	<ul style="list-style-type: none"> - Effective book and record keeping - Ability to reconcile savings and loans. 	Nominal <ul style="list-style-type: none"> - Male - Female Ordinal <ul style="list-style-type: none"> - Percentages 	Questionnaires	<ul style="list-style-type: none"> - Qualitative - Quantitative 	Descriptive statistics <ul style="list-style-type: none"> -Frequencies -Mode -Minimum -Maximum
<ul style="list-style-type: none"> - To assess the extent to which members selection influences the sustainability of Village Microfinance project in Kalama Sub-county. 	<ul style="list-style-type: none"> - Member selection into the VSLAs 	<ul style="list-style-type: none"> - Consistency in group attendance. - Cases of loan delinquency - Number of members who have left after the cycle graduation. 	Nominal <ul style="list-style-type: none"> - Male - Female Ordinal <ul style="list-style-type: none"> - Percentages 	Questionnaires	<ul style="list-style-type: none"> - Qualitative - Quantitative 	Descriptive statistics <ul style="list-style-type: none"> -Frequencies -Mode -Minimum -Maximum
<ul style="list-style-type: none"> - To examine how level of education of trainers (CBT) 	<ul style="list-style-type: none"> - Level of education of the CBTs as the 	<ul style="list-style-type: none"> - Numbers of IGAs women have established. 	Nominal <ul style="list-style-type: none"> - Male - Female 	Questionnaires	<ul style="list-style-type: none"> - Qualitative - Quantitative 	Descriptive statistics <ul style="list-style-type: none"> -Frequencies

influences the sustainability of VSLAS in Kalama sub-county.	Microfinance ToTs.	<ul style="list-style-type: none"> - Number of women aware of the VSLA methodology. 	<p>Ordinal</p> <ul style="list-style-type: none"> - Percentages 			<ul style="list-style-type: none"> -Mode -Minimum -Maximum
<ul style="list-style-type: none"> - To determine how group leadership influence the sustainability of Village Microfinance project in Kalama sub-county. 	<ul style="list-style-type: none"> - Group leadership amongst the VSLAs. 	<ul style="list-style-type: none"> - Number of leaders in one saving and loans cycle. - Ability of the women leaders to solve group conflicts. - Adherence to group bylaws and 	<p>Nominal</p> <ul style="list-style-type: none"> - Male - Female <p>Ordinal</p> <ul style="list-style-type: none"> - Percentages 	Questionnaires	<ul style="list-style-type: none"> - Qualitative - Quantitative 	<p>Descriptive statistics</p> <ul style="list-style-type: none"> -Frequencies -Mode -Minimum -Maximum

3.9 Ethical Issues

The research study was carried out in Kalama Sub-County of Machakos County. There were no language barriers, contrary to the initial anticipation. However, the researcher ensured that the questions were clearly directly understood, and where possible, translated into the local language during the interview sessions.

It was expected that by affirming the confidentiality of the responses, the respondents would give unbiased information and honest responses. At the start of the data collection, the respondents were a bit hesitant to share out any information on the village microfinance, speciality due to the sensitive nature of money matters of their savings and loans.

However, the research permit, the transmittal letter and affirmation of the confidentiality of their information made the respondents more at ease to share the information on their microfinance scheme as per the questionnaires administered.

Some of the respondents were elderly women who were members of the village microfinance, and in as much as they did not understand English, they were very knowledgeable and had their questions translated to the local language.

During the data collection, the weather remained favourable and there were no major incidents of road inaccessibility that usually occurs in the Kalama area when it rains.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1: Introduction

This chapter contains the findings on the determinants of the sustainability of village micro-finance project in Kalama Division of Machakos County. It includes the findings and discussions on the demographic information of the respondents, micro-finance information of the Village Microfinance projects, the member selection into the micro-finance project, the financial literacy level of the members of the VSLAs, the training content by the trainer of trainers, as well as the leadership aspect of the microfinance project.

4.2: Questionnaire response rate:

The study was carried out in Kalama Division of Machakos County. The sample size of the study was 120 VSLA members and 3 CBTs (Trainer of trainers) as the key informants. The 116 VSLA members participated in the study at a response rate of 100% while the CBTs (Trainer of Trainers) participated at a response rate of 98%.

Table 4.1: Questionnaire response rate

Category	Target	Response Rate	Rate of Response (%)
Women	120	116	96
CBTs/T.o.Ts	3	3	100
Total	123	4	98

4.2.2: Demographic information of the respondents

Gender: This refers to the composition of the VSLA members into male or female as tabulated below;

Gender	Percentage
Female	81%
Male	19%

Table 4.2: Demographic information of the respondents

Most of the groups in Kalama Division had majority women (81%) as compared to the men (19%). This was attributed to women being more active in the village microfinance as compared to men who were employed in other areas outside the research area of Kalama Sub-County. The 19% men who were in the village microfinance project had joined on influence by their spouses, or entirely to access the savings and loans for small scale businesses.

Age groups:

Age groups	Percentage
21-30 years	11.0%
31-40 years	48.3%
41-50 years	27.1%
51-60 years	11.0%
61-70 years	2.5%

Table 4.3: Age groups

Majority of the respondents were 31-40 years (48.3%) with only a very small percentage being 61-70 years (2.5%). The age difference was attributed to women in the age bracket (31-40 years) being more active, in small scale businesses or unemployed young mothers. The older age of 61-70 years had joined the microfinance as a way to make savings or on influence by their children who were already members of the scheme.

The middle aged women who were unemployed and house wives were more likely to consistently remain members of the village microfinance project as compared to the young mothers who stood a chance to get employment in other areas and exit the microfinance scheme. Therefore, the sustainability of the village microfinance was also influenced by the age groups of the members.

Marital Status:

Most members in the study area were married (96%) as compared to those that are single (4%). This is an indication that, the sense of responsibility is highly embraced given that majority are family men and women.

Marital Status	Percentage
Married	96%
Single	4%

Table 4.4: Marital status

Most of the village microfinance members who were married preferred the village microfinance scheme as the best model for saving their earnings, and being able to borrow loans to substitute their meagre earnings, take loans for business and help supplement their family income. The rest of the respondents who were not married were entirely in the village microfinance scheme for savings and loans to run their small scale businesses.

Marital status did not significantly determine the sustainability of the village microfinance project.

4.2.3: General Micro-Finance information

Highest level of schooling:

Only 1% of the targeted population claimed to have gone up to college level. Majority said that they had gone up to primary level (57%) with quite a number reaching secondary level of education (42%).

Level of Schooling	Percentage
Primary	57%
Secondary	42%
College	1%

Table 4.5: Level of schooling

This indicated that even without the formal education, the members of the village microfinance understood the operations of the VSLA methodology and appreciated the importance and impacts of the village microfinance scheme. The level of schooling did not affect the sustainability of the

village microfinance project, as long as the members had the basic financial knowledge and numeracy skills.

Number of shares within the VSLA group:

Regardless of the duration one had been a member to a VSLA group, only 38.7% of the targeted population had accumulated shares amounting to 1400 per member in a cycle.

Number of shares	Percentage (%)
1400	38.7
1600	13.4
3690	12.6
800	8.4
900	7.6
1000	7.6
2000	5.0
9000	2.5
1200	1.7
16000	.8
1500	.8
14000	.8

Table 4.6: Number of shares in the VSLA

The members of the VSLA saved different amounts of shares per group, depending on the ability to contribute the agreed amount of savings per month in one saving cycle. However, some members contributed more savings than the others in one savings cycle if they were capable. This was to their added advantage as they could access more loans since the village microfinance members accessed as much amount of loan as they had saved. The variances in shares per member were due to the difference in earning and saving abilities of the village microfinance members. The VSLA methodology allows the members to save a minimum amount of money, but still be able to save more if they have a bigger income base. (Mutesasira, 1999)

However, this does not affect the sustainability of the village microfinance, as long as the members are able to save, take loans and repay as per the group’s constitution.

4.3: Research Questions

4.3.1: Financial Literacy

a) Level of awareness of the Village Micro-Finance Saving Methodology:

Financial Literacy	Percentage
Good	81%
Fair	17%
Not Aware	2%

Table 4.7: Level of awareness on VSLA methodology

With 81% of the respondents claiming that they had a good knowledge of Village Micro-Finance saving Methodology, it was a good indication that the continuity of the VSLA groups and the success is set upon the right track. With a concerted effort aimed at financial literacy, the few who were not well informed can be brought to par with the rest of the informed group.

The members' knowledge on the VSLA methodology was important in ensuring that they understood how to save, take loans, repay the interest and accumulate their savings as is expected of the VSLA methodology. (Allen & Staehle 2007). Lack of the VSLA methodology knowledge compromise the sustainability of the VSLA methodology as the members became members of the village microfinance to have the privilege of accessing loans at a lower interest than the MFIs, but then left after they had saved adequate amounts of shares. This led lowered the sustainability of the village microfinance.

b) Importance of Financial knowledge in the village micro-finance operations:

Majority (96.6%) felt that financial knowledge was very important and this out rules any feeling of inadequacy as far as the whole issue of this vital knowledge is concerned. The summary is represented in the graph below;

Importance of Financial Literacy	Percentage
Very important	96.6%
Not important	1.7%
Sometimes important	1.7%

Table 4.8: Importance of financial knowledge in VSLA operations

In as much as most of the members of the village microfinance members did not have a high level of education, they still had the basic knowledge for the microfinance operations, and realized that financial knowledge was equally important and could easily be acquired or trained on.

Financial knowledge ensured that the members of the village microfinance scheme were able to carry out basic financial operations, and lack of it compromised the sustainability of the village microfinance.

c) Number of members aware of book/record keeping for their savings and loans:

Almost all members (80.7%) were aware of book/record keeping for their savings and loans. Only a few claimed not to be aware but that could not be a cause for alarm since they could learn from the educated many. The summary is as shown in the graph below:

Awareness on record keeping	Percentage
All group members	80.7%
Fee members	14.9%
None	4.4%

Table 4.9: Awareness on record keeping

Record keeping is important in any financial operations, and more-so, the village microfinance records of savings and loans, as this helps keep track of their contributions and make the reconciliation more accountable. Lack of proper record keeping compromises the accountability of the financial savings and loans, and if done to a large extent, it lowers the trust levels amongst the group members and leads to disintegration or members leaving the village microfinance scheme due of lack of trust. Therefore, proper bookkeeping is essential for sustainable financial operations of the village microfinance projects. Possibly, passbooks could be given to individual group members to enable them keep track of their own savings and loans.

d) Accessibility of the savings and loans records:

The research findings showed that there was no problem in the way information about savings and loans were disseminated. A big number said that the records were always available in meetings (86%). For other groups it was evident that such records are availed to members on request (12%), with only a minute number saying that such records were non-existent (2%). See the frequency table below:

Accessibility of the savings and loans records	Percentage
Always available in meeting	86%
On request	12%
Non-existent	2%

Table 4.10: Accessibility of savings and loans records

The accessibility to savings and loans ensured that members maintained their trust in the village microfinance scheme, and that every member was at liberty to access their savings and loans information. Only a few that did not seem to have information on their savings and loans, being new members of the village microfinance. However, members who were not consistent in the group meetings and attendance missed out on the updates of their savings and loans, and this compromised the sustainability of the village microfinance especially when some members start losing trust of the inconsistent members and decide to leave the groups.

e) Contribution of financial literacy to fraud and misappropriation in one saving cycle:

How often financial literacy contributes to fraud and misappropriation of group funds	Percentage
Never	55%
1-5 times	40%
5-10 times	5%

Table 4.11: Financial literacy vis-a-vis misappropriation

With Never (55%) taking lead, it was a clear indication that the leadership among the groups was a bit apt. However, there is need for financial literacy to curb misappropriation of funds as indicated by 1-5 times (40%). Financial literacy is important for the reconciliation of the groups' savings and loans, and keeps track of their financial operations in an accountable manner. This helps minimize cases of wrong mathematical calculations, interest errors on the loans taken and any possible cases of funds misappropriation and fraud. Therefore, lack of financial literacy significantly contributed to the lack of village microfinance sustainability.

f) Challenges resulting from the VSLA's financial management:

Some of the challenges regarding financial management mentioned by the respondents were as shown in the table below:

Challenge	Percentage
Misappropriation	63%
Wrong reconciliation	17%
Lack of accountability	7%
Poor interest calculation	7%
Lateness in loan repayment	2%
Lateness in submission of savings	2%

Table 4.12: Prevalent VSLA Challenges

The research established that the village microfinance was faced with various challenges. One of the biggest challenges was the misappropriation, which occurred mainly due to mistrust amongst the members especially in groups that selected members whom they did not know or family members who could not be trusted. Misappropriation was also attributed to lack of financial literacy in keeping track of the amounts of money saved, loans taken and repaid, and interests paid in the loans. Wrong reconciliation occurred from mathematical calculation errors of the savings, loans and paid interests, while lack of accountability resulted from poor record keeping or lack of thereof. Poor interest calculation was attributed to lack of financial literacy, while the lateness in submission of savings was mainly due to lack of income, poverty levels, and slight lack of momentum in savings amongst some of the members who were yet to realize the benefits of the village microfinance scheme.

The above challenges if not resolved, collectively led to the disintegration of some of the groups and in the threatened the existence of the village microfinance project in the long-term and its sustainability.

g) Members’ understanding of the Village Micro-finance’s loan repayment default penalties:

Understand penalties of loan repayment	Percentage
Yes	99%
No	1%

Table 4.13: VSLAs understanding on loan repayment default penalties

It was evident from the study that most of the groups had clearly laid down the procedures as well as the penalties regarding loan matters. Almost all members (99%) were aware of the penalties should there be irregularities in loan repayment of an individual. However, the inability to repay the loans mostly resulted from the members’ lack of knowledge on income generating activities in which they could first invest the loans taken, so as to get returns on investments and be able to repay their loans on time. Loan delinquency had a great effect on the sustainability of the village microfinance since when all loans are borrowed and not repaid by the members, then essentially the group operations are stalled, and eventually end up collapsing.

h) How financial management would enhance the group's financial operations and ultimately the group's sustainability:

Financial Management would enhance group’s financial operations	Percentage
Yes	99%
No	1%

Table 4.14: Relevance of VSLA financial management

With majority saying yes (99%), it is true that financial management enhance the group's financial operations and ultimately the group's sustainability. Financial management of basic information on finance amongst the village microfinance members would ensure that they are able to reconcile their savings, loans, and interests paid on the borrowed loans. They will also be able to make sound financial decisions on the loans borrowed, other than take loans to make unnecessary expenses other than investments, but be unable to repay the loans. Financial knowledge will curb the cases of misappropriation and poor accountability.

4.3.2: Member Selection

a) The Village Microfinance's member selection criteria:

Member selection criteria	Percentage
Based on trust	95.8%
No criteria	2.5%
Based on familiarity	1.7%

Table 4.15: Village microfinance member selection criteria

The strength of the VSLA groups seemed to rely on the fact that members were familiar to one another since they could trust one another. This was confirmed by the leading selection criteria whereby a large number claimed to base it on trust (95.8%). The research established that the village microfinance groups that were formed on the basis of mutual trust were more sustainable than those formed around familiarity, family ties or no criteria at all. Trust ensured that there were no or minimal cases of group conflicts, misappropriation, fraud, loan delinquency and leadership wrangles, which were the most prevalent factors influencing the sustainability of the village microfinance.

b) **Ways in which the Microfinance ensures that members adhere to attendance to meetings:**

How to ensure that members adhere to attendance to meetings	Percentage
Payment of fine for lateness or non-attendance	99%
Members who do not attend numerous times are expelled from the group	1%

Table 4.16: Adherence to group meetings

Payment of fine for lateness or non-attendance (99%) seemed to be a good discipline check within the groups. This ensured that the members adhered to group attendance and maintained saving and loaning consistency. Lack of attendance to group meetings meant that most of the group members in the village microfinance were left out on any new developments and updates of savings and loans which are only done during the meetings. Most of the group members who absconded the group meetings were avoiding the loan repayments and were reported to be some of the causes of loan delinquency. This ultimately led to poor sustainability of the village microfinance groups.

c) **Rates at which the village microfinance members can guarantee each other loans:**

Rates at which members can guarantee each other	Percentage
Some members	67.0%
All members	30.4%
None	2.7%

Table 4.17: Levels of trust amongst VSLA members

The village microfinance project groups are mainly formed on the basis of trust. When members take loans, they do not have any written agreements for guarantorship other than noting down the amount of loans taken and interest repayable in their group records. For most of the VSLA groups, loan repayment seemed to have been a great issue since a large number of respondents claimed that they would only guarantee some members (67%) when it comes to loans. The risk in

this kind of operation is that, any untrustworthy group member can easily evade loan repayment and exit with the members' interest and savings. On the other hand, groups that are formed on trust are able to seek information of the members they select into their group widely, and this makes it easier for them to follow up on any members who have defaulted loan repayment. Trust amongst the members is important for the long-term running of the village microfinance project.

d) **Rates at which village microfinance members have left the in one savings cycle:**

Members who have left in one saving cycle	Percentage
1-3	55.9%
3-5	9.9%
All	27.9%
None	6.3%

Table 4.18: Frequency of member exit in one saving cycle

The rate at which members were leaving groups was wanting. With 1-3 cycles having the greatest percentage (55.9%), there seemed to be a problem as to why the situation is so. Most of the members who left the VSLA were due to poor leadership, mismanagement of their savings and loans, fraud, misappropriation and largely, the high cases of loan repayment defaults. When members did not trust one another, it was difficult for them to remain in the same groups the cases of group conflicts were higher; therefore, most of them left to join other VSLA groups or exit the village microfinance project entirely, thus affecting the sustainability.

4.3.3: Training content by the TOTs

a) Members of the village microfinance aware of the VSLA methodology:

VSLA Methodology awareness	Percentage (%)
All members	55.8
None	21.2
Less than 500	13.5
More	9.6

Table 4.19: Awareness on the VSLA methodology

The graph above shows that majority of the VSLA members were aware of the VSLA methodology as the model of the village microfinance project in Kalama Division of Machakos County. Those that were not aware were either new members or were simply interested on the benefits of being in the village microfinance, which were savings and loans, without knowing understanding the essential operations of the microfinance scheme. Awareness on the VSLA methodology enhanced the members' understanding on its operations and other aspects other than just the savings and loans per se. Therefore, awareness and understanding of the VSLA methodology lowers the issues arising from group dynamics and enhances the sustainability of the village microfinance.

b) Village microfinance members trained on the following aspects of the VSLA methodology:

The table below shows that the members of the village microfinance had been trained on the key aspects of the village microfinance model (VSLA). However, the loan delinquency seemed to be a challenge that most VSLA members are struggling with, and the members needed further assistance on the best viable remedies. Members of the village microfinance understood to detail the methodology of savings and loans, as compared to the loans repayment and share outs. Most of the members left the group after the graduation/share-out. This was attributed to the increased cases or default in loans repayment, or cases of increased financial mistrust amongst the village microfinance members.

Aspect trained on	Percentage
Savings	87%
Loans	87%
Shares	61%
Graduations/ Share-out	44%
Loan Delinquency	13%

Table 4.20: VSLAs member training on various aspects

Loan delinquency, poor understanding of the savings, loans, interests' payment, shares and share-outs amongst other things were aspects that weakened the lifetime of the village microfinance members since most of them left the groups when these cases were on the rise. Therefore, in order for the village microfinance project to be sustainable, the group members need to be trained on the various key aspects of the VSLA methodology, and for them to understand how the methodology works so as to ensure the smooth running of the village microfinance projects.

c) Other capacity building trainings given to enhance the self-reliance of the VSLA group:

Most of the VSLA trainings were conducted on a needs basis; with the key capacity building being on income generation and proposal writing.

Capacity Building Trainings	Percentage
Income generation	68%
Proposal writing	46%
No other training apart from savings & loans	14%
Catering	1%
Chicken rearing	1%
Farming as a business	1%
Making baskets	1%

Table 4.21: VSLAs member capacity building trainings

The VSLA methodology on its own is not sufficient enough to sustain the village microfinance; therefore, the members need more knowledge on a variety of income generating activities that each member can invest in as per their interest. This will enable them make returns on investments and enhance their loans repayment capability.

The table above shows the various income generating activities that some of the VSLA members have ventured into for the long-term sustainability of their microfinance project.

d) Members’ knowledge on the sustainability concept of the Village microfinance as trained by the ToTs:

The VSLA model is a village microfinance model designed to improve the income base of the rural communities whilst improving their livelihoods. However, its sustainability is greatly influenced by various factors as discussed in this research study. The members of the village microfinance project need to be sensitised and empowered on ways in which they can enhance its sustainability. Without this kind of knowledge, the members of the village microfinance project will only remain members as long as they are able to meet their immediate needs, but will not have a way of sustaining their income bases during economic crises resulting from inflation and other financial factors.

T.O.Ts have given you sufficient knowledge for a sustainable VSLA	Percentage
Yes	54%
No	44%
Not sure	25%

Table 4.22: VSLAs understanding of the sustainability concept

From the table above, only 54% of the village microfinance respondents felt that the T.O.Ts had been given sufficient knowledge for a sustainable VSLA. Therefore, there is need for more capacity building to the group members; to be well informed on ways in which they can ensure the sustainability of the village micro-finance for the long-term benefits to its members and the community at large.

e) **The extent to which Village Microfinance has made an impact to the members:**

The table below shows the extent of benefits from the village microfinance to the VSLA members;

Impact of Microfinance to the Members	Percentage
Improved livelihoods	56%
Increased income base	40%
Most members are still to realize its impact	4%

Table 4.23: VSLA impact

The study established that the greatest impact of the VSLA was improved livelihoods and increased income base, even though other minimal members were yet to realize the benefits. This could have been due to their recent membership into the village microfinance. Most of the members had improved livelihoods, better health access, improved ability to pay school fees for their children, loans access for small businesses and improved wellbeing.

For sustained impacts and benefits from the VSLAs, the members need to fully understand the VSLA methodology and diversify their activities which are only savings and loans at the moment. For instance, viable income activities would give the village microfinance members an increased income base for them to save more and borrow bigger loans for better investments and long-term financial sustainability.

4.3.4: Leadership Aspects

a) **The rates of knowledge on the village microfinance guiding group constitution for leadership elections:**

The VSLA methodology is carried out mostly in groups, which can only operate efficiently and under control by having a selected group leader.

The table below outlines the extent to which members of the village microfinance project are aware of the requirements of being in a group;

Do you have a guiding group constitution for leadership elections	Percentage
Yes	96%
No	4%

Table 4.24: VSLA member understanding on group constitution

The study found out that 96% of the VSLA group members had a guiding constitution of their leadership elections. This meant that they are able to make informed leadership elections. The rest that were not aware were new members that had just joined the village microfinance scheme, and would still learn the essential requirements of being in a group for the smooth running of their long-term operations and activities.

b) How the choice of the group leader determines the lifetime of the group and its membership:

Leadership is one of the key considerations for a viable village microfinance project, given that there are various activities that are undertaken within the various VSLA groups. The table below outlines the research findings on the leadership influence on the sustainability of the VSLA groups in Kalama Sub-County;

Choice of the group leader determine the lifetime of the group and its membership?	Percentage
Yes	63%
No	19%
Sometimes	18%

Table 4.25: Influence of group leadership on the VSLA sustainability

The findings from the study on the choice of the group leader in the village microfinance project was that; majority felt that the choice of the group leader influenced the group dynamics such as the loans repayment, adherence to group contributions and attendance to group meetings among other VSLA group activities. Groups that had leaders with a variety of skills and knowledge on conflict management, income generating activity ideas, creativity and innovation, financial

management and accountability were more sustainable than those that had leaders who could not resolve the group conflicts or guide the group members in following up on the group members who had defaulted loan repayment or become inconsistent in their savings.

c) **Frequency of leaders' re-election in one savings cycle in the last 3 years:**

Frequency of leaders' re-election	Percentage
1-3 times	62.3%
2-5 times	36.0%
None	1.8%

Table 4.26: Frequency of member re-election in one savings cycle

The trend from the research study indicated that majority of the VSLA group members had not re-elected their group leaders over the last 3years of their savings cycles. This was a clear indication that there was trust in the choice of group leaders within the village microfinance project. Trust is one of the essential factors in ensuring the sustainability of the VSLA groups, as this gave the members more confidence in being part of the village microfinance scheme.

d) **Challenges that the village microfinance leaders have successfully tackled without affecting the membership and existence of the microfinance scheme:**

The VSLA groups are faced with various challenges; group conflicts, loan delinquency, non-attendance and poor participation to group meetings, savings inconsistency and financial mismanagement. The leaders of the group are strategically elected to be able to resolve this kind of challenges without compromising the membership and the long-term nature of the village microfinance. The table below shows the extent to which the nature of leadership influences the challenges that arise within the VSLAs;

Challenges tackled successfully	Percentage
Loan Delinquency	54%
Non-attendance	55%
Savings inconsistency	51%
Conflicts from group dynamics	28%

Table 4.27: VSLA challenges resolved by the leaders

Non-attendance to the group meetings was studied as the highest kind of challenge that the VSLA group leaders were struggling with. This could have been attributed to the inability to repay the loans borrowed, since the delinquency rate tied with the non-attendance. When the group members attend the VSLA group meetings, they pay back the borrowed loans and save more into the VSLA savings pool. However, non-attendance is an indication of the loan delinquency tendencies. Savings inconsistency was also attributed to the lack of attendance to group meetings as the members avoided attending so that they could not contribute as is the norm during the VSLA group meetings. The sustainability of the VSLA groups was greatly influenced by the attendance to group meetings or lack thereof. This was due to the gaps in group activities that the absentee members missed out on during the group meetings, or those that avoided the group meetings as a way to default loan repayment.

e) **Probability of being village microfinance members in the next 2 years under the present leadership:**

As a factor determining the sustainability of the VSLAs, the research sought to find out if members of the village microfinance project would still be members of the VSLA groups under the current leadership. The table below highlights the findings;

Probability of remaining in the microfinance in the next 2 years under the present leadership	Percentage
Yes	96.5%
Maybe	1.8%
No	1.8%

Table 4.28: VSLA membership in the next 2 years under the current leadership

The VSLA group members interviewed responded at a rate of 96.5% that they would still remain members of the village micro-finance out of their own personal choice. This meant that the indeed, the members had a high level of trust with their current leadership and that meant that they were able to resolve most of the arising VSLA group issues and dynamics. The members had also realized the value and impact of the village microfinance project, as long as they have the right kind of leaders to rightfully influence and manage the VSLA group dynamics for the sustainability of the village microfinance project.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1: Introduction

The purpose of this study was to investigate the determinants of the sustainability of village microfinance projects in Kalama Division of Machakos County. This chapter presents summary of findings, discussions, conclusions and recommendations based on the objectives of the research study.

5.2: Summary of Findings

The study findings showed that various aspects of the village microfinance influenced the sustainability of the project. According to the study, the selection of members, the financial literacy level, the training content by the T.o.T and the leadership aspects all have a significant influence on the sustainability of the village microfinance project. The research study established that member selection was the key contributing factor to the sustainability of the village microfinance project or lack thereof. This was due to the high levels of mistrust and insecurity of their savings and loans if they selected members that they did not trust. Leadership aspects were the second contributing factor followed by the training content of the ToTs and lastly the financial literacy.

5.2.1: Member Selection

The study established that the VSLA groups selected members based on trust at a rate of 96% as compared to familiarity or family ties. This can be attributed to the financial aspect of the village microfinance where members save and take loans.

There was also lack of gender balance in the membership selection, with majority of the VSLA members being middle aged women, and a few older and minimal aged women.

From the findings, the VSLA group members seemed to prefer being fined for lateness other than adhering to the required group attendance or risk being expelled from the VSLA.

5.2.2: Financial Literacy

81% of the village microfinance members had financial knowledge. They could at least do the basic mathematics and monetary calculations and balances. Interestingly, lack of financial literacy had not led to any cases of monetary fraud, and 99% of the VSLA members understood the

penalties for loan delinquency even with the high cases of loan repayment default. Further 96% agreed that financial knowledge is important for a more sustainable village microfinance scheme. 80% of the members were aware of the records and book keeping within the village microfinance project, with a further 86% being able to access their savings at any time, and a 12% minority being able to access their savings only on request.

5.2.3: Training Content by ToTs

54% of the VSLA members had sufficient knowledge on the concept of sustainability within the VSLA methodology. The T.o.Ts had accorded the village microfinance project members with various capacity building trainings other than the VSLA methodology. The key capacity building had been on income activities and proposal writing, while the rest was on a needs basis as per the priorities of the particular VSLA group members.

5.2.4: Leadership Aspects

96% of the VSLA members had the guiding constitution and were able to make informed election of their preferred choice of group leaders. As a result, a majority 63% felt that the choice of the group leader greatly determined the dynamics and operations of the VSLA group and reduced the cases of re-election within a particular saving cycle, which compromised the trust levels within the village microfinance.

5.3: Discussion of the Research Findings

The following section presented the discussions of the findings under the various thematic areas;

The first objective of the research study was to look into ways in which the member selection into the village microfinance project influences its sustainability. The findings from the research established that most of the members only lasted together as a group due to the trust they shared, and the fact that they formed the membership based on trust more than on familiarity or family ties.

The advantage with membership based on trust was that the members were able to account for their loans and savings and that reduced the cases of fraud since they could always hold each one of their members accountable in cases of fraud or misappropriation.

The only challenge with membership selection based on family ties or familiarity was the lack of security since family members or friends easily failed to repay loans taken or even knowingly misappropriated and mismanaged the village microfinance's pools of savings.

Interestingly, more members paid for fines for non-attendance to group meetings other than being expelled from the group for not attending to the group activities. This finding was an indication that the membership is long-term oriented and that the members were willing to go to lengths to retain their membership in the group for as long as they were able to. However, this led to complacency and inconsistency in loan repayment which happens during the group meetings.

The second objective was to find out if the financial literacy of the village microfinance members affected its sustainability. The findings of the research established that most of the VSLA members were aware of the financial knowledge required for the group operations. Such financial knowledge included simple monetary calculations and reconciliation of the savings and loans, including the calculation of the payable loan interests. Despite being aware of the penalties for loan repayment default, the cases of loan delinquency still remained very high.

Misappropriation of funds seemed to be the biggest challenge that the village microfinance members were struggling with, as compared to the wrong reconciliation and poor interest calculation. This was attributed to the minority selection of members based on familiarity or entire lack of accountability amongst the VSLA group members, or even poor leadership and management of the groups' savings and loans.

The study also established that the members realized the importance of financial knowledge on the management of their group savings and loans, and especially the reconciliation of their income. This influenced the trust that the VSLA members had in their microfinance group, and if or not they wanted to continue investing their savings in the group for a lifetime.

The third objective of the research study was to determine if the training content by the ToTs influences the sustainability of the village microfinance. The study findings established that all members of the village microfinance had been trained on the VSLA methodology. However, it was noted that there is a high frequency of loan delinquency and lack of confidence in the sustainability of the village microfinance project.

Most of the VSLA members felt that they needed support to a great extent for them to be well established and be able to run independently without support from the founding organizations or support by the ToTs.

The study also found out that the village microfinance members had been trained on income activities and proposal writing as strategic capacity building for viable income activities and the sustainability of the VSLA groups.

The VSLA methodology in itself only focused on the savings, loans, interest calculation of the loans and loan repayments. In itself, the VSLA methodology had only achieved as much impact over several years, as compared to the additional complementary capacity building trainings for the village microfinance members that gave them a better advantage on best ways to invest their loans and savings so as to get more returns, improve their loan repayment ability and ultimately had viable income base.

The fourth and last objective of the research study was to establish how the leadership aspects of the village microfinance project influence its sustainability. From the findings, majority of the village microfinance members understood that the choice of their group leader influenced various group dynamics such as the management of group income, follow-up on the loan repayments and penalties on the loan delinquencies, fines for non-attendance to group meetings and general overseeing and support to VSLA group activities.

Having a guiding constitution also gave the village microfinance members an upper hand in accessing legal group registration and even possible support by funding agencies; this ensured that the village microfinance was more sustainable and self-dependent. The constitution also instilled discipline amongst the members to adhere to the group meetings and other group activities.

The study also established that the village microfinance members were able to make informed decisions on the kind of leader they preferred for their group, and did not have to re-elect numerously within a particular cycle. Frequent re-elections indicated a lack of truth in the leadership and led to the disintegration of the village microfinance in the long-term as members gradually exited.

5.4: Conclusions of the Study

From the above findings, the researcher can conclude that;

Basic financial literacy is important for the sustainability of the village microfinance project as the members need to empower on basic accounting and reconciliation of their loans and savings. In order to realize maximum profits from the village microfinance, the members need to be aware of the saving trend, how to invest and market their income activities and products, how to follow up and ensure that the members do not default loan repayments.

Structured member selection is an important aspect in the sustainability for the village microfinance project; however, lack of trust in the membership greatly affects the sustainability of the groups and creates possible conflicts that end up splitting the group members.

Diversified training content by the T.o.Ts seems inadequate apart from the VSLA methodology that is a package of the village microfinance. Capacity building and empowerment of the VSLA members on other income generating activities enhances their income base and ensures its sustainability.

Quality leadership is important as the group leaders play the crucial role of managing the VSLA group dynamics such as attendance, savings and loans amongst other group activities. The less number of times the village microfinance group re-elects their leader, the more trustworthy the village microfinance becomes.

5.5: Recommendations

Based on the study findings, the study recommended that;

1. The village microfinance members need to be empowered on how effectively they can tackle the recurrent issues of loan delinquency.
2. The VSLA groups also need to be trained on viable income activities so as to boost their income base, as well as the marketing skills for their income products.
3. In the future, the founding NGOs may have to consider legally registering the village microfinance groups as one entity in the form of a village bank, with a proper central management system where all member groups can pool their savings, access loans and repay as well as providing pass books for personal records and tracking of their savings and loans. The ToTs could then be the managers of the village bank and help follow up and penalize the cases of loan delinquency.
4. In addition to having a guiding constitution, the village microfinance members need to be empowered on leadership skills and conflict management.

5.6: Suggestions for Further Research

Based on the research study findings, the researcher recommended further studies in the following areas:

1. Sustainable recruitment of the ToTs within the village microfinance project.
2. Viable income activities for the VSLA group members to boost their pool of income, savings and loans repayment ability.
3. Effective ways of dealing with the loan delinquency amongst the VSLA groups/village microfinance project.
4. Viable village banking system for the group savings and management of their loans and income.
5. Factors influencing the exit of group members after a saving cycle, and ways in which they could be retained.

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APPENDICES

APPENDIX I

LETTER OF TRANSMITTAL

Mercy Mwikali Mutuku,
P.O. BOX 10631-90100,
Machakos, Kenya

To the respondents:

I am a Postgraduate student (Project Planning & Management) at the University of Nairobi. The purpose of this questionnaire is to collect information on the *‘Determinants of the Sustainability of the Village Micro-Finance Project; Case of in Kalama Division, Machakos County, Kenya.*

This data collection will involve the women who are members of the VSLA and the CBTs, who have been the groups’ T.o.Ts. Therefore, I would like to request for your time in gathering information that will bring out a better understanding of the Village Micro-finance project. This will help future project implementers in improving the Village Microfinance project.

The information collected will be treated with confidentiality. Your identity will be kept anonymous because you are not required to reveal your name both during and after the interview. Your participation is voluntary and should there be a question that you do not wish to answer, kindly let me know and we can move on to the other questions. Your cooperation will be highly appreciated.

Thank you in advance for the valuable information you will provide as well as your time.

Yours faithfully,

Mercy Mwikali

APPENDIX II

Questionnaire for women in the Village Microfinance Project

Section 1: Background Information

Date of Interview:

Village:

Section 2: Demographic Information

- a) Gender of VSLA member:
- b) Age:
- c) Marital status:
- d) Leadership role in the VSLA group:

Section 3: General Micro-Finance Information

- a) What is the highest level of schooling that you have reached?
- b) How long have you been a VSLA member?
- c) How many shares do you have in your VSLA group?
- d) How many cycles of your VSLA group have you completed?

Section 4: Research Questions

Financial Literacy

- a) What is your level of awareness of the Village Microfinance saving methodology?
Good
Fair
Not Aware
- b) How important is financial knowledge in the village microfinance operations?
Very important
Not Important
Sometimes very important
- c) Are you aware of book/record keeping for your savings and loans?
All group members
Few members
None
- d) How accessible are the records of your savings and loans?

On request

Always available in meetings

Non-existent

- e) Has the lack of financial literacy contributed to fraud and misappropriation of the group savings in one saving cycle?

Yes

No

- f) What are the challenges resulting from the VSLA's financial management?

Misappropriation

Wrong reconciliation

Lack of accountability

Poor interest calculation

- g) As a group member, do you understand the penalties of loan repayment default?

Yes

No

Somehow

- h) Would financial management enhance the group's financial operations and ultimately the group's sustainability?

Yes

No

Not really

Member Selection

- a) How do you select the Village Microfinance's members?

Based on Trust

Based on Familiarity

Based on Family Ties

No Criteria

- b) How often does membership composition affect the trustworthiness as a VSLA group?

Always

Sometimes

No

- c) How do you ensure that members adhere to attendance to meetings?

Payment of fine for lateness or non-attendance

We don't mind if they do not attend

Members who do not attend numerous times are expelled from the group

- d) How many members of the microfinance can you confidently and without any reservations guarantee a loan for?

Some members

All members

None

- e) In the previous cycle have any members left the village microfinance?

1-3

3-5

More than 5

None

All

Training content by the TOTs

- a) Are you aware of the VSLA methodology?

Yes

No

- b) Have you been trained on the following aspects of the VSLA methodology?

Savings

Loans

Shares

Graduation/Share-out

Loan Default

- c) What other capacity building trainings to enhance the self-reliance of the VSLA group?

Income generation

Proposal writing

Many more than just VSLA methodology

No other training apart from savings and loans

- d) Is the VSLA Methodology adequate on its own for the sustainability of the village microfinance?

No

Yes

Not Sure

- e) To what extent has the village microfinance made an impact to the members?

Improved livelihoods

Increased income base

Most members are still to realize its impact

The microfinance is not any different from banks and MFIs

Leadership Aspects

- a) Are you aware of the village microfinance's constitution for leadership elections?

Yes

No

Am not aware

- b) In your opinion, does the choice of the group leader determine the lifetime of the group and its membership?

Yes

No

Sometimes

Not in my knowledge

- c) How many times have leaders been re-elected in previous saving cycle/s?

None

1-3 times

2-5 times

- d) What kind challenges has your group leader tackled successfully, without affecting the membership and existence of the microfinance scheme?

Loan Delinquency

Non-attendance

Savings inconsistency

Conflicts amongst members

None

e) In the next 2 years, would you still remain a group member under the present leadership?

Yes

No

Maybe

Thank you for your cooperation.

APPENDIX III

Questionnaire for the Key Informants (CBTs/T.o.Ts)

Personal information

- a) Name of CBT/T.o.T:
- b) How long have you been a Community Based Trainer of the VSLA groups?
- c) Which NGO trained you as a T.o.T?
- d) How many VSLA groups have you helped form within in your locality?

Financial Literacy

- a) How many VSLA members are financially literate?
 - 1-300
 - 300-600
 - 500-800
 - 800-1,200
- b) How often do the VSLA members reconcile their financial records for savings and loans?
 - Weekly
 - Monthly
 - Quarterly
 - Never
- c) How often do VSLA members face challenges with the financial literacy amongst the group members, in terms of their group sustainability?
 - Always
 - Sometimes
 - Never
- d) How often do cases of loan repayment default affected the lifetime of any VSLA group?
 - Always
 - Sometimes
 - Never
- e) Describe the nature of any conflicts resulting from poor financial accountability that is related to the financial literacy?

Easily solved
Complicated
Irreconcilable

Membership Selection

- a) What is the basis of membership into the VSLA?
- Trust
 - Familiarity
 - Family Ties
 - Trust and Familiarity
 - No basis
- b) Is there any membership fee into the microfinance?
- No
 - Yes
- c) Does membership affect the operationalization of the village microfinance?
- Yes
 - Sometimes
 - Never
- d) How many cases of drop-outs have you had from the village microfinance due to non-attendance to meetings?
- 0-100
 - 100-500
 - None
- e) How often does member selection into the village microfinance affect loan repayment?
- Frequent
 - Sometimes
 - Never
- f) For how long are you directly supporting the newly formed VSLA group until they can be on their own?
- Until they are able to effectively use the VSLA methodology

Way after they have learned the VSLA methodology

Let them learn the VSLA methodology practically on their own

- g) Are the VSLA group members trained on member selection, leadership and financial management before they form the VSLA groups?

Yes

No

Sometimes

Training Content by TOTs

- a) Have the VSLA members been trained on the VSLA methodology?

Yes

No

- b) What other kinds of capacity building have the members of the village microfinance received from you as the T.O.T to help improve their saving basket?

Income Generation

Marketing

Business Planning

Proposal Writing

None

- c) How useful have women in the village microfinance found it?

Very useful

Not useful

Group Leadership

- a) How often do leadership issues affect the membership retention in the VSLA groups?

Frequent

Sometimes

Never

- b) In your opinion, are the VSLA groups self-operational in your absence? Are they self-sustainable?

No, they need more capacity building

Yes, they are self-sustainable

c) Are the women leaders able to solve conflicts amongst themselves?

No

Yes

d) What reasons can be attributed to the lack of adherence to the Village microfinance bylaws by some or most of the members?

Lack of knowledge

Lack of interest

Inability to save or repay loans taken

Thank you for your cooperation