

# Does access to Credit matter in Reduction of Poverty? Evidence from the Women Groups in Bondo Sub- county

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**Abstract:** Very little has been achieved in terms of poverty reduction, despite the many Self-Help groups that have been formed and operate in Bondo Sub-County due to financial constraints that affect many women. Thus, the study explored the influence of access to credit on reduction of poverty among women groups in Bondo sub-county. The study used a descriptive survey research design using 150 women groups in Bondo Sub-county. Through stratified random sampling, the groups were selected from the five wards in the sub-county. Quantitative data was collected using questionnaires and interviews. Statistical Package for Social Sciences (SPSS) version 24.0 was used for data analysis. The study also found that there was a significant association between collateral and poverty reduction since the computed p value of 0.011 is less than 0.05 at 95% confidence level. The study recommends that stakeholders such as government and financial institutions make it easier for women to access credit. Finally, the study recommends that the women groups find other avenues of investment so as to diversify their operations.

**Key words:** *Credit Access, Poverty, Poverty reduction, Women groups, Bondo sub-county*

## Introduction

There has been a growing interest among academicians and practitioners on the topic of access to credit and poverty eradication among women. (Mayoux 2012) notes that world over; research has shown that allowing easy access to credit facilities and financial assistance remains an undisputable channel in empowering women and reducing poverty. Enabling women to access capital through micro-credit has enabled millions of women to engage in business and they have been able to transform not only their own lives, but also the lives of their family including their husbands (Midgely, 2008). Among the strategies that are being employed to bridge the gender parity in poverty reduction is the widening of financial access for women (DeAghion & Murdoch, 2005). This development intervention is not only limited to the developed countries as it is also becoming popular in other parts including Asia, Latin America and Africa.

For the past 30 years, microfinance as a means of availing financial support has gained considerable acclaim as a tool to address poverty among women by availing financial services to communities that would otherwise have remained in abject poverty. Without access to the collateral necessary to secure loans, many poor women in developing countries cannot afford loans from formal financial institutions and are left in the hands of local lenders who don't provide the financial resources they require. This

contributes to chronic capital shortages and cycles of indebtedness which perpetuate poverty and frustrate the prospect of economic development through poverty reduction programs. Although there are a number of strategies directed towards fighting poverty among women in the region, one of the outstanding strategies that has often been used to reduce poverty among women is formation of women groups that seek to strengthen their resolve to work together and better their economic status. India is the source of the concept self-help groups among women which is as a way of helping women financially. This concept has spread to the entire world where women groups bring their efforts, resources and ideas together to address issues that affect them (Kabira, 2014).

African countries have featured prominently in the aspect of using women groups to fight poverty. They usually have a varied collection of economic activities, sometimes intertwined with their own culture, traditions and heritage. In the last two decades, the African Union has established and supported the African women trust fund to finance economic initiatives that are geared towards empowering women. The AU has also advocated for women's upliftment and participation in development of their communities (AU Report, 2015). According to World Bank Report (2016) on ending extreme poverty, gender is a key factor in development and that for any development to achieve some good results in terms of poverty reduction, consideration for women should be factored. According to the report, when women are empowered, the society progress much faster compared to when men are empowered.

The empowerment of women through Women Groups (WGs) has a multiplicity of benefits. It first impacts on the individual women, second to their children and then the society as a whole. This implies that women have more chances of accessing resources like jobs, finances, acquiring assets, develop their skills and get more informed on female population. Women groups also form channels for technical and financial assistance from both local and international organizations and donors (Makokha, 2008). The approach of empowering women through groups is slowly gaining momentum in Africa, especially with donors. In South Africa, for example, many women groups have been successful in running income generating activities but still have problems with accessing marketing information and credit facilities.

For most developing countries especially in Africa, women are not able to start income generating ventures due to lack of finance despite having great support within and without the groups. In countries like Tanzania and Rwanda, 40% of women groups have not been successful in businesses. Also, according to Women of Uganda network, there are about 91 organizations working with women groups in Uganda, with only about 50% of them being successful (Shibuya, 2007). According to Amu, 2006, funding determines the success of women groups and more training on technological transfer marketing of products is necessary for the success of these groups. The East African Community has also established the directorate of Gender and Community Development to focus on empowering the women as individuals and thus indirectly benefiting women groups in the region.

In response to the need for financing women economic activities, the then Ministry of Gender, Children and Social Development (MGCSD) in Kenya found out that the Women's Enterprise Fund in Kenya in 2007. The aim of this fund was to give funds to women in groups, to start income generating projects. According to Muteshi (2006), the Women Enterprise Fund has assisted about 215,890 women since its establishment. The rationale for women groups in many parts of Kenya points to the fact that group member's act as security for each other. In Kenya, women are freely allowed to form groups and are not under any formal requirements save for a constitution and other few records. In recent years Kenyan government has been at the fore front in advocating for the formation of women groups to foster women empowerment legally, socially and economically. This focus has been on women residing in the rural areas, those living in slums, low-income earners as well as the unemployed. When women participate in groups, they get empowered through women groups are viewed as avenues for the members to expand their social networks, learn from one another, gain more skills and empower each other economically.

In Bondo Sub-County, women have been doing various projects to raise income for their families in groups. Some of the activities perform include; fish mongering, basketry and weaving, tailoring, grocery and farming etc. (Otieno, 2015). Through the groups they raise money which is saved under the Green Aro Community Sacco. Based on these savings, the women can access loans for

their economic ventures. The groups act as security for their loans since most of them don't have any form of collateral that can be used for credit facilities. There are however many challenges in accessing the credit facilities that majority of the women groups face in their endeavor to succeed in their projects and fight poverty. This study will dwell on the financial constraints and the effects on poverty reduction programs for women groups in Bondo Sub-County in Kenya.

According to the figures from the 2017 economic survey, portray Bondo Sub-County being among the poorest Sub-Counties in Kenya. The Sub-County's main livelihoods are agriculture and fishing. Figures from 2017-2018 show that almost 47.2% of the population is poor and 41.1% of households are below the poverty line. The high poverty index is also worsened by the HIV/AIDS rate that stood at 23.6% and Malaria affecting 34% of the population. Various efforts by successive governments in Kenya have not yielded much towards poverty reduction in Bondo Sub-County. Residents have come up with their own way of liberating themselves from poverty through self-help groups which will better the living standards of the people and alleviate the quality of life.

Very little has been achieved in terms of poverty reduction, despite the many Self-Help groups that have been formed and operate in Bondo Sub-County due to financial constraints that affect many women. Approximately 41% of the residents continue to live in extreme poverty, earning below a dollar daily. Also, many people in Bondo Sub-County still do not have access to food, good shelter, good and healthcare. The researcher was interested in answering the research question; To what extent does collateral influence access to credit in reduction of poverty among women groups in Bondo sub-county?

## Literature Review

Globally, women are faced with more problems than men when it comes venturing into business. In most countries, the legal frameworks do not support women to participate in business. Laws prohibiting women from inheritance have made it so difficult for women to legally own properties. It is even worse to note that in 70% of the countries in the world; women are estimated to only own 1% of the wealth (World Bank, 2012). Various researchers have conducted studies focusing women access to financial facilities. From the findings of these studies, access to collateral which include land and other assets has been a big challenge for women. In Kenya, the government has made several efforts in ensuring that women and particularly those in business are able to access to financial facilities in order to do business. However, women are still far from being at par with men with many of them still not able to land financial help in order to do business as a way of improving their livelihoods and well-being.

Women don't own assets and property although they contribute to the acquisition and management of properties in the family. Most of them are in the men's names making it difficult for the women to use them for credit of financial access as collateral or security.

According to Mutugi (2006), when it comes to use of land and other property as collateral, both men and women should have equal rights. This is especially so because of both intrinsic and instrumental reasons. If we try to move towards achieving it, then women can boast of fulfilling their lifelong dreams of alleviating poverty. This will essentially transform the whole society. However, such efforts should be accompanied by a review of our social, political and economic policies.

According to Sanday (1981), giving financial assistance to women groups is the best bet to women's economic empowerment and upliftment since it addresses most fundamental difficulties most women face in earning livelihoods for their families. It follows that by giving women a chance to be actively involved in our social, economic and political activities is the sure way of attaining sustainable development. Kenya has achieved some considerable results in empowering women and the effect has been felt in the whole society. However, there is still a long journey ahead in ensuring women's participation in business-related activities and access to credit.

In Kenya, cultures from different communities have made it almost impossible for women to own property. Such cultures have really disadvantaged married women especially those in polygamous families and those who have been windowed or divorced. Married woman has literally no control over family properties. These facts contribute to women remaining poor and are virtually unable to access credit facilities. In most African cultures, divorced women have no law to protect them when it comes to

matrimonial properties. The Kenyan law mainly protects the holder of ownership documents of the person whose name is in the ownership documents who are in most cases men. Without laws ensuring women's right to own properties are protected, they are left exposed to unlawful dispossession, and they are thus constrained from initiating long-term projects.

## Methods

The study used quantitative and qualitative research approaches. This enabled the researcher to measure and compare the performance of a large number of women groups and still be able to present the findings in a succinct and economical manner. All primary data were gathered using quantitative methods. The qualitative methodology provided a more in-depth data in the study. The study used a descriptive survey research design because it sought to uncover the nature of factors involved in financial constraints facing poverty reduction programs for women groups. 150 women groups in Bondo Sub-county were sampled. The researcher used stratified random sampling to sample the groups from the five wards in the sub-county. From each selected group, two officials who are involved in the daily running of the business were included as respondents to the questionnaire. County officials and other key informants were interviewed to add more in-depth information and data on the effects of financial constraints on poverty reduction programs for women groups in sub-county. All the primary data was collected using questionnaires and interviews. Statistical Package for Social Sciences (SPSS) was used for data analysis. Graphs, pie-charts tables and percentages were used to present findings of the study.

## Results

The objective of the study was to examine the influence of collateral on credit access on poverty reduction in Bondo Sub-County. The descriptive statistics of collateral and credit access is presented below.

The study sought to establish the sources of credit from which the women officials obtained their credit. Some got credit from one source while others obtained credit from multiple sources. The results are as shown in Figure 1.

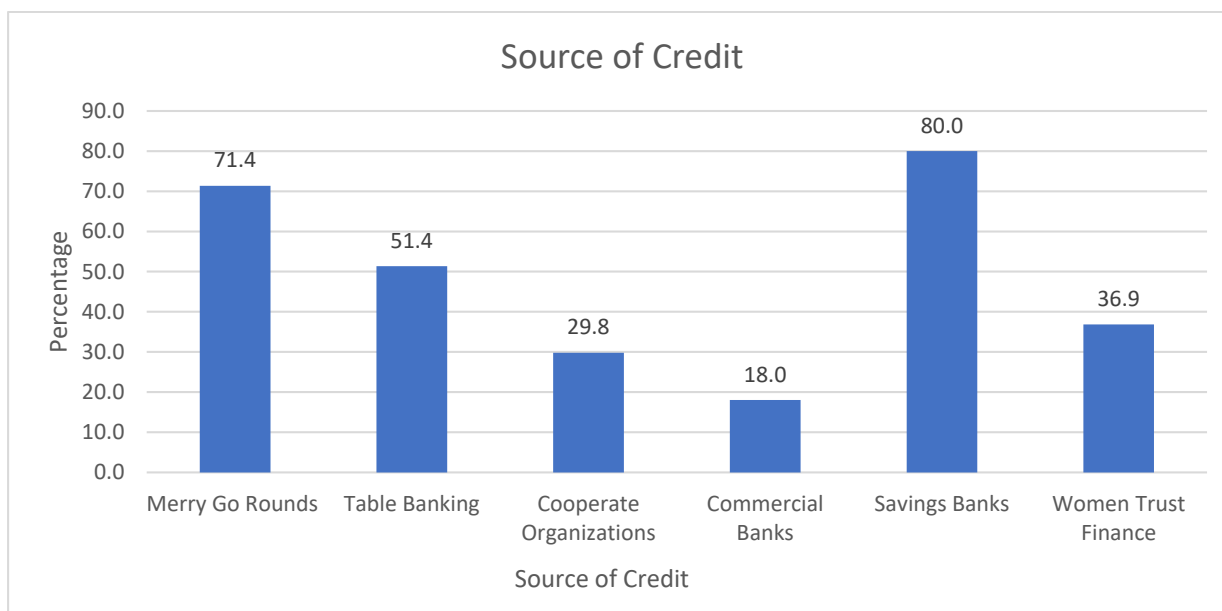


Figure 1: Sources of Credit

From the figure 1, the most common source of credit for women groups were Merry go rounds and savings banks with 71.4% and 80% respectively of all the women group officials using them as a source of credit. 51.4% of the respondents used table banking as a source of credit while 36.9% of the respondents used women trust finance. Additionally, 29.8% of the women group officials used cooperate organizations while only 18% of the women group officials obtained their credit from commercial banks. This

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indicates that most of the women in the groups did not use formal financial institutions for their credit needs; this can be for a number of reasons such as a lack of collateral and a lack of a documented credit history for most of the respondents.

The study also sought to find out whether access to credit facilities improved the financial conditions of women as shown in Figure 2.

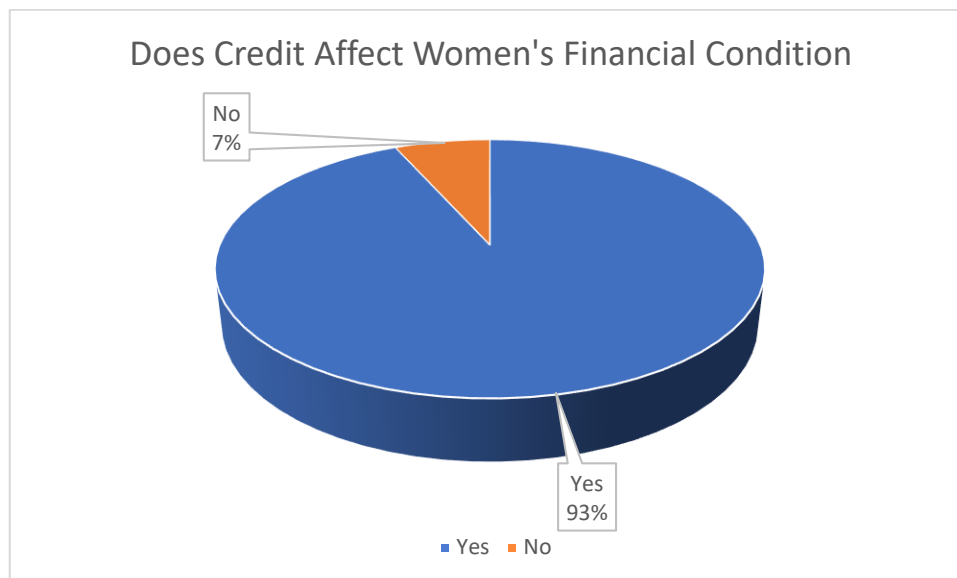


Figure 2: Effect of Access to Credit

As shown in the figure 2, 93% of the women group officials agreed that access to credit facilities changes the financial condition of women while only 7% of them felt otherwise.

When asked about how collateral is often confiscated when they default on payments, official 143 stated that, “*When one does not pay in time, shylocks are quick to come and threaten to either confiscate or sell the items used as collateral*” while official 69 said that, “*It is difficult for one without collateral to access credit and even when they do it is often for little amounts that cannot significantly influence one’s financial condition*”. The study asked how lack of financial knowledge leads to business failures and official 31 stated that, “*Without the right financial knowledge, it is difficult for one to find the right way to make the right decisions that enhance the sustainability of their business*”. Official 77 said, “*Those who do not have good financial knowledge often take up very expensive loans that end up hurting their business in the long run because of high interest rates and short payment periods.*”

The study also sought to find out how collateral affects poverty reduction among women and to this official 19 said, “*Collateral makes it easier for women to access credit since it becomes less risky for financial institutions to offer loans to us*”. Official 80 responded that, “*Those who have collateral are able to access higher loan amounts and can consequently do more business and make more money compared to those without*”.

The study sought to establish the various kinds of collateral that women in Bondo Sub-County use to access credit and the results were as presented below. Most women used multiple kinds of collateral simultaneously as is seen in Figure 3.

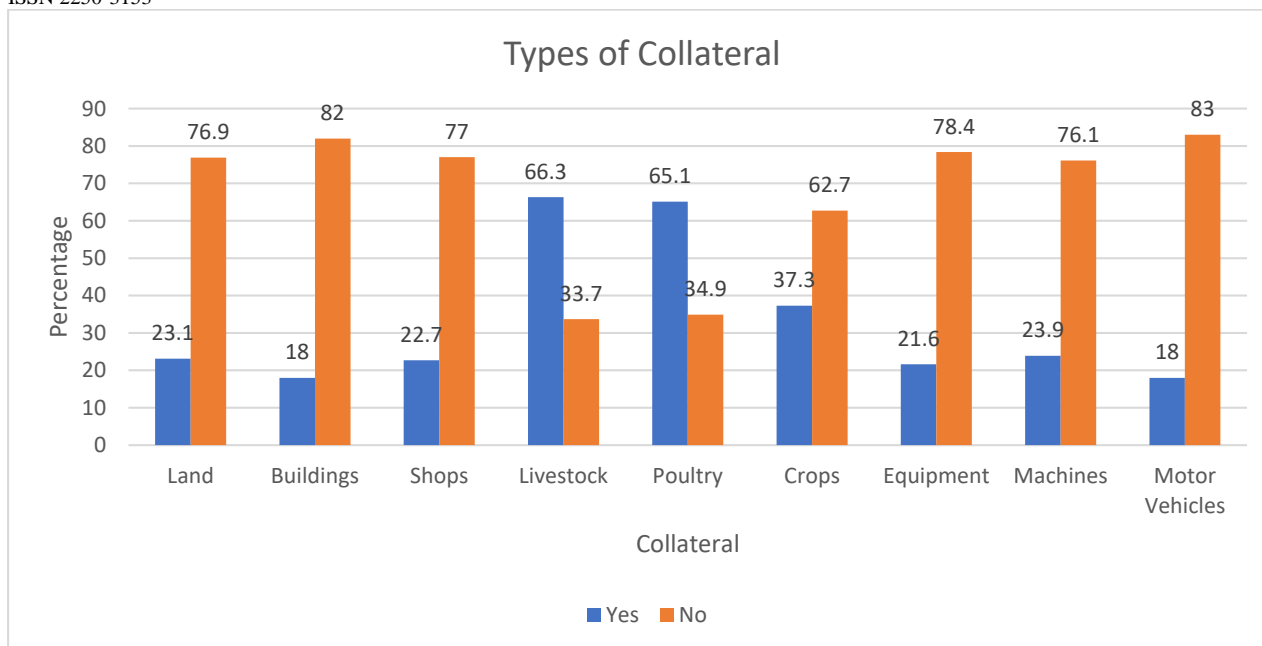


Figure 3: Type of Collateral

From figure 3, it is evident that most women use livestock and poultry as collateral when accessing credit facilities (66.3% and 65.1% respectively). 37.3% of the respondents used crops as collateral while a further 23.9% used machines. Additionally, 22.7% of the women used their shops as collateral, 23.1% used land and 21.6% used equipment. Finally, 18% of the women group used buildings as collateral while another 18% used motor vehicles. This implies that most women do not have ownership of physical assets, and this may be as a result of the mainly patriarchal society in Bondo Sub-County and Siaya in general where most property is owned by men.

The study asked whether the respondents felt that lack of collateral affects their access to finances and the results were as shown in Figure 4.

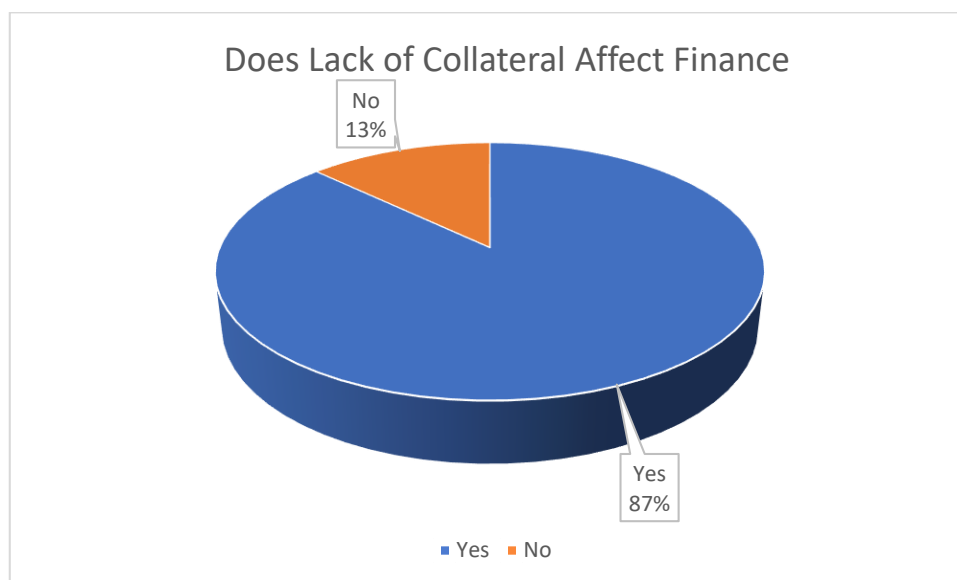


Figure 4: Effect of Lack of Collateral on Finance

From figure 4, 87% of the respondents agreed that a lack of collateral affect their finance while 13% thought otherwise. Official 52 stated that, “The fact that you need to have collateral to access good loans compared to those who do not have any is ironic because it locks out those who need affordable credit most from accessing it.” Official 16 said, “Without collateral you can only get finance from shylocks that are very expensive and give you little time to pay your loan meaning you can hardly make a profit.”

From the interview guides, SS said, “*Most of the property in this region is owned by the men and women have very little access to property such as land.*” WS stated, “*Women don’t own a lot of property in this society and as such are unable to access loans due to lack of collateral.*” On the types of collateral available for women groups in Bondo, YE stated that, “*Most women are small time farmers and so they use their crops as collateral when they want to access funds.*” NS said, “*Women in this area usually use their livestock and poultry as collateral.*” SS also stated that, “*Some women who have small businesses use their shops as collateral when asking for loans.*”

The study sought to establish whether there exists an association between a lack of collateral and poverty reduction among women in Bondo Sub-County through inferential statistics. Chi-square test is meant to show whether there existed any significant association between the two variables. The results are presented in Table 1.

**Table 1: Collateral and Poverty Reduction**

|                              | <b>Value</b> | <b>Asymptotic Significance (2-sided)</b> |
|------------------------------|--------------|--|
| Pearson Chi-Square           | 97.412       | 0.011                                    |
| Likelihood Ratio             | 87.155       | 0.059                                    |
| Linear-by-Linear Association | 0.739        | 0.39                                     |
| N of Valid Cases             | 255          |  |

Table 1 shows that the computed chi-square value was 97.412 and the calculated p-value was 0.011. Therefore, the study establishes there is a significant association between collateral and poverty reduction among women in Bondo Sub-County, Siaya County since the computed p value of 0.011 is less than 0.05 at 95% confidence level. The results concur with the findings of Mutugi (2006) who found that women can only be alleviated from poverty if they have the same rights as men regarding property. The study also sought to establish whether there exists an association between access to credit and poverty reduction among women in Bondo Sub-County. Chi-square test is meant to show whether there existed any significant association between the variables. The results are presented in Table 2.

**Table 2: Access to Credit and Poverty Reduction**

|                              | <b>Value</b> | <b>Asymptotic Significance (2-sided)</b> |
|------------------------------|--------------|--|
| Pearson Chi-Square           | 29.859       | 0.027                                    |
| Likelihood Ratio             | 28.357       | 0.041                                    |
| Linear-by-Linear Association | 0.054        | 0.816                                    |
| N of Valid Cases             | 255          |  |

The results in Table 2 show that the computed chi-square value was 29.859 and the calculated p-value was 0.027. Thus, there is a significant association between access to credit and poverty reduction among women groups in Bondo Sub-County since the computed p value of 0.027 is less than 0.05 at 95% confidence level. The results concur with the findings of Sanday (1981) who cited a lack of access to credit alongside a lack of control of the factors of production at household level as their main limitation to overall economic control whether in groups or as individuals.



## Discussions

From the descriptive statistics, the study found that most of the women groups did not use formal financial institutions for their credit needs and this can be down to a number of reasons including lack of collateral as well as a lack of any financial history for majority of the members. The most popular sources of credit were merry go rounds and savings banks with 71.4% and 80% respectively of all the women group officials using them as a source of credit, 51.4% of the respondents used table banking as a source of credit while 36.9% of the respondents' used women trust finance. Additionally, 29.8% of the women group officials used cooperate organizations while only 18% of the women group officials obtained their credit from commercial banks. Most (93%) of the women agreed that access to credit was influential in poverty reduction. This concurs with the findings of Midgely (2008) who found that access to credit has enabled women to engage in business and as a result to improve their lives.

The descriptive results also show that most women used agricultural products such as livestock, poultry as well as their crops as collateral as opposed to assets such as land, buildings and machines. This is because such assets are mainly owned by men due to social norms that are mainly patriarchal. Most (87%) of the women involved in the study thought that a lack of collateral affects their financial conditions and consequently affects their ability to reduce poverty.

From the chi-square analysis, it was established there is a significant association between access to credit and poverty reduction among women groups in Bondo Sub-County since the computed p value of 0.027 is less than 0.05 at 95% confidence level. The results concur with the findings of Sanday (1981) who cited a lack of access to credit alongside a lack of control of the factors of production at household level as their main limitation to overall economic control whether in groups or as individuals. The results also established that there was a significant association between collateral and poverty reduction among women in Bondo Sub-County, Siaya County since the computed p value of 0.011 is less than 0.05 at 95% confidence level. The results concur with the findings of Mutugi (2006) who found that women can only be alleviated from poverty if they have the same rights as men regarding property.

## Conclusion and Recommendations

The study found the majority of the respondents strongly agreed that collateral was important to accessing credit and therefore important in poverty reduction among the women of Bondo Sub-County. From the results, the study found that most women do not have access to credit from formal financial institutions and as such access credit facilities mainly from informal channels such as table banking and merry-go-rounds. The results concur with the findings of Sanday (1981) who cited a lack of access to credit alongside a lack of control of the factors of production at household level as their main limitation to overall economic control.

The study recommends that stakeholders such as government and financial institutions make it easier for women to access credit either through government women funding or through setting up exclusive credit facilities that target women in business. The study also recommends that governments and society as a whole embrace policy that enable and encourage more women to own property. This way, they can use such property as collateral and be able to access capital with which they can invest and reduce poverty.

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