

## **Effects of Community Microfinance Fund on Human Development in Vihiga County, Kenya**

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### **Abstract**

*Community microfinance is valuable at all levels of societal development - politically, economically, and socially. It binds all developmental initiatives in society. It is an indicator of human development that provides people with varied chances of choices for the betterment of their living standards. Therefore, the study examined the effects of community microfinance on human development in Vihiga County of Kenya. It adopted a descriptive survey design and stratified sampling technique to select a sample size of 384 women respondents from a target of 12,000 members of microfinance institutions in Vihiga County. Multivariate regression model was used to analyze study findings and was anchored in the capability approach. The results indicate that majority of the respondents (66.9 %) had secured accounts with microfinance institutions while 70.3% had secured loans from the institutions to improve their lives. Further, the study established that loans advanced were mostly used in educating the household members as evidenced by the 38.8% of respondents. This has positively influenced the literacy levels in Vihiga County, and since education is one of the measures of human development, an improvement in literacy level therefore, results in human development. The study also indicated the following: a mean of 1.67 and standard deviation of 0.471 for members with accounts, a mean of 1.70 and standard deviation of 0.457 for those that received loans from the microfinance, while the respondents who had no problems in repaying the loans had a mean of 2.30 and standard deviation of 1.015, while the calculated *t*-value was less than the critical value at 5% level of significance. The study concluded that indeed microfinance empowerment funds affect human development in Vihiga County since there was a real difference among the surveyed group members who were able to access the micro finance services. This study further recommends that funds should be made available at affordable interest rates so that communities can invest in projects that improve human well-being. Learning institutions including technical and vocational training institutions promote human development and should be considered priority projects. This should also be adopted in other counties in Kenya to achieve holistic development in the country..*

**Key words:** *Community microfinance, empowerment, human development*

## **Introduction**

### **Community Empowerment**

Empowerment is a critical aspect with significance at all community levels either individually or collectively at the political, social, and economic levels. When people gain the power to choose and make decisions, control over their lives also happens simultaneously. Empowerment for the disadvantaged groups of people gives them the collective capability to identify their needs and make critical decisions, which helps them gain freedom from the social tribulations of limited capital and marginalization. The social capital and networks that enable collective action allow people to increase their access to economic opportunities, obtain necessary services, and participate in local governance. Therefore, empowerment is anti-oppression and anti-marginalization in nature as it enhances interpersonal and political power so that people can take actions that improve their lives (Sanchez-Gutierrez et al., 2010). Empowerment as a concept is anchored on developing consistency of sustainable support systems and mechanisms that collectively involve people in decision-making processes in their communities hence raising their confidence levels in their lives as observed in social work (Fitzsimons, Hope, Cooper & Russell, 2011).

Community development practitioners and social workers identify community empowerment as an essential and challenging cord, especially in social services provision. Community empowerment is an essential cord in providing social services; therefore, it should be an essential policy priority for public and private sector organizations. Essentially, young citizen members constitute a vital human capital source for the communities' and societies' future development (Rubin & Babbie, 2016).

Social work theories and community development policies primarily center on improving human resources, skills development, well-being, and community empowerment for their safety and sustainable development. This raises the necessity to open windows of opportunity, provide capacity building services, and improve community empowerment skills. It is the right of young people to have their voices heard as enshrined in the UN Convention on the Right of the Child so that every young individual is protected in forming opinions of their own in matters that affect them (Bartlett et al., 2016). Therefore, community development and empowerment are essential in enhancing people's living standards in Kenya (Ochieng, Cheruiyot & Tarus, 2017).

### **Human Development Indicators in Vihiga County**

Through the developed Integrated Development Plan, Vihiga County has highlighted prioritized development projects and plans, analysis of significant development challenges, and cross-cutting issues that focus on county development (Njuguna, Kamau,

& Muruka, 2017). The ability of the community microfinance empowerment programs to address human development problems has been manifested in several studies. Ijaiya et al (2016) noted that microfinance empowerment programs offer financial services to the underprivileged people, and their programs impact the community's social developments.

There are various aspects of the social and economic enhancement of MFI members. In a study, MFI members in Europe have revealed various benefits derived from participating in MFIs both to the household members and the community's health that aid in human development, for instance, community empowerment proves beneficial for child health and survival (Mwarey, Yang, Mbindyo & Fort, 2017). The plan stipulates primary priorities, approaches, ongoing projects, flagship projects, and newly-proposed projects to prioritize towards achieving faster economic growth and sustainable development in the County. The County Integrated Development Plan, 2013-2017 is linked with National policies including the Kenya Constitution 2010, the Vision 2030, the global SDGs, and by implementing various strategies as stipulated under the nine MTEF sectors. The plan seeks to address the current challenges that have been persistent in the County: low agricultural production, water shortage, high HIV/AIDS prevalence, insecurity, poverty, gender inequality (Fort, Mwarey, Mbindyo & Yang, 2015).

Human Development is the process of enlarging people's choices, to lead a long and healthy life to acquire knowledge, and to have access to the resources needed for a decent standard of living. The Human Development Index (HDI) is a measure of the average achievement in a country in three essential human development dimensions. The first human development dimension is a long and healthy life measured by life expectancy at birth. The second is access to knowledge as measured by adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight). The third is a decent standard of living measured by GDP per capita purchasing power parity (PPP) terms in US dollars (Human Development Report, 2015). Vihiga County's HDI is 0.5516 against national 0.561 (Mwarey et al. 2017), as shown in Table 1.

Table 1

*Comparison of Human Development Vihiga County and the Country Kenya*

Education Sector		County-level	National level
Gross Enrolment Rate	Primary School	97%	95%
	Secondary School	48.5 %	62.9 %
Literacy level		93.8 % %	78 %
Health Sector		52.3%	51.23%
HIV/AIDS Prevalence rate		4.7%	5.91%
Infant Mortality Rate		60/1000	74/1000
IRV Intake		99.1 %	85.5%
Maternal mortality Rate		344/100,000	362/100,000
Life Expectancy		56.2 Years	63.4 Years
Poverty Rate		39 % %	45%
Human Poverty Index		27	29.1
Gini Index		0.40	0.45
Youth Development Index		0.535	0.5817

Source: Republic of Kenya, (2017)

The composition of this labor force was 55% (155,092) female and 45% (127,669) male. Over 80% are engaged in subsistence farming and livestock production activities (Mudulia, Ayiro & Kipsoi, 2017). The informal sector follows 57.1%, the economically active population in wage employment accounts for just 29.2%. The total employed population is 118,893. This contributes to the GDP per capita PPP of US\$ 1,103 compared to the national GDP per capita PPP of US\$ 2,901.01 (The Republic of Kenya, 2013). Over

65% of the population is unemployed, while 55% are economically inactive. As a result of diminishing formal employment opportunities, youth unemployment has worsened, resulting in a high dependence ratio; therefore, the few employed cannot save and invest (Kilimani, 2017). Vihiga County has spent more on community and youth empowerment. For instance, it has spent millions on more than 7,546 self-help groups in the County, including community and youth groups engaging in various development activities. They cover different priority areas:

poverty alleviation, water, sanitation, environment, national cohesion, welfare, and health. The sustainability of these groups has been a significant challenge that has rendered some of them inactive. The County Government has also established the community empowerment fund to spur development through investment by boosting the existing and potential traders composing of women, youth, men, and the physically challenged persons. Furthermore, several non-governmental organizations help the local communities establish sustainable income-generating activities through community micro-financing (Kilimani, 2017). Therefore, this paper examined the effects of community microfinance empowerment on human development in Kenya's Vihiga County.

### **Objective of the study**

The main objective of this study was to determine the effects of community microfinance empowerment on human development in Vihiga County in Kenya.

### **Literature Review**

#### **The Capability Approach Framework**

The paper is anchored in the capability approach which provides a broad normative framework for evaluating individual well-being that people can do and be (Sen, 1980; 1993). Sen's theory has been extensively used in the context of human development.

The theory uses a "people-centered" approach that considers human agency rather than an organization such as markets or government (Sen, 1980a). Sen argued that evaluation and policy implementation should center on peoples' abilities and quality of their lives and remove the obstacles that hinder them from gaining the freedom to lead valued lives. The capability approach advocates that the ends of well-being, justice, and development should be conceptualized in terms of people's capabilities to function that is the adequate opportunities to undertake the actions and activities they want to engage in and be whom they want to be (Sen, 1993b). This is what Sen called human functioning that consist of 'beings and doings'.

#### **Empirical Literature**

The capability approach is a framework that relates to the current study as it offers a way to think about normative issues and make an evaluation. Sen (1993), followed by Nussbaum and Sen (1993), Robeyns (2000, 2003) and Warburton (2013) came up with a framework that helps analyze various social issues such as well-being and poverty, liberty and freedom, development of gender bias and inequalities, justices and social ethics.

This helps marginalized individuals and disadvantaged backgrounds access safe and clean water, access to quality health services, access to basic knowledge on health issues and protection from infections and diseases. The above aspects help individuals adopt conditions that facilitate their good nourishment, such as having sufficient food supplies and a balanced diet. It also enables them to access quality and affordable education, participate in real political leadership, and engage in community activities that support them in coping with daily life struggles and fostering real collective responsibilities. Although for some of these capabilities, the primary input will be financial resources and economic production. Therefore, this study is linked to the theory since community empowerment provides a better platform where local people can be encouraged to use their capability in a creative approach and develop new ideas and problem-solving skills. This influences changes in their environments that are relevant in improving their quality of life. A sense of commitment and collective responsibility can be enhanced through community empowerment, which can be vital in providing a long-term solution in alleviating poverty. Therefore, the study can be entirely anchored on the capability approach because it covers all human development dimensions and can account for interpersonal differences due to individual and social factors.

## **Research Methodology**

### **Study Area**

The study was conducted in Vihiga County, Western Kenya region. Its altitude ranges between 1,300 m and 1,800 m above sea level. The County lies approximately between latitudes 00° 0' and 0° 15' north of the equator and longitudes 34° 30' and 35° 0' east of the great Meridian. The equator cuts across the southern part of the County. The County covers 531.0 square kilometers, which forms 0.09% of the Republic of Kenya's total land area. The County is divided into five sub-counties that also serve as constituencies: Luanda, Emuhaya, Hamisi, Sabatia, and Vihiga. Vihiga County borders Nandi County to the East, Kakamega County to the North, Siaya County to the West, and Kisumu County to the South. The county was chosen because of the large number of community enterprises with inadequate funds to give loans to the members to invest in livelihood improving projects that would have a positive impact on human development.

### **Research Design and Sampling Procedure**

The study adopted a descriptive research design employing a case study approach. The case study approach enabled in-depth examination so that the real experiences of Vihiga County people were captured. The design was used to analyze the effects of community empowerment on human development in Vihiga County. A stratified random sampling technique was employed for the study.

The stratified random sampling technique involved dividing the population into stratum or groups and then drawing samples randomly from each group to interview (Wawire & Nafukho, 2010). This was necessary to ensure that each group was represented in the entire sample. The analysis units were households or members of the women empowerment groups in Vihiga County who have accessed the women's microfinance loans. Each selected sub-county formed the stratum from which the sample was drawn. To determine a representative sample from the general population. The research instruments that the study utilized structured in-depth interview questionnaires. The pre-tested structured questionnaires was administered to the respondents in all five sub-counties. In-depth questions allowed collecting primary data on beneficiaries' opinions and experiences of community empowerment funds to capture the information being sought in this study. Data collected were tabulated, cleaned, organized, coded, and categorized for analysis. Data analysis was conducted through a multivariate regression model with the aid of SPSS version 24.0 software.

## **Findings**

### **Effect of Microfinance Empowerment Fund on Human Development in Vihiga County**

The study established that most of the respondents (66.9 %) had accounts with microfinance institutions. Of these, 70.3 % had acquired loans from the microfinance institutions. This was given rise to by readily available microfinance funds to the residents in Vihiga County. Most of the respondents were found to save regularly with the microfinance institutions, which accounted for 56.0 %. This helped to facilitate loan advancement to the women groups. Loans advanced were found to be mainly used in educating the respondents' household members represented by 38.8%. Since education is one of the measures of human development, therefore, an improvement in literacy level results in human development. These findings agreed with the findings of Moulaert (2013), Warburton (2013) and Blewitt (2014). On loan repayments, most respondents,

38.3 % disagreed that they struggle to repay the loans. This was supported by the fact that microfinance loan repayment period is widely spread while the interest rates are low. Therefore, this gives respondents adequate time to re-organize and make payments for loans in time. On the other hand, 61.7% were struggling to repay loans from the microfinance institutions due to the extended repayment period offered with high-interest rates attached. The high-interest rate reaps the respondents of the benefits accrued from the investments made, resulting in low income realized affecting the standard of living hence human development in Vihiga County. Table 2 shows the results.

Table 2

*Effect of Community Microfinance Loans on Human Development*

	<b>Category</b>	<b>Frequency</b>	<b>Percent (%)</b>
<b>Purpose of the loan</b>	farming	88	22.9
	education	149	38.8
	investment	102	26.6
	offset other loans	33	8.6
	buy household needs	12	3.1
	<b>Total</b>	<b>384</b>	<b>100.0</b>
<b>Do you do savings</b>	No	169	44.0
	Yes	215	56.0
	<b>Total</b>	<b>384</b>	<b>100.0</b>
<b>Where do you get a loan from</b>	Microfinance institutions	179	46.6
	SACCO	77	20.1
	bank	128	33.3
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Do you have a bank account</b>	No	127	33.1
	Yes	257	66.9
	<b>Total</b>	<b>384</b>	<b>100.0</b>
<b>Have you taken a loan from a bank</b>	No	114	29.7
	Yes	270	70.3
	<b>Totals</b>	<b>384</b>	<b>100.0</b>
<b>Do you struggle to pay your loan</b>	Yes	237	61.7
	No	147	38.3
	<b>Totals</b>	<b>384</b>	<b>100.0</b>

Concerning difference among the members of women groups benefiting from microfinance empowerment, the study found out that the respondents with accounts had a mean of 1.67 and a standard deviation of 0.471. Respondents who had received loans from the microfinance had a mean of 1.70 and a standard deviation of 0.457. In contrast, the respondents who had no problems repaying the loans had a mean of 2.30 and a standard deviation of 1.015. In carrying out a t-test, the study ascertained whether there was a real difference or if the difference among the members was by chance. The t-test results showed that those who had accounts had a t-value of 69.44 and at 5% level of significance, loan advancement to members (72.95), loan repayment (65.11) and loan purpose (44.42). From the analysis, it is clear the t-test values were significant at 5%. For the study to determine the effect of microfinance empowerment funds on human development, the researcher compared the calculated t-value with the critical value. It established that the calculated t-value was less than the critical value at 5% significance level. Tables 3 and 4 show the results of the analysis.

Table 3  
*Effect of Community Microfinance Loans Mean Values*

	N	Mean	Std. Deviation	Std. Error Mean
Respondents with bank accounts	384	1.67	.471	.024
Respondents who had received loans	384	1.70	.457	.023
Source of loans	384	1.87	..887	.045
Respondents' loan repayment	384	1.62	.487	.025
Purpose of the loan	384	2.30	1.015	.052
Respondents' savings	384	1.56	.497	.025

Table 4  
*Effect of Community Microfinance Loans T-Test*

	t	df	Test Value = 0			
			Sig. (2- tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Respondents with bank account	69.437	383	.000	1.669	1.62	1.72
Respondents who have received loans	72.953	383	.000	1.703	1.66	1.75
Source of the loan	41.326	383	.000	1.867	1.78	1.96
Respondents loan repayment	65.112	383	.000	1.617	1.57	1.67
Purpose of the loan	44.423	383	.000	2.302	2.20	2.40
Respondents savings	61.498	383	.000	1.560	1.51	1.61

### Conclusion

The study concludes that most Vihiga County residents have taken loans to invest, improve or promote their businesses. This has thus empowered individuals to be self-reliant since most people saved from their household income, and also made savings in banks and other financial institutions. Saving is a sign of enlightenment that allows them to invest in any business they want. These savings enable the microfinance to advance loans to their members for investments

in projects that generate income, resulting in improvement of their living standards and the general human development in Vihiga County. Further, women have also been actively involved in project development showing that community empowerment has enabled all members in the community to be included in the development and execution of identified projects. The primary goal of community empowerment is to enable the disadvantaged, marginalized women, men, and children to improve the living standard, it is evident that there is human development in Vihiga County. The community microfinance loan was therefore found to positively affect human development in Vihiga County.

It is indisputable that the community microfinance loans are requisite in financing the education of the members and their families. This then improves the educational interventions of the members which provide them with knowledge and critical business skills and health practices that improve their livelihoods and development.

### **Recommendations**

This study recommends that funds should be made available at affordable interest rates so that communities can invest in projects that improve human well-being. The availability, affordability, and accessibility of loans should be favorable to community group members to invest in and expand their income-generating businesses.

Learning institutions including technical and vocational training institutions promote human development and should be considered priority projects since they provide trade and entrepreneurial skills for self employment. This should also be adopted in other counties in Kenya to achieve holistic development in the country.

It also recommended that initiatives targeting female and marginalized borrowers must be emphasized, while at the same time strengthening their financial knowledge and enterprise management to ensure sustained and all inclusive and equal human development among the population at large.

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