

Community Based Saccos and Poverty Alleviation in Rural Kenya: A Case Study of Lainisha Sacco, Mwea Sub-County Kirinyaga County

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ABSTRACT

The role played by community based Saccos towards poverty alleviation cannot be ignored. Nevertheless, empirical evidence across the globe have largely paid attention on Saccos in general and not community based. Therefore, this study sought to investigate the role that community based Saccos play in poverty alleviation in rural Kenya, focusing on Mwea sub-county, in the larger Kirinyaga County. Specifically, the study examined the role of community based saccos in poverty alleviation in rural Kenya on saving mobilization, loans accessed, training offered and employment generated that Saccos play in alleviating poverty. The study adopted descriptive design and targeted a total of 1,674 Lainisha Sacco members. Sample of 322 members was obtained from four locations in Mwea Sub-County (Kangai, Mutithi, Nguka and Kimbimbi) using stratified sampling technique. Data was collected using questionnaires and analyzed with the aid of statistical package for social sciences version 26. Findings indicate that loan conditionalities, savings mobilization, capacity building and employment generated by Lainisha Sacco has a positive effect on poverty alleviation in Mwea sub-county. The study concludes that Lainisha Sacco which is a community-based, plays a critical role towards poverty alleviation. The study recommends that National, county governments and the civil society should sensitize local communities on the importance of the community-based Saccos and the need to join them. In addition, these community based Saccos should be up scaled especially in all the rural communities of Kenya.

Key words: Community-based Saccos, Poverty alleviation, rural Kenya

INTRODUCTION

Global Multidimensional Poverty Index (MPI) (2023) by the United Nations Development Programme describes poverty as a situation where individuals are deprived of choices and opportunities, leading to a violation of human dignity. Poverty is now understood as a multifaceted condition that goes beyond the lack of income to include deficiencies in health, education, and living standards. It encompasses the inability to participate fully in society, lack of basic necessities like food and clothing, inadequate access to education and healthcare, as well as limited opportunities for employment and economic participation. Poverty also entails insecurity, powerlessness, and exclusion from social and political life, often exposing individuals to violence and forcing them to live in environmentally precarious conditions without access to clean water or sanitation, Odeny (2020).

Carmona (2021) contends that poverty is not solely a matter of insufficient income but rather a multidimensional phenomenon that extends beyond economic constraints to encompass social and political exclusion. Birchall (2004) traces the origins of modern cooperatives to Britain in the late eighteenth century, where working-class groups formed friendly societies to provide mutual insurance against life's uncertainties, reflecting a self-help response to the insecurities of wage labor during the industrial revolution.

Ntuite (2022) explains that Savings and Credit Cooperatives (SACCOs) originated in South Germany in 1846 and were further developed in Italy by Luigi Luzzatti, combining principles of community-based financial cooperation. Njiru (2014) defines cooperatives as autonomous associations of individuals voluntarily united to meet their common economic, social, and cultural needs through jointly owned and democratically controlled enterprises, reflecting the Latin roots of "cooperari," meaning working together to help one another, which ultimately benefits all of them individually, Apap (2023).

Cooperatives, as outlined by Mburu (2023), are member-owned and member-controlled institutions aimed at promoting savings, providing affordable credit, and offering various financial services. They are founded on principles of self-help, democracy, equality, equity, and solidarity (Nair, 2002). Kichawele (2020) categorizes SACCOs into community-based, employee-based, and agricultural types, each tailored to meet specific membership profiles and needs, offering diverse financial products and services. While initially focusing on basic financial products like loans and savings, cooperatives have expanded their services to include payment services, insurance, and term savings, catering to the diverse needs of low-income households (Salman, 2020). Al-Hanawi et al. (2020) emphasize the importance of micro-savings in inclusive growth, noting that poor individuals save for various purposes such as health insurance, investments, and future consumption. Savings mobilization, as highlighted by Duguma (2021), is crucial for rural populations, complementing credit services provided by SACCOs.

Novkovic (2020) underscore the role of cooperatives in generating employment through direct wage employment, self-employment opportunities for members, and indirect employment through cooperative activities. SACCOs also facilitate member empowerment by providing loans for income-generating activities, asset acquisition, housing, and business expansion (Mbunda, 2024). Cooperatives contribute to poverty reduction by addressing illiteracy through educational programs for members and their children, thus empowering them with skills and knowledge for economic advancement (Dash et al, 2020). Training provided by SACCOs enhances competence on women's incomes by improving their business management and savings skills, enabling them to start or expand businesses (Mbunda, 2024). Therefore, those not participating in SACCOs may miss out on these opportunities for economic empowerment and poverty alleviation.

Statement of the Problem

To enhance SACCOs' influence on rural poverty reduction, significant impediments to their success must be addressed. Rural communities frequently lack awareness of savings mechanisms, limiting their capacity to access financial resources through SACCOs. Addressing this issue requires focused educational initiatives to encourage savings culture and raise local communities' comprehension of SACCO services. Furthermore, specialized capacity-building initiatives are required to provide community members with the financial literacy and management skills needed to properly use SACCO resources for long-term economic growth. By providing these instruments to rural populations, SACCOs can play an important role in mobilizing local resources and developing financial independence.

Furthermore, expanding access to inexpensive loans is critical for rural development through SACCOs. Many rural residents struggle to access credit due to complicated procedures and high interest rates. Simplifying lending processes, providing reasonable interest rates, and developing financial products that cater to rural livelihoods are all critical steps toward increasing accessibility. Furthermore, encouraging entrepreneurship and job development within SACCOs might create economic prospects locally. This entails not only giving cash assistance, but also mentoring, developing market connections, and fostering entrepreneurial skills among rural entrepreneurs. By tackling these issues completely, SACCOs can make a significant contribution to poverty alleviation and sustainable development in rural areas around the world.

In the case of Kenya, there is limited evidence regarding the impact of community-based SACCOs on poverty alleviation. Existing studies in Kenya do not clearly demonstrate the success of SACCOs in reducing poverty, despite government efforts to raise awareness among rural populations about their benefits. The relatively low membership rates in SACCOs may indicate a lack of significant positive outcomes for those who have joined. Additionally, research in Kenya has predominantly focused on SACCOs overall, rather than specifically on community-based SACCOs.

Therefore, this study aims to investigate the role of SACCOs in poverty reduction among their members in Mwea Sub County. Specifically, it examines the effects of community-based SACCO loans, savings mobilization, training, and employment creation on poverty alleviation.

METHODOLOGY

Conceptual Framework

The conceptual framework links community-based SACCO operations and poverty alleviation components. Community Based SACCOS provide loans to members which enables them to improve their wellbeing e.g. access medical care, education or start new income generating activities like business, agriculture and livestock keeping. The conceptual; framework (see Figure 1) shows the relationship between the independent variables which are services provided by community based SACCOs such as loans, training, savings and employment and the dependent variable, poverty alleviation explained by income, literacy levels and accessibility to primary healthcare.

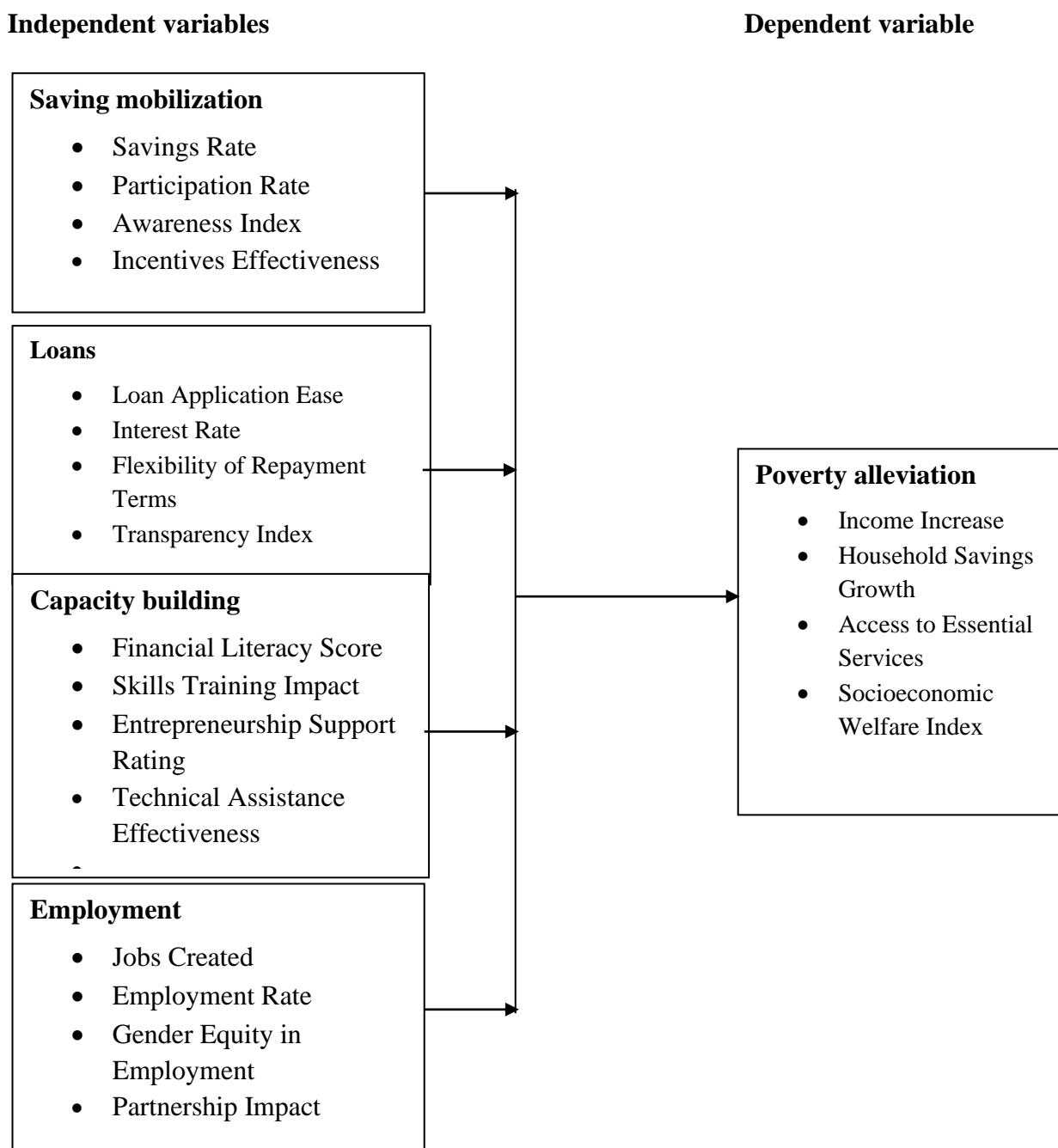


Figure 1: Conceptual Framework

Research Design, Target Population Sampling and Data

The study adopted a descriptive research design. This design enabled collection of data to describe the relationship between SACCO operations and poverty alleviation. The target population comprised of members from Lainisha Sacco within Mwea sub-county. The total estimated number of members was 1,674 (Human resource Department, Lainisiha SACCO, 2015). These members are spread across four wards in Mwea sub-county (Mutithi, Kangai, Murinduko and Kutus south). Statistics show that Mutithi has 543 members, Kangai has 543 members, Murinduko has location has 290 members and Kutus South has 298 members.

In the selection of the sample size, Israel, 1992) formula was adopted:

$$n = \frac{N}{1+N(e)^2},$$

Where:-

n= the sample size, N = the total population, e= is confidence interval usually 5%.

$$n = \frac{1674}{1+1674(0.05)^2}, = \frac{1674}{5.185} = 322.85, \text{ approximated as } 322.$$

Questionnaires were administered to 322 members from Lainisha SACCO across Mwea sub-county. The data was analyzed quantitatively and descriptive statistics with the aid of SPSS.

FINDINGS

The results indicate that 272 out of 322 questionnaires were filled and returned. This means that the study achieved a response rate of 84.47% which is considered sufficient enough for data analysis and inferences. This high response rate could be attributed to the fact that the questionnaires were administered by the researcher, which guarantees high response rate.

Background Characteristics

Various background characteristics of Lainisha SACCO members were considered by the study. This included gender, age, education, marital status, occupation, location and number of years in the Lainisha SACCO. Concerning gender, findings show that 55.88% of the respondents were male while 44.12% were female. This implies that majority of the Lainisha SACCO members in Mwea sub-county are males. On age, majority (35%) of the members are aged 30-40 years followed by 26% who were aged 25-29 years as shown in table 1.

Table 2: Age

Age Bracket	Frequency	Percentage
20-24	14	5
25-29	71	26
30-34	95	35
35-40	38	14
40-44	27	10
45 and Above	27	10
Total	272	100

This is a youthful population which is a good move towards efforts to alleviate poverty among young people.

With regard to education, it was established that 14(5%) of the respondents had primary certificates as their highest level of education, 111(41%) had Secondary education, 38(14%) of the respondents had university education, 90(33%) had college training and finally, only 19 (7%) had informal education. This implies that most of the respondents attained secondary level of education as seen in table 2.

Table 3: Level of Education

Level	Frequency	Percentage (%)
Primary	14	5%
Secondary	111	41%
University	38	14%
College	90	33%
Informal	19	7%
Total	272	100%

The study sought also to find out the occupation of the Lainisha SACCO members in Mwea sub-county. From the findings, it was established that 45% of the members were farmers, 15% were government employees, 15% of the respondents were self-employed, 10% were crafts persons, 10% were traders and 5% were in other professions as shown in table 3. This implies that most of the respondents were farmers.

Table 5: Occupation of SACCO members

Profession	Frequency	Percentage
Farmer	122	45
Craftsperson	27	10
Trader	27	10
Government employees	41	15
Self employed	41	15
Others	14	5
Total	272	100

Furthermore, the number of years members had been in the SACCO was also examined. The findings indicate that 14% of the respondents were members between 0-6 months, 26% between 6 months – 1 year, 40% of the respondents were members of Lainisha SACCO between 1-2 Years and 20% were members for over 2 years as shown in table 4. This implies that most of the respondents were members for between 1-2 years and hence, they had an experience enough to give reliable data for the study.

Table 6: Membership Duration

Membership duration	Frequency	Percentage
0-6 months	38	14
6 months – 1 year	71	26
1 – 2 years	109	40

over 2 years	54	20
Total	272	100

Regression Analysis

The study sought to investigate the role of community based SACCOS on poverty alleviation in rural Kenya. Specifically, the study investigates the effect of community-based SACCO loans, saving mobilization, training and community based SACCO generated employment on poverty alleviation.

The study adopted Principal Component Analysis (PCA) to extract factors related to SACCO loans, savings mobilization, training, generated employment and poverty alleviation. These factors were then used to conduct a regression analysis based on Ordinary Least Square (OLS) approach. Multiple regression equation.

Table 7 presents the regression results for Income basics, focusing on the relationship between various independent variables and income basics. The table includes the coefficients (B), standard errors, beta coefficients (where available), t-values, and significance levels (Sig.) for each independent variable. Key findings include significant positive relationships between income and variables such as loan conditionalities, savings mobilization, financial literacy, training, employment benefits, and employment creation. The model shows an overall R-squared of 0.461, indicating that these variables collectively explain 46.1% of the variance in income basics among the respondents. The F-ratio of 4.467 is statistically significant (Prob. > F = 0.000), suggesting that the model is a good fit for explaining income basics.

Table 7: Income Basics

Independent Variables	B (Constant)	Std. Error	Beta	t-value	Sig.
Constant	4.308	0.721		5.975	0.000
Loan conditionalities	0.171	0.309	0.371	6.437	0.000
Loan charges	0.042	0.054	0.055	0.813	0.005
Savings mobilization	0.086	0.061	0.210	1.409	0.025
Financial literacy	0.097	0.061	0.091	1.590	0.000
Training	0.042	0.060	0.040	0.712	0.048
Employment benefits	0.058	0.045	0.083	1.288	0.001
Employment creation	0.077	0.055	0.237	1.400	0.022
Dependent	Income				
R – squared	0.461				
Adj. R squared	0.380				
Std. Error	0.4522				
F – ratio (4, 125)	4.467				
Prob. > F	0.000				

Table 8 shows results from Affordability of Social Services, examining the relationship between independent variables and the affordability of social services. It includes coefficients (B), standard errors, beta coefficients (where available), t-values, and significance levels (Sig.) for each predictor variable. Findings indicate that loan charges and savings mobilization have statistically significant positive associations with the affordability of social services. Other variables such as financial literacy, training, and employment benefits show mixed results. The model's R-squared of 0.343 indicates that the included variables explain 34.3% of the variance in the affordability of social services, with a significant F-ratio of 4.225 (Prob. > F = 0.000), suggesting overall model adequacy.

Table 8: Affordability of Social Services

Independent Variables	B (Constant)	Std. Error	Beta	t-value	Sig.
Constant	4.408	0.914		4.825	0.000
Loan conditionalities	0.030	0.133	0.023	0.228	0.820
Loan charges	0.301	0.150	0.194	2.006	0.045
Savings mobilization	0.273	0.135	0.181	2.022	0.043
Financial literacy	0.141	0.125	0.114	0.979	0.330
Training	0.117	0.000	0.066	0.800	0.415
Employment benefits	0.168	0.135	0.128	1.243	0.000
Employment creation	0.123	0.130	0.097	0.951	0.344
Dependent	Basics				
R – squared	0.343				
Adj. R squared	0.261				
Std. Error	0.6850				
F – ratio (4, 125)	4.225				
Prob. > F	0.000				

Table 9 presents the results of R-squared, focusing on the predictors of R-squared as the dependent variable. It includes coefficients (B), standard errors, beta coefficients (where available), t-values, and significance levels (Sig.) for each independent variable. The table highlights the relationship strengths and statistical significance of variables such as financial literacy and employment creation with R-squared. The overall model explains 26.8% of the variance in R-squared (R-squared = 0.268), with an adjusted R-squared of 0.197. The F-ratio of 3.036 is statistically significant (Prob. > F = 0.001), indicating that the included variables collectively contribute to explaining variations in R-squared.

Table 9: R-squared

Independent Variables	B (Constant)	Std. Error	Beta	t-value	Sig.
Constant	3.295	0.687		4.237	0.000
Loan conditionalities	0.020	0.058	0.100	0.061	0.578
Loan charges	0.031	0.103	0.030	0.300	0.720
Savings mobilization	0.030	0.108	0.018	0.277	0.752

Financial literacy	0.019	0.094	0.020	0.199	0.002
Training	0.082	0.111	0.084	0.738	0.005
Employment benefits	0.031	0.101	0.044	0.306	0.687
Employment creation	0.027	0.098	0.030	0.281	0.040
Dependent	Affordability of social services				
R – squared	0.268				
Adj. R squared	0.197				
Std. Error	0.4918				
F – ratio (4, 125)	3.036				
Prob. > F	0.001				

These results imply that having favorable loan conditions could be instrumental in the fight against poverty since, it could encourage borrowing and hence, expansion in investment and income. Similarly, loan charges (interest rates) for Lainisha SACCO have been found to positively influence both income and basics of life among Lainisha SACCO members in Mwea sub-county, Generally, the study has found that loans play a critical role towards poverty alleviation. Several studies support these findings. Cheruiyot, Kimeli, and Ogendo (2012) established similar results in their study on the role of SACCO loans towards poverty alleviation. According to IMF (2014), access to credit is a key link between economic opportunity and economic outcome. Similarly, Yaheskel et al (2011) observed that farmer’s cooperatives are key to poverty alleviation. Furthermore, Kelly and Ratner (2010) established that savings from SACCOS have a positive effect on poverty alleviation. The implication of these results is that, empowering individuals and families to cultivate economic opportunities and financial inclusion can be a powerful agent for strong and inclusive growth. With improved financial access, families can smoothen their consumption and increase investment, including in education and health; and they can also insure against unfavorable events and therefore avoid falling deeper into poverty.

Mobilization of savings enhances the growth of capital which is then borrowed by members for investment purpose. Investment would in turn generate income for the members and even employment opportunities and therefore, better livelihoods for the community members. Nevertheless, results with regard to affordability of social services are not statistically significant. Generally, these findings imply that savings mobilization plays a crucial role with regard to improving member’s income and affordability of basics of life. Ndung’u (2009) agrees with these results by noting that, cooperatives pool funds and risks that have been shared within the members and that these funds have enabled the lower segments of the populations to achieve significant levels of development and therefore, poverty alleviation.

Financial literacy has an influence on membership income and affordability of social services among SACCO members. Persons who are financially literate, have the necessary capacity to generate and manage financial resources for posterity. Training programmes are meant to equip SACCO members with the necessary knowledge and skills for professional engagement which could produce positive results. Generally, these findings mean that capacity building conducted by Lainisha SACCO enhances the skills of its members which ultimately leads to growth of their enterprises and hence, poverty alleviation. Tchami (2007) found similar results in his study on the impact of SACCO trainings. The study observed that cooperatives have a principle of providing education and training to their members. That is, the elected representatives, members, managers and their employees need to be educated and trained more often in order for them to contribute effectively to the development of the cooperative and eventually poverty alleviation within the community.

These findings imply that jobs generated by Lainsha SACCO play a positive role towards poverty alleviation in Mwea sub-county. This could be attributed to the fact that SACCOS encourage mobilization of savings for investment. As investment grows, jobs are created from which people get income to better their living standards.

Similarly, Thuvachote (2011) established that cooperative societies create and maintaining employment in rural and urban areas, employment opportunities are created as a production enterprise that directly employed their personnel and as service provider that indirectly generated employment to their members. Nevertheless, this study had focused on cooperatives and not SACCOs.

CONCLUSION

Based on the findings, it can be concluded that community-based SACCOs play a significant role in poverty alleviation in Mwea sub-county. Firstly, favorable loan conditionalities and charges enable low-income individuals to access credit for investment, thereby improving their income and quality of life. Secondly, savings mobilization within SACCOs encourages capital formation, which members can borrow to fund investments, leading to income generation and job creation. Thirdly, capacity building through financial literacy and training equips SACCO members with essential skills for effective resource management and enterprise growth, further contributing to poverty reduction.

Lastly, employment generated by SACCO investments enhances local job opportunities, improving living standards and sustaining economic growth. Overall, community-based SACCOs significantly contribute to economic empowerment and inclusive growth, making them vital agents in the fight against poverty.

RECOMMENDATIONS

Based on the findings, the following recommendations were made:

1. Formulation of policies and enactment of laws are crucial for legitimizing SACCO operations and enhancing their ability to borrow from financial institutions. These regulatory frameworks will provide a solid foundation for SACCOs, enabling them to expand their services and reach more individuals in need of financial support. Secondly, partnerships with government agencies and NGOs can significantly amplify the impact of SACCOs. Collaborating in social cash transfer programs can provide additional funding and resources, promoting sustained self-reliance among SACCO members and the broader community.
2. Encouraging joint ventures among members is another effective strategy. By pooling resources together, members can embark on larger, more sustainable projects that generate greater income and employment opportunities. This collective approach not only maximizes the potential of individual contributions but also fosters a sense of community and shared purpose. Additionally, enhanced financial literacy programs are vital. Continuous training in financial management and literacy will equip SACCO members with the skills necessary to make informed investment decisions, efficiently manage their resources, and fully leverage the benefits of loans and savings.
3. Support for technological integration within SACCO operations is imperative. Adopting modern technology can improve efficiency, transparency, and accessibility, making it easier for members to participate and manage their financial activities. Digital platforms can streamline the processes of saving and borrowing, ensuring that SACCO services are more user-friendly and widely accessible. By focusing on these areas, SACCOs can strengthen their role in poverty alleviation, driving economic empowerment and improving living standards for their members and communities.

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