IMPACT OF THE POOR ECONOMIC CONDITIONS ON THE RURAL PEOPLE IN KENYA – A CASE OF MWATATI DIVISION IN TAITA-TAVETA DISTRICT.

BY

WANDOGHO F. MWAITA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) FACULTY OF COMMERCE KENYATTA UNIVERSITY.

JUNE, 2000
DECLARATION

This research paper is my original work and has not been presented for a degree in any other University.

WANDOGHO. F. MWAITA

DEPARTMENT OF ACCOUNTING
KENYATTA UNIVERSITY

This research project has been submitted for examination with the approval of the University supervisor

G. K. AHERU

SENIOR LECTURER AND MBA CO-ORDINATOR
DEPARTMENT OF ACCOUNTING
KENYATTA UNIVERSITY
DEDICATION

This research project is dedicated to my beloved wife Pamela Kiwunj whose sacrifice, inspiration, patience, understanding, untiring encouragement and unswerving love were very instrumental to the completion of this work and course.

To our children Diego Mwaita and Spencer Maganga who missed much fathery presence at a tender age during the course and this work.
ACKNOWLEDGEMENTS

My most sincere gratitude goes to my supervisor Mr. G. K. Atheru, who offered his time, advice and guidance throughout the research. Special mention goes to Dr. J. M. Chege and Mr. Ochola for their guidance and valuable comments and suggestions. I am equally grateful to the staff of the faculty of commerce for equipping me with the necessary knowledge and skills during the entire period of the MBA program.

I am sincerely grateful to my parents, Ferdinand Mwaita and Goreti Mkandoe, for having brought me up and for their encouragement throughout the course. My father-in-law Chrispin Maganga and mother-in-law Christine Mighulo for their physical and moral support throughout this course.

My dear sister Fridah Chao who paid both my secondary and part of the university fees, for undergraduate course. To all my brothers for their encouragement and support they gave me.

My dear friends Mwangeka, for his moral and financial support during the entire course, John Kihoro, for his assistance in data analysis through computer services. Lastly to my fellow MBA students and especially John Irungu for his support and advice during the entire course.
ABSTRACT

Most governments are now concerned with poverty eradication. The Kenya government is determined to eradicate poverty by the year 2015. In order to achieve this objective, there is need to determine what factors are behind poverty increase and how best to deal with this problem.

This study was specifically set out to achieve the following objectives:

- Establish the relationship between poverty with inflation, interest rates and access to credit.
- Determine the factors responsible to the increase in poverty levels.
- Determine measures needed to reduce poverty levels.

Data was collected using interviews schedules. The data collected was analyzed using descriptive statistics, inferential statistics and regression analysis.

The study established that poverty is positively related to inflation, interest rates and access to credit, though a weak relationship for all variables.

It was also established that, high prices farm inputs was the most common factor behind poverty in the area of study among other factors. Provision of concessional loans and ready market were the most recommended solutions by respondents among other suggestions for reducing poverty levels.

The study has recommended that the governments needs to contain inflation, live within its budgets and provision of concessional loans to farmers by government and NGO's among other recommendations.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVER PAGE</td>
<td>i</td>
</tr>
<tr>
<td>DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>iv</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>v</td>
</tr>
<tr>
<td><strong>CHAPTER 1. INTRODUCTION</strong></td>
<td></td>
</tr>
<tr>
<td>1.1 Background</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Taita Taveta District</td>
<td>3</td>
</tr>
<tr>
<td>1.3 Statement of the Research Problem</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Purpose of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.5 Objectives of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.6 Importance of the Study</td>
<td>6</td>
</tr>
<tr>
<td>1.7 Scope and Limitation</td>
<td>6</td>
</tr>
<tr>
<td><strong>CHAPTER 2. LITERATURE REVIEW</strong></td>
<td>8</td>
</tr>
<tr>
<td>2.1 Overview of the Economy</td>
<td>8</td>
</tr>
<tr>
<td>2.1.1 Economic Indicators</td>
<td>10</td>
</tr>
<tr>
<td>2.1.2 Interest Rates</td>
<td>13</td>
</tr>
<tr>
<td>2.1.3 Inflation</td>
<td>14</td>
</tr>
<tr>
<td>2.1.4 Access to Credit</td>
<td>14</td>
</tr>
<tr>
<td>2.2 Poverty</td>
<td>15</td>
</tr>
<tr>
<td>2.3 Agriculture and Rural Development</td>
<td>17</td>
</tr>
<tr>
<td><strong>CHAPTER 3. RESEARCH METHODOLOGY</strong></td>
<td>18</td>
</tr>
<tr>
<td>3.0 Introduction</td>
<td>18</td>
</tr>
<tr>
<td>3.1 Target Population</td>
<td>18</td>
</tr>
<tr>
<td>3.2 Sample Strategy</td>
<td>18</td>
</tr>
<tr>
<td>3.3 Data Collection Procedure</td>
<td>18</td>
</tr>
<tr>
<td>3.4 Data Processing and Analysis</td>
<td>19</td>
</tr>
<tr>
<td>3.5 Modelling</td>
<td>19</td>
</tr>
<tr>
<td>3.6 Hypothesis</td>
<td>20</td>
</tr>
<tr>
<td><strong>CHAPTER 4. STUDY FINDINGS AND INTERPRETATION</strong></td>
<td>21</td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>21</td>
</tr>
<tr>
<td>4.2 Relationship between Poverty with Inflation, Interest rates and Access to Credit</td>
<td>21</td>
</tr>
<tr>
<td>4.2.1 Percentage Frequency Distribution tables for the variables</td>
<td>21</td>
</tr>
</tbody>
</table>
4.2.2 Chi-square and Correlation Tests .............................................23
4.2.3 Partial Regression of Variables ..............................................27
4.2.4 Multiple Regression of Poverty (P) with Inflation (i),
Interest rates (r) and Access to Credit (c) ....................................32
4.3 Factors identified by respondents for the increase
in poverty ..............................................................................36
4.4 Suggestions advanced by respondents for
reducing poverty ....................................................................38
4.5 Other findings .....................................................................39

CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS ......42

5.1 Conclusions ........................................................................42
5.2 Recommendations ..............................................................43
5.3 Recommendations for further research ..................................46

APPENDIX I: Bibliography .......................................................47
APPENDIX II: Work Plan ..........................................................50
APPENDIX III: Questionnaire ....................................................51
APPENDIX IX: Budget .................................................................55
1.0 CHAPTER ONE: INTRODUCTION

1.1 Background

Kenya achieved her independence in 1963 after a bitter and protracted struggle during which the indigenous people yearned to gain self-determination and the control of their destiny. The passage of power into indigenous hands induced uncertainty among non-citizens about the country's political and economic future and created fears regarding their role in the newly independent nation, leading virtual stagnation of investment. There was substantial capital flight from the country and decline in employment in the modern sector of the economy. Poverty was rampant, illiteracy pervasive and the general state of health poor (National Development Plan 1989 – 93).

Kenya inherited a largely rural economy based primarily on subsistence agriculture with a modicum of industrial and commercial activity of which was focused on the greater East African market. The development of agriculture, industry and commerce was contingent on the existence of sound basic infrastructures and attendant services. This required heavy capital and financial investment in order to adopt existing facilities and services to the needs of the nation and to develop new ones where non-existed.

Despite the challenges faced, during the early years of independence Kenya achieved commendable economic growth compared to other developing countries. From 1964 to 1973, GDP grew on average by 6.6% per year. The rapid growth during this decade resulted mainly from successful rural development policies that led to
increased agricultural outputs, import-substitution industrialization strategy supported by access to the East African community markets and good Macroeconomic management. (National Development Plan 1997 – 2000).

In the case of agriculture, the main source of growth was the expansion of land under cultivation and the introduction of more modern farming practices. As for the manufacturing sector, growth was largely due to the expanding domestic demand supported by rising agricultural incomes, the encouragement of investment through high levels of protection and active government role in industrial promotion and investment.

The good performance during this period was, however, not sustained. Since from the mid 1970's the performance of the economy has indeed been very poor. The growth rate of GDP declined to an average of 5.2% per year between 1974 and 1979 and between 1980 and 1989, 1990 and 1995 and 1996 and 1999 average growth rates for GDP were 4.1%, 2.5% and 2.5% per year respectively.

Although the poor economic performance after 1973 has often been attributed to external factors, (e.g. oil crisis of 1973) it is noteworthy that some countries that were at the same level of economic development as Kenya, and which faced similar external forces, were able to emerge from the crisis due to sound economic policies and structural flexibility. Kenyan internal policies and structural rigidities were constraining the nation's economic growth and development.
This led the government to adopt Structural Adjustment Programmes (SAPs) through the publication of Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth.

### 1.2 Taita Taveta District

Taita Taveta District is among the seven districts that form the Coast province. It occupies the south west part of the province. Its neighbours include Tana river, Kitui and Makueni Districts to the North, Kwale and Kilifi Districts to the East, Kajiado District to the north-west and the Republic of Tanzania to the south and south west. The District lies between latitudes 2°46's and 4°10's and longitudes 37°36'E and 30°14'E and it covers approximately 16,959 square kilometres.

The district has five divisions namely Wundanyi, Voi, Tausa, Mwatate and Taveta. (Taita Taveta District Development Plan 1997 – 2000). The altitude of the district varies between 2,200m above sea level for the lowlands to 4,502m above sea level for the highlands giving two distinct weather and climatic characteristics, with the hills experiencing lower temperatures (as low as 18.2°C) compared to the lower zones which average 24.6°C.

The district experiences two rainy seasons, the long season rains which fall between the month of March and May and the short rains between November and December. The rainfall distribution is uneven in the district. The highlands receive higher rainfall than the lowland areas. This coupled with the cooler temperatures, makes the highlands high potential and suitable for the production of horticultural
produce, maize and beans. The lowlands which are mainly ASAL, are only suitable for early maturing crops such as sorghum, millet and early maturing maize varieties.

The district population density was 12 persons/km\(^2\) in 1989 and is projected to be 18 persons/km\(^2\) at the end of the plan period. (District statistics office, Wundanyi, 1996). However, most of the district areas is covered by the Tsavo National Park, which constitutes 62% of the total area of the district.

Land use patterns in the district covers agricultural activities for both small and larger scale, range lands, national parks, rocks, water and trust-land. The majority of the people in the district are engaged in subsistence farming.

Though the district is an ASAL area the majority of its people are highly dependent on agriculture as their source of income. The annual per capita income according to Welfare Monitoring Survey of 1994 is Kshs. 15,489. This figure is low because the agricultural resource base of the district is narrow hence the level of savings available for investment is low. Real incomes have also been steadily declining due to the raising inflation.

The majority of the people in the district earn average incomes of below Kshs. 2,000 per month. This implies that savings for investment are very low. It also means that the problem of poverty will still continue as a major constraint to development. This coupled with the fact that the real incomes have also declined, means that the majority of the people in the district will continue to lead a subsistence way of life.
Data on food availability in the district indicate that the district is a net importer of food. The total number of bags of maize required to feed 272,063 persons (1997) was 460,000 bags. But the average annual output was 126,000 bags implying there was a deficit of 334,000 bags. This food deficit is mainly offset by input from other districts and from cross-border trade with neighbouring Kilimanjaro region of Tanzania.

There are only two banks in the districts namely Kenya Commercial Bank and Barclays Bank. There are no non-bank financial institutions in the district. From the above it is clear that to obtain credit in the district is not an easy task. Many parts of the district have not been adjudicated hence many farmers have no title deeds. In the light of this it has been very difficult for commercial banks to extend credit in the absence of suitable collateral.

1.3 Statement of the research problem.

Over the years the levels of poverty in Kenya has steadily been increasing. The worst hit group being the rural people who majority of them practice subsistence farming. There has also been a steady decline in level of economic activities in the rural areas over the years. It is on this background that this research is out to determine what factors are mainly responsible for increasing level of poverty in the rural areas. More specifically, the study will investigate how the following factors: -

(i) Inflation

(ii) Interest rates

(iii) Access to credit,

relate to poverty.
1.4 Purpose of the study

The purpose of this study is to determine how poverty relates to inflation, interest rates and access to credit. Once this relationship is determined, it will help policy makers to come up with policies that assist in reducing poverty levels based on the findings.

1.5 Objectives of the study

(i) The main objective of this study is to establish the relationship between poverty with inflation, interest rates and access to credit.

(ii) Determine the factors responsible to the increase in poverty.

(iii) Determine measures needed to reduce poverty levels.

1.6 Importance of the study

The government of Kenya has planned to eradicate poverty by the year 2015. If this objective will be met, there is need first to know what has caused the problem of poverty in the first place. That is, how did this problem of poverty came about and then from there it can effectively fight the problem by a way of policy.

1.7 Scope and Limitation

Initially the study was meant to cover the whole of Taita-Taveta District. But due to the topography of the place (which is hilly) the researcher’s time and financial
limitations it has been narrowed to Mwatate Division alone, specifically in the highlands region. This region has been chosen because of the following reasons:

1. Familiarity with the place which makes respondents participate willingly hence increasing reliability of the information collected.

2. The region has high potential for productivity.

3. Convenience to the researcher because of time and financial constraints.

The recommendations of this study will mostly be based on the area of research i.e. (Taita-Taveta district) and might not hold for other rural areas in other districts because:

(i) The extent of poverty can vary greatly among rural areas within the same country.

(ii) All rural areas do not practice the same economic activities.

(iii) Each rural area is faced with its unique circumstances and challenges.
2.0 CHAPTER TWO: LITERATURE REVIEW

2.1 Overview of the economy

The Kenya economy performed very well in the 1964 – 1980 period. The economy recorded an annual average growth rate of 6.5 per cent over the period 1964 – 1971. (National Development Plan 1989 – 93:4). This growth was based on the transfer of land from large to small farm use, extension of the area under cultivation of high value crops and industrialization based on a strategy of import substitution.

The agricultural sector grew by 4.2% and its share of total output fell from 38% in 1964 to 33% in 1971. The manufacturing sector recorded a growth rate of 8.2% and its share of total GDP increased from 9% to 10% over the same period.

Maintaining the level of growth achieved in the first nine years after independence became a difficult task as the country, which is a price taker on the international market, was forced to deal with the 1973/74 oil crisis which was the first of a number of external shocks that affected the economy (Ibid; 5).

In addition, inappropriate policies turned the internal terms of trade against agriculture. As regards industry, growth declined due to weak incentive system which favoured production for the domestic market over production for export and to diminishing opportunities for effective import substitution. The factors were exacerbated by the collapse in 1977 of the East African Community, the traditional market outlet for Kenyan’s industry and the growing inefficiency of public industrial investments.
After the second international oil price crisis of 1977 and the severe drought in 1984, the structural constraints worsened leading to slower growth, high inflation and a deterioration in the balance of payments. By the 1980's it had become clear the structural constraints were preventing it from achieving the high economic growth rates of the 1960's and early 1970's (National Development Plan 1997 – 2001).

Kenyans internal policies and structural rigidities were constraining the nation's economic growth and development. As a result of this, the government adopted Structural Adjustment Programmes (SAPs) through the Publication of Sessional Paper No. 1 of 1986 on Economic Management for Reviewed Growth. In this sessional paper, the government sought to broaden the role of market signals and align relative prices more closely with those in world markets.

The government then started implementing SAPs in agriculture, industry and the financial sector. The reform process, though effective in terms of reducing protection and encouraging manufactured exports, did not bring about any meaningful improvement in the performance of the economy.

In the early 1990s the economy fell into severe recession, with the growth rate falling from 4.2 per cent in 1990 to 0.5 per cent in 1992 and 0.2 per cent in 1993. Since then, growth has been fitful, uneven, unpredictable and sluggish, (Anyang Nyang'o, Daily Nation 30th Jan. 2000: 10).

To reverse this trend, the government in 1993 introduced more far reaching structural reforms. These included price decontrol, removal of all import licensing and foreign investment incentives, public enterprise guidelines, and the financial system.
The need to concretise these reforms, led to the publications of the Sessional Paper No. 2 of 1994 on Recovery and Sustainable Development to the year 2010. This paper, though intended to compliment and build on the Sessional Paper No. 1 of 1986, had the overall objective of introducing policies and programmes necessary to bring about both economic recovery and stability, and to accelerate and sustain development.

2.1.1 Economic indicators

Some of the few selected annual economic indicators from 1993 to 1999 are shown in table 2 in page 11.
### Table 2.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Population</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• People in millions</td>
<td>26.0</td>
<td>26.8</td>
<td>27.5</td>
<td>28.2</td>
<td>28.9</td>
<td>29.6</td>
<td>30.3</td>
</tr>
<tr>
<td>• Growth (%)</td>
<td>3.0</td>
<td>2.9</td>
<td>2.7</td>
<td>2.6</td>
<td>2.5</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>2. National Accounts (US$M)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP Growth (%)</td>
<td>0.2</td>
<td>3</td>
<td>4.8</td>
<td>4.6</td>
<td>2.3</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Per capita Income (US $)</td>
<td>188.</td>
<td>225.2</td>
<td>279</td>
<td>284</td>
<td>283</td>
<td>279</td>
<td>278</td>
</tr>
<tr>
<td>Gross Domestic Savings (% of GDP)</td>
<td>1</td>
<td>18.1</td>
<td>17.4</td>
<td>19.6</td>
<td>15.0</td>
<td>13.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Gross Domestic Investment (% of GDP)</td>
<td>16.4</td>
<td>19.3</td>
<td>21.8</td>
<td>20.4</td>
<td>18.6</td>
<td>17.2</td>
<td>16.9</td>
</tr>
<tr>
<td><strong>3. Consumer Price Inflation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Annual</td>
<td>46.0</td>
<td>28.8</td>
<td>1.6</td>
<td>9.0</td>
<td>11.2</td>
<td>6.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Month-on-month</td>
<td>54.7</td>
<td>6.6</td>
<td>6.9</td>
<td>10.8</td>
<td>8.3</td>
<td>2.5</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>4. Government Budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget Deficit (% of GDP)</td>
<td>-8.2</td>
<td>-6.1</td>
<td>-1.0</td>
<td>-0.2</td>
<td>-1.0</td>
<td>-1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Budget Deficit (-)/surplus (+)</td>
<td>-28.9</td>
<td>-24.1</td>
<td>-4.6</td>
<td>-0.9</td>
<td>-5.9</td>
<td>-10.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Revenue and Grants</td>
<td>73.6</td>
<td>106.8</td>
<td>130.0</td>
<td>151.3</td>
<td>155.0</td>
<td>184.9</td>
<td>202.0</td>
</tr>
<tr>
<td>Expenditure</td>
<td>102.</td>
<td>130.9</td>
<td>6</td>
<td>152.2</td>
<td>0</td>
<td>195.0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>135.2</td>
<td>2</td>
<td>160.0</td>
<td>9</td>
<td>198.0</td>
<td>3</td>
</tr>
<tr>
<td><strong>5. Balance of payments (US$M)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall Balance</td>
<td>439</td>
<td>102</td>
<td>-139</td>
<td>398</td>
<td>-13</td>
<td>74</td>
<td>-2</td>
</tr>
<tr>
<td>Current Account</td>
<td>99</td>
<td>50</td>
<td>-395</td>
<td>-93</td>
<td>-387</td>
<td>-463</td>
<td>-191</td>
</tr>
<tr>
<td>Exports (f.o.b.)</td>
<td>1186</td>
<td>1482</td>
<td>1876</td>
<td>1969</td>
<td>2060</td>
<td>2012</td>
<td>1907</td>
</tr>
<tr>
<td>Imports (c.i.f.)</td>
<td>1493</td>
<td>2044</td>
<td>3066</td>
<td>2929</td>
<td>3283</td>
<td>3337</td>
<td>3049</td>
</tr>
<tr>
<td>Services (net)</td>
<td>406</td>
<td>612</td>
<td>795</td>
<td>868</td>
<td>837</td>
<td>863</td>
<td>951</td>
</tr>
<tr>
<td><strong>6. Foreign Debt. As % GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt. Services as % of Exports of Goods and Services</td>
<td>129.0</td>
<td>106.0</td>
<td>71.1</td>
<td>65.5</td>
<td>86.0</td>
<td>54.8</td>
<td>59.7</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>26.2</td>
<td>24.8</td>
<td>24.6</td>
<td>25.1</td>
<td>26.6</td>
<td>22.0</td>
</tr>
</tbody>
</table>

Throughout the 1990's, GDP growth in Kenya has averaged 2.2%, less than half the average of the previous decade and less than population growth rates. Available data on output by economic activities in key sectors indicate that real GDP grew by 1.4% in the twelve month to October 1999 compared with 1.8% and 2.3% in 1998 and 1997 respectively (Monthly Economic Review, Jan. 2000: 44).

The slowdown in growth continues to be evident in almost all sectors, with agriculture, manufacturing and services being the most affected. Notable among the indicators of weak economic performance are the reduced trade at the Nairobi Stock Exchange and the poor outcome of the half year business results of a number of firms in various sectors of the economy.

The continued depressed performance of the economy is attributed to several structural factors which continue to discourage investment including dilapidated infrastructures, inefficient provision of public services and incidences of insecurity. These conditions have led to high costs of production and distribution which in turn make domestic goods and services less competitive.

To reverse the slowdown in economic growth, the government stepped up, in recent months, the pace of structural and economic reforms. The thrust of the reforms is to minimize the adverse effects of the structural constraints and thereby increase investors confidence. The government has also put in place measures to streamline procurement of goods and services, contain expenditures and balance the budget.

Other measures underway to spur economic growth includes the civil services rationalization programme, the on-going restructuring of the posts and
telecommunications sub-sector and the expected privatization of some parastatals. These measures, together with the reforms implemented in the financial sector, are expected to positively impact on economic performance or growth.

2.1.2 Interest rates

Interest rates play a big role in growth of the economy, while a worsening balance of payment will require the country to buy foreign currency at a higher price to pay for foreign debts and imports (East African Standard, September 28, 1999). When the economy is not performing, this forces the government into the local money markets to raise more funds to support its operations.

Conversely, interest rates will move up in sympathy with the governments appetite for public funds. For example, between June and July 1999, the benchmark 91 days treasury bills rates increased by 9% from 13.3% to 14.5%. Between July and August 1999, the rates rose further by 2% to settle at 14.8% and at 15.91% on September 17th. Bank lending rates in turn responded by breaking beyond the 20% barrier.

By hiking the interest rates, the banks makes lending money to businesses and other private sector concerns near impossible. With the private sector being shut out of the avenues to credit, it can confidently be said that private enterprise has been crowded out of the economy or made to barely survive.
2.1.3 Inflation

Inflation is a measure of the rate of change in the average prices of consumer goods and services over period of time from a fixed base period. It helps to identify changes in economic growth that are recorded from mere changes in current market prices, thus revealing the real value of the currency, incomes and costs of production. During the first decade or so of independence, Kenya enjoyed a single digit rate, mainly due to the effects of the price control system and a good performance in the economy.

The worst inflation rates were experienced in the years 1992, 1993 and 1994 which were 27.50%, 47.0% and 28.8% respectively. The high inflation rates in the early 1990s were attributed to the stepped-up implementation of the SAPs resulting in rapid decontrol of consumer prices, the continued depreciation of the Kenyan shilling, the accelerated growth in money supply and the 1991 freeze of donor aid to Kenya. From 1995 onwards inflation rate has been maintained on a single digit except in 1997 when it was 11.2%.

2.1.4 Access to credit

For one to qualify for credit from the banks, there are normally certain conditions to be met. Things like collateral, credit rating of the applicant, business plan, etc are normally required by the banks and other financial institutions which majority of the rural people cannot understand or meet.
In addition, the availability of these services in the rural area is a major problem. There are few banks and other financial institutions in the rural areas. In some cases they are not there at all.

2.2 Poverty

At the time of independence in 1963, the government identified illiteracy, disease, ignorance and poverty as the main problems to be addressed in the post independence era in order to achieve sustainable national development. A policy on poverty reduction was stated in Session Paper No. 10 of 1965 on Africa Socialism and its Application to planning in Kenya. The GoK noted that there were regional and gender dimensions to the problem and certain excluded groups needed to be brought into the mainstream of development (National Poverty Eradication Plan 1999 – 2015:1).

Poverty is a multi-dimensional phenomenon whose causes are complex and difficult to measure in a precise manner. (Economic Survey: 1998) Although there is no official poverty lines, an attempt has been made to define such a measure. Such poverty lines are developed and used to distinguish the poor from the non-poor. They are based on norms, which identify the minimum requirements in terms of food, and non-food expenditure needed to meet the minimum basic needs. The rural food poverty line derived from data collected in 1994 is Kshs. 702.99 per month adult equivalent.

The overall poverty line which includes the food and non-food basic requirements for rural areas, is Kshs. 978.27 per month per adult equivalent. A household with a monthly total expenditure of less than Kshs. 978.27 per adult
equivalent in rural areas is deemed to be below the poverty line, (Economic Survey – 1997).

Based on the above poverty lines, the 1994 Welfare Monitoring Survey 11 (WMS 11) data show that, overall prevalence of rural poverty has slightly increased from 46.3% in 1992 to 46.8% in 1994. The population of absolute poor persons during 1994 was estimated at 11.5 million, while the number of absolute poor households was 1.8 million. Likewise, the number of hard core poor (i.e. those who would not meet their minimum calorie requirements even if they concentrate all their spending on food) rose from 6.8 million to 7.5 million in 1997. Based on these findings it was estimated that in 1997, the population of absolute poor stood at 12.6 million persons from 2.0 million households, while the population of the hard core poor was 7.5 million persons from 1.4 million households.

In many countries poverty has a significant regional dimension. In general, it is more common in areas with low averages incomes, but the link is sometimes surprisingly weak (World Development Report 1990: 29). Poverty as measured by low income tend to be at its worst in rural areas, even allowing for the often substantial differences in cost of living between town and countryside. The problem of malnutrition, lack of education, low life expectancy and substandard housing are also, as a rule, more severe in rural areas.

The extent of poverty can vary greatly among rural areas within the same country. Many of the poor are located in regions where arable land is scarce, agricultural productivity is low, drought, floods and environmental degradation are common. In Latin America, for example, the worst poverty occurs predominantly in arid
zones or in steep hill-slope areas that are ecologically vulnerable. Such areas are often isolated in every sense. Opportunities for non-farm employment are few, and the demand for labour tends to be highly seasonal. Others among the poor live in regions that have a more promising endowment of natural resources but lack access to social services (education and health) and infrastructure (irrigation, information and technical assistance, transport and market centers). Neglect of rural areas in the process of industrialisation may pose serious problem of rural urban migration as poverty accelerates.

2.3 Agriculture and rural development

Kenya has since independence relied heavily in the agricultural sector as the base for economic growth, employment creation and foreign exchange generation. The sector is also a major source of country food security and a stimulant to growth of off-farm employment, both of which are of primary concern to the government. These are obvious considerations given that approximately 80% of the country's population live in rural areas and depend on agriculture for their livelihood.

Agricultural production contributes to rural development in various ways. About 80% of the total land surface in Kenya, is classified as ASAL lands. The development of ASAL areas is therefore considered crucial since about 25% of Kenyans population and over 50% of the total livestock in the country are found in the ASAL areas. Therefore strategies for rural development must address resource availability and utilisation in the ASAL areas.
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research methodology that was used in this study. It details out the population studied, the sample strategy used, the data collection procedure used and tools used for data processing and analysis.

3.1 Target population

This study aimed to explore the relationship between poverty and inflation interest rate and access to credit, in rural areas. The population under study was the households found in Mwatate Division in Taita Taveta District, Coast Province.

3.2 Sample strategy

A simple random sampling method was used in selecting a sample for the study. The advantages of this method is that, all members of the population will have equal and independent chance of being included in the sample. This eliminates biasness in members selected and hence making the sample a true representative of the population. A random sample of 40 households was selected from the Division. The 40 selected households formed the sample used for the study.

3.3 Data collection procedure

Both primary and secondary data were used in this study. Primary data was collected using questionnaire based interviews and personal observations. Interviews
were used because in the population used for study, many people cannot read and write.

### 3.4 Data processing and analysis

Data collected from primary sources was coded and tabulated. It was then processed and analysed statistically. Standard statistical tools which include descriptive, correlation analysis, chi-square test of significance, T-test, F-Test and regression were used to analyse the data. SPSS, statistical computer software was used for analysis. The results were also presented in both descriptive and inferential modes.

Regression analysis of the data collected was carried out to determine how the variables inflation, interest rate and access to credit relates to poverty.

### 3.5 Modelling

In this study, the variable in question were denoted as follows:

\[
P = \text{Poverty} \\
i = \text{Inflation rate} \\
r = \text{Interest rate} \\
c = \text{Access to credit}
\]

Hence we had poverty(P) is a function of inflation (i), interest rates(r) and access to credit (c) i.e.

\[
P = f (i, r, c)
\]

\[
P = \alpha_0 + \alpha_1 + \alpha_2r + \alpha_3c + e, \text{ where } e \text{ is the error or disturbance term and } \alpha_0, \alpha_1, \alpha_2, \alpha_3
\]

are parameters to be estimated.
3.6 Hypothesis

Poverty is a function of inflation, interest rate and access to credit i.e.

\[ P = \alpha_0 + \alpha_1 + \alpha_2 + \alpha_3 + \epsilon \]

It was expected that:

\[ \alpha_0 = 0 \] (i.e. the three variable adequately explain poverty).

\[ \alpha_1 > 0 \] (i.e. when inflation increases, poverty also increases)

\[ \alpha_2 > 0 \] (i.e. when interest rate increases, poverty also increases)

\[ \alpha_3 > 0 \] (i.e. when there is increase to lack of credit, poverty also increases)
CHAPTER FOUR: STUDY FINDINGS AND INTERPRETATION

4.1 Introduction

In this study, 40 respondents representing each household sampled were interviewed. Out of the 40 respondents, 27 of them were men and the remaining 13 were female. The 1994 Welfare Monitoring Survey 11 (WM11) poverty line was used to classify respondents as whether poor or not in which, a household with a monthly total expenditure of less than Kshs 978.27 per adult equivalent in rural areas is deemed to be below the poverty line. In this study, any person from 18 years and above was classified as an adult.

4.2.0 Relationship between poverty with inflation, interest rates and access to credit

4.2.1 Percentage frequency distribution tables for the variables

Table 4a: poverty

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>8</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

From the table we note that, 8 respondents were above the poverty line, which represented 20% of the population sampled while 32 respondents were below the poverty line, which represented 80% of the population sampled.
Table 4b: Inflation

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not affected</td>
<td>12</td>
</tr>
<tr>
<td>Affected</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

From the table we note that, 12 respondents were not affected by inflation, which represented 30% of the sampled population. While 28 respondents represented were affected by inflation, which represented 70% of the sampled population.

Table 4c: Interest rate

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>15</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
</tr>
</tbody>
</table>

From the table we note that, 15 respondents were not affected by interest rates, which represented 37.5% of the sampled population. While 25 respondents were affected by interest rates, which represented 62.5% of the sampled population.
Table 4d: Access to credit

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>13</td>
<td>32.5</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>27</td>
<td>67.5</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

From the table we note that, 13 respondents were not affected by ‘Access to credit’, which represented 32.5% of the sampled population. While 27 respondents represented were affected by ‘Access to credit’, which represented 67.5% of the sampled population.

4.2.2 Chi-square and correlation tests

Table 4e: poverty and inflation

<table>
<thead>
<tr>
<th></th>
<th>Not affected by Inflation</th>
<th>Affected by Inflation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>3</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>9</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12</td>
<td>28</td>
<td>40</td>
</tr>
</tbody>
</table>
The data on table 4e was run in SPSS and a Chi-square value of 0.60477 was obtained.

**Chi-square test**

The hypothesis to be tested at 5% level of significance is:

H0: poverty is not influenced by inflation.

H1: poverty is influenced by inflation.

At 5% level of significance, the Chi-square value of 0.60477 is not significant. Hence the decision is that, we accept Ho and conclude that poverty is not influenced by inflation at 5% level of significance.

This means there are other factors which also influence poverty. Also since both the poor and non-poor in the area of study are all prone to effects of inflation.

**Correlation co-efficient**

The person’s R correlation co-efficient between poverty and inflation is 0.08183. Hence we conclude that there is a positive relationship between poverty and inflation, but a weak one. This weak relationship implies that, though the poor are more vulnerable to effect of inflation than those who are not poor; inflation affects both the poor and non-poor individuals in the area of study. The small sample size could have also contributed to this weak relationship.
Table 4f: poverty and interest rate

<table>
<thead>
<tr>
<th></th>
<th>Not affected by Interest rates</th>
<th>Affected by Interest rates</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>10</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>25</td>
<td>40</td>
</tr>
</tbody>
</table>

The data was run in SPSS and a Chi-square value of 0.10247 was obtained.

**Chi-square test**

The hypothesis to be tested at 5% level of significance is:

H0: poverty is not influenced by interest rates.

H1: poverty is influenced by interest rates.
At 5% level of significance, the Chi-square value of 0.010247 is not significant. Hence the decision is that, we accept H0 and conclude that poverty is not influenced by interest rate at 5% level of significance. This is because interest rates affect both poor and the non-poor in the area of study. And also there are other factors which influence poverty apart from interest rates alone.

**Correlation co-efficient**

The person's R correlation co-efficient between poverty and interest rate is 0.25820. We conclude that there is a positive relationship between poverty and interest rate but a weak one. In other words the poor are more affected by interest rates than their counterparts i.e. the non-poor, though interest rates affects both the poor and non-poor as evident in the weak relationship. The small sample size also could have contributed to this.

**Table 4g: poverty and access to credit**

<table>
<thead>
<tr>
<th></th>
<th>Not affected by access to credit</th>
<th>Affected by access to credit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above poverty line</td>
<td>4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Below poverty line</td>
<td>9</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>13</td>
<td>27</td>
<td>40</td>
</tr>
</tbody>
</table>
The above data was run in SPSS and a Chi-square value of 0.23739 was obtained.

**Chi-square test**

The hypothesis to be tested at 5% level of significance is:

H0: poverty is not influenced by 'Access to credit'.

H1: poverty is influenced by 'Access to credit'.

At 5% level of significance, the Chi-square value of 0.23739 is not significant. Hence we accept H0 and conclude that at 5% level of significance poverty is not influenced by 'Access to credit'. This also shows that access to crediting in this area of study affects both the poor and the non-poor. In addition there are other factors which also influence poverty.

**Correlation co-efficient**

The person's R correlation co-efficient between poverty and 'Access to credit' is 0.18682. We conclude that there is a positive relationship between poverty and 'Access to credit' but a weak one. It can then be said that, the poor are more affected by lack of access to credit than the non-poor in this area though both groups lack access to credit. The small sample size could have contributed to this weak relationship.
4.2.3 Partial regression of variables

(a) poverty and inflation

Table 4h: Partial regression of poverty and inflation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.7500</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>0.071429</td>
<td>0.6157</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.0067</td>
<td></td>
</tr>
</tbody>
</table>

The equation is:

\[ P = a_1 + b_1 i \] \hspace{1cm} (i)

From table 4h above, the values for \( a_1 \) and \( b_1 \) are: \( a_1 = 0.750000 \) and \( b_1 = 0.071429 \)

Hence equation (i) becomes:

\[ P = 0.75 + 0.071429 \]

From the equation we note that when inflation increases, poverty also increases. Hence there is a positive relationship between poverty and inflation. From the table R-square is 0.0067. Which implies 1% of the variations are explained by inflation. The value is low due to small sample and other factors not captured in the equation.

T-Test

The hypothesis to be tested is:

\( H_0: B_1 = 0 \) i.e. inflation is not a significant explanatory variable

\( H_1: B_1 \neq 0 \) i.e. inflation is significant explanatory variable.
At 5% level of significance, we note that, from table 4h above, the T-value of 0.6157 is greater than 0.05 (i.e. 5%) Hence we accept Ho and conclude that inflation is not a significant explanatory variable of poverty at 5% level of significance.

(b) poverty and interest rates

Table 4i: partial regression of poverty and Interest rates.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.6667</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>0.2133</td>
<td>0.1077</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.0667</td>
<td></td>
</tr>
</tbody>
</table>

The equation is:

\[ p = a_2 + b_2 r \ldots (ii) \]

From table 4i above the values for \( a_2 \) and \( b_2 \) are: \( a_2 = 0.666667 \) and \( b_2 = 0.213333 \)

Substituting the values of \( a_2 \) and \( b_2 \) in equation (ii) above we have:

\[ P = 0.666667 + 0.213333r \]

we note that, when interest rates increases, poverty increases. Hence, there is a positive relationship between poverty and interest rates.

The R-square value is 0.06667, which implies 7% of the variations in the model are explained by interest rates. Since the value is low, it means there are other factors not captured in the model and the small sample size could have contributed to this.

T-Test
The hypothesis to be tested is:

Ho: $B_2 = 0$ i.e. interest rates is not a significant explanatory variable.

H1: $B_2 \neq 0$ i.e. interest rates is significant explanatory variable.

At 5% level of significance, we note that, from table 4i above, the T-value of 0.1077 is greater than 0.05 (i.e. 5%)

Hence the decision is to accept Ho at 5% level of significance and conclude that, interest rates is not a significant explanatory variable of poverty

(c) poverty and access to credit

Table 4j: partial regression of poverty and Access to credit

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.692308</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>0.159544</td>
<td>0.2484</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.03490</td>
<td></td>
</tr>
</tbody>
</table>

The equation is:

$P = a_3 + b_3 c$\quad (iii)$

From table 4j above the values for $a_3$ and $b_3$ are $a_3 = 0.692308$ and $b_3 = 0.159544$

Substituting the values of $a_3$ and $b_3$ in equation (iii) above we have:

$P = 0.692308 + 0.159544c$
Hence, we note that, when lack of Access to credit increases, poverty also increases.

Therefore, there is a positive relationship between poverty and lack of access to credit.

The R-square value is 0.0349, which means 3% of the variations in the model are explained by access to credit. This value is low because of the small sample size and that other factors have not been captured in the model.

**T-Test**

The hypothesis to be tested is:

Ho: $B_3 = 0$ i.e Access to credit is not a significant explanatory variable.

H1: $B_3 \neq 0$ i.e. Access to credit is significant explanatory variable.

At 5% level of significance, we note that, from table 4j above, the T-value of 0.2484 is greater than 0.05 (i.e. 5%)

Hence accept Ho and conclude that, Access to credit is not a significant explanatory variable of poverty at 5% level of significance.
4.2.4 Multiple regression of poverty (p) with inflation (i), interest rates [r] and access to credit©

Table 4k: Multiple regression of poverty (p) with inflation (i), interest rates [r] and access to credit©

<table>
<thead>
<tr>
<th>Variable</th>
<th>Co-efficient</th>
<th>T-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.41016</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>0.056321</td>
<td>0.6794</td>
</tr>
<tr>
<td>Interest rates</td>
<td>0.292486</td>
<td>0.0354</td>
</tr>
<tr>
<td>Access to credit</td>
<td>0.248313</td>
<td>0.0829</td>
</tr>
<tr>
<td>R-square</td>
<td>0.151</td>
<td></td>
</tr>
<tr>
<td>F-value</td>
<td>0.1129</td>
<td></td>
</tr>
</tbody>
</table>

The model equation was of the form:

\[ P = \alpha_0 + \alpha_i i + \alpha_r r + \alpha_c c + e; \quad \text{--------(iv)} \]

where \( e \) is the error term and \( \alpha_0, \alpha_i, \alpha_r, \alpha_c \) are parameters to be estimated.

From table 4k the values of \( \alpha_0, \alpha_i, \alpha_r, \alpha_c \) are:
\( \alpha_0 = 0.410160 \)
\( \alpha_1 = 0.056321 \)
\( \alpha_2 = 0.292486 \)
\( \alpha_3 = 0.248313 \)

Hence, by substituting the values of \( \alpha_0, \alpha_1, \alpha_2, \alpha_3 \) in equation (iv) above we have

\[ P = 0.410160 + 0.056321i + 0.292486r + 0.248313c \]

The hypothesis to be tested was:

- \( \alpha_0, = 0 \)
- \( \alpha_1 > 0 \)
- \( \alpha_2 > 0 \)
- \( \alpha_3 > 0 \)

From the model equation we find that:

i) \( \alpha_0, \neq 0 \) hence we conclude that the three variables; inflation(i), interest rates[r] and Access to credit © do no adequately explain poverty. In other words, there are other factors/variables not captured in the model, which also help to explain poverty a part from the three identified.

ii) \( \alpha_1 = 0.056321 \) i.e. \( \alpha_1 > 0 \), this implies that, when inflation increases, poverty also increases i.e. there is a positive relationship between poverty and inflation.
iii) \( \alpha_2 = 0.292486 \) i.e. \( \alpha_2 > 0 \), this implies that, when interest rates increases, poverty also increases i.e. hence the two are positively related.

iv) \( \alpha_3 = 0.248313 \) i.e. \( \alpha_3 > 0 \), that is, when lack of access to credit increases, poverty also increases, hence a positive relationship between the two variables.

**T-Test**

The hypothesis to be tested is:

Ho: \( B_i = 0 \) i.e. \( x_i \) is not a significant explanatory variable.

H1: \( B_i \neq 0 \) i.e. \( x_i \) is significant explanatory variable.

From table 4k and at 5% level of significance, we note that, the T values of 0.0827 and 0.6794 are greater than 0.05 (i.e. 5%), while the value of 0.0354 is less than 0.05

Hence we conclude that at 5% level of significance only ‘interest rate’ is a significant explanatory variable in the model, while ‘inflation’ and ‘Access to credit’ are not significant explanatory variables of the model. This could be due to the fact that both the poor and non-poor in this area are affected by inflation and access to credit as evident in low correlation values.

**F-Test**

Here the hypothesis to be tested is:

Ho: regression line as a whole is not a significant predictor

H1: regression line as a whole is a significant predictor
At 5% level of significance, we note that, from table 4k, the F value of 0.1129 is greater than 0.05 (i.e. 5%)

Hence we accept H₀ and conclude that the regression line as a whole is not a significant predictor of poverty at 5% level of significance.

From table 4k above, \( R^2 = 0.15100 \). This means that 15.1% of the total variation are explained by the multiple regression equation i.e. the variables included in the model explain 15.1% of the variables that determine poverty. Which means there are other variables which help to explain poverty for example gender, age, climate, land, etc. have not been captured in the model. In addition, the small sample size and multicollinearity between the variables have contributed in making the R-square value small. Also since in the area of study, both the poor and non-poor were prone to effects of inflation, interest rates and access to credit.
4.3 Factors identified by respondents for the increase in poverty

Figure 1: Factors behind increase in poverty

- Lack of capital
- Low crop production
- High prices of farm inputs
- Lack of employment
- Reduced Effort
- Neglect of indigenous food crops
- Poor farming practices
- High prices of consumer goods
- Lack of unity in development matters
- Loss of fertility
- Lack of enough land
- Population growth
- Lack of direction
- Lack of market for farm produce
- Unreliable prices of farm produce
- Poor weather conditions
- Increased pests and diseases
- Poor Transport means
- Loss of value of Kenyan shilling
- Others factors (Listed below)

List of other factors:
- Famine
- Under-utilization of resources e.g. fallow land
- High school fees
Unreliable crop seeds
Ineffective pesticides
Corruption
Invasion of farm produce market by outsiders

From figure 1 above we note that, high prices of farm inputs had the highest frequency of 26. This is expected, given that majority of the people in this area depend on farming as a source of income.

Lack of capital and lack of market for farm produce, both had a frequency of 12 (the second factors after high prices of farm inputs)

Lack of employment and lack of enough land took the third position with both having a frequency of 11.

All the remaining factors had a frequency of less than 10, while all the factors classified under other factors had a frequency of one (1) each.
4.4 Suggestions advanced by respondents for reducing poverty

Figure 2: Respondents’ suggestions for reducing poverty levels

- 1. Concessional loans to farmers by government and NGO's
- 2. Discard outdated beliefs
- 3. Create employment
- 4. Loans in terms of farm inputs
- 5. Unity among community members in development matters
- 6. Reduce price of farm inputs
- 7. Provision of ready market for farm produce
- 8. Work of Agricultural Extension Officers be intensified
- 9. Increase land under cultivation
- 10. Improve rural roads
- 11. Plant indigenous crops
- 12. Reduction of prices of consumer goods
- 13. Sensitization on utilization of our resources to citizens
- 14. Look for suitable project in the area
- 15. Other recommendations (listed below)
List of other recommendations:

- Appreciate or strengthen the shilling
- Provision of school fees
- Stop market invasion by outsiders
- Control of prices of farm inputs by government.
- Planting with farm yard manure to improve fertility
- Lower duty on farm inputs
- Provision of reliable seeds for planting
- Ban traditional liquors
- Reliable prices for farm produces
- Family planning
- Plant high demand crops
- Settlement schemes in low zones through provisions of irrigation
- Rural electrification to create jobs

From figure 2 above we note that the most featuring suggestions were ‘concessional loans to farmers by government and NGO’s and ‘ provision of ready market for farm produce’ which tied with a frequency of 15.

The second in ranking was ‘reduce price of farm inputs which had a frequency of 12.

All the remaining suggestions had a frequency less than 10 while all the suggestions classified under ‘other recommendations’ had a frequency of one (1) each.

4.5 Other findings

The average monthly income of the sampled population was Ksh 245.50 or 2942.61 per year. This implies that savings for investments are very low or not there completely. Hence no meaningful development activities can be achieved from such incomes; therefore the problem of poverty will still continue to be experienced in this region.
The average family size is 6 persons for each household. Surprisingly, both the poor and the non-poor had the same average family size in this region, that is, 6 persons for each household.

So the problem of large family size contributes to increase in poverty levels, given that the incomes from this region cannot cope with such large numbers some families, for example, especially the poor, had up to 10 persons in one household.

Out of the 40 respondents, 18 of them had title deeds (i.e.45%), while 22 of them (i.e.55%) did not have. Out of the 18 who had title deeds, 14 were men while 4 were women. From the 22 who had no title deeds, 13 were men while 9 were female. From this it shows how difficult one can get a loan in the absence of collaterals.

As for the type of farming practised, 31 of the respondents (i.e.77.5%) were practicing subsistence farming while 9 of the remaining (i.e.22.5%) were practicing small-scale farming. This confirms the fact that most of the poor rural people practice subsistence type of farming.

Out of the 40 respondents 36 of them (i.e.90%) depend on farming as the main source of income while 2 of the remaining (i.e.5%) are permanently employed (all by government). The remaining 2 (i.e.5%) depend on casual labour as main source of income. This also confirms that majority of people in the rural areas depend on farming as the main source of income.

Most farmers admitted that the level of farming activity has gone down. Out of the 40 respondents, 23 of them (i.e.57.5%) admitted their level of farming has gone down. The remaining 17 (i.e.42.5%) had their farming activity increasing. All of those who had their farming activity increasing were very young families, hence less responsibilities.
Taita-Taveta district, especially the highlands are known to be good in horticultural farming. But out of the 40 respondents 15 of them (i.e.37.5%) were not practicing horticultural farming. The main reason behind this was that they could not afford the high prices of agro-inputs, 11 of them, while 4 of the remaining sited lack of enough land as the main reason.

Majority of the respondents were not able to sustain their families throughout the year from their farming income. Out of the 40 respondents, 33 of them (i.e.82.5%) were not able to sustain their families from their farming income throughout the year, while 7 of the remaining (i.e. 17.5%) were able to sustain their families.

Most of the respondents agreed that they no longer plant the crops they used to grow before. Out of the 40 respondents, 27 of them (i.e.67.5%) have changed to other alternative. Out of the 27, 15 of them have changed because of the high cost of production of the old crops. The most affected crop was tomato which attract very expensive agro-chemical e.g. Ridomil which costs more than ksh 1,500 per Kg. While 8 of the remaining, had changed because they found new crops more paying. And the remaining 4, had either changed because of lack of market for their farm produce, soil diseases or lack of commitment which goes with the type of crops grown.

Lastly, responding to the question as to which type of economic/ farming activity to recommend in the district for high pay off, majority of the people recommended horticultural farming. That is, out of the 40 respondents, 22 of them (i.e.55%) of them recommended horticultural farming. From the remaining 12 (i.e.30%) recommended mixed farming (i.e. either horticultural and dairy farming or mixed cropping). Cash cropping e.g. tea and coffee planting was recommended by 4 people (i.e. 10%). While the remaining 5% (i.e. by one respondent each) recommended dairy farming or maize planting.
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study set out to determine the relationship between poverty with inflation, interest rates and Access to credit; the factors behind poverty increase and the solutions to the poverty problem.

The results revealed that, there is a positive relationship between poverty with inflation, interest rates and access to credit as earlier hypothesized by the researcher. This was evidenced by the fact that, in each case, poverty had a positive correlation coefficient with all the three variables, although the relationship was a positive weak one.

The results also indicated that, the variables in the model did not adequately explain poverty. In other words, there were other variables, which were not captured in the model and are useful in explaining poverty. This is supported by the fact that $\alpha_0 \neq 0$ and the F-Test results which indicated that the model was not a significant predictor of poverty.

Other findings of the study show that, high prices of farm inputs is the major problem behind poverty increase in this area among other factors. This is so, because majority of the people in this area depend on farming as the main source of income.

Lastly provision of concessional loans to farmers by government or NGO's and ready market for farm produce, as the most two recommended ways of reducing poverty by the respondents, among other suggestions.
5.2 Recommendations

Following the previous discussion of the research findings, the researcher recommends the following:

i) This study revealed that there is a positive relationship between poverty with inflation, interest rates and access to credit. Because of this, the following recommendations will serve as a remedy:

a) There is need for the government to maintain inflation at the lowest possible rates. This can be done by controlling the amount of money in circulation, strengthening the Kenyan shilling and making sure the consumer goods, especially for the poor are readily available. If possible, the government should control the prices of these commodities so as to protect its citizens. The government can also waive duty on farm inputs to make them affordable to the rural poor, who entirely depend on farming as the main source of income e.g. in Taita-Taveta district. This tax exemption can also be extended to those consumer goods, which are basic to the poor people.

b) The government should live within its budget and avoid budget deficit at all costs. Overspending forces the government into the local money market which causes the banks interest rates to rise hence locking both individual and private sectors from the local money market.

c) There is need for government, NGO’s, banks and non-financial institutions to give loans to farmers under fairly concessional terms whereby farmers are able to access credit with ease unlike in situations where one must provide collateral among
other conditions. The government can give these loans in terms of farm inputs technical assistance etc. While the NGO's which are involved in micro financing should relax their lending conditions. You find that most of the NGO's are involved in funding small business enterprises hence farmers are left out. For example in Taita-Taveta those which give assistance to farmers, one has to pay a certain percentage of the farm item price before being considered and delivery is not prompt, in most cases it is out of the planting schedule\session. And for those supporting small business enterprises you find that, the grace period is very short and one has to belong to a group or operate an account to qualify for credit, among other conditions.

ii) The government should help farmers market their farm produce by providing an already ready market locally and internationally. Most of the farmers in this area are unable to market their products, hence fall victims to middlemen who exploit them. This has discouraged many people from carrying a massive farming activity because they are not aware of where to sell their produce.

iii) The government should intensify the work of the extension officers. Most farmers get poor crop yields because of outdated farming practices. This should also be done to encourage proper or efficient utilization of natural resources in rural areas.

iv) The government should come up with a way of creating jobs in rural areas. This can be done through rural electrification, creation of suitable projects in the rural areas e.g. in Taita-Taveta District there is need for a milk processing plant as most farmers have no place to sell their milk.
v) The government should improve on rural access roads. You find that, during rainy seasons, especially in Taita-Taveta district, many roads are inaccessible. Hence, farm produce cannot reach market in time or completely resulting into massive losses.

vi) There is need for people to consider planting indigenous crops. Most of the people in Taita-Taveta district have discarded their crops which were very useful in counteracting famine. Because of this, in the event that maize crop fails to do well for a particular season, people easily fall victims of famine.

vii) To increase the land under cultivation and given that the lands found in the highlands region in Taita-Taveta district are becoming smaller and smaller as the population increases, there is need for settlement scheme in the lowlands. This can be done through provision of irrigation water, as it is the main problem in this area.

viii) Lastly there is need for people to diversify their sources of income in this region. You find that most people in this area depend on subsistence horticultural farming and nothing else. There is need to put more emphasis on cash cropping and dairy farming which are not given a serious consideration by many people in this area.
5.3 Recommendations for further research

The study only considered three variables i.e. inflation, interest rates and access to credit. There is need to carry out research which captures all variables that help to explain poverty.

Also there is need to carry a national wide research on the variables so far identified since the research only considered Taita-Taveta district.

Lastly this research dealt on poverty as measured in income levels. There is need to carry another research based on other dimensions of poverty.
APPENDIX I: BIBLIOGRAPHY


Daily Nation Newspaper, (1999): Tuesday, June 1, Nation Newspaper Limited, Nairobi.


**APPENDIX II: WORK PLAN**

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Number of weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>iii</td>
<td>Data collection [4 weeks]</td>
<td>17/4-17/5/2000</td>
</tr>
<tr>
<td>iv</td>
<td>Data coding [6 weeks]</td>
<td>17/4-31/5/2000</td>
</tr>
<tr>
<td>vii</td>
<td>Compiling and reading [5 weeks]</td>
<td>25/5-3/7/2000</td>
</tr>
</tbody>
</table>
APPENDIX III: QUESTIONNAIRE
IMPACT OF THE POOR ECONOMIC CONDITIONS ON THE RURAL PEOPLE IN KENYA – A CASE OF MWATATE DIVISION IN TAITA-TAVETA DISTRICT.

The objectives of this study is to analyze the relationship between poverty with interest rates, inflation and access to credit. The questionnaire is intended to collect the necessary data that will assist in the analysis.

Information collected from this questionnaire will be treated in strict confidence and will be used for academic research only.

Interview date ........................................

Interviewee house No. ..............................

(1) Sex of the respondent

  Male  □

  Female □

(2) Members of the family

  18 years and above □

  Below 18 years  □

(3) (a) What is the main sources of income

  (a) Farming □

  (b) Permanent employment □

  (c) Casual labour □

  (d) Others [specify]  __________________________

(3) (b) If the answer to part 3 (a) is (a) what is the type of farming practiced?

  Large scale farming □

  Small scale farming □
Subsistence farming  

(4) Which type of crops do you plant in your farm?

Horticultural  
Cash crops  
Subsistence  

(5) (a) Are you doing farming in your own land?

Yes  
No  

(b) If the answers to part 5(a) is "yes", Do you have a title deed for the land?

Yes  
No  

(6) Approximately how much income do you get from the farm per month?

0 – 200/=  
200 – 500/=  
500 – 1,000/=  

1,000 and above [specify]  

(7) (a) Has the level of your farming activity been increasing over the years?

Yes  
No  

(b) If your answer to part 7(a) is "No", why is this so?

Lack of funds for farm inputs  
Lack of enough land  
Poor weather conditions  
Lack of market  
Others (specify)  

............................................................................................................................
(8) Why was there more farming activity in the past than now?

Affordable prices of farm inputs □
Favourable weather conditions □
Ready market □
Others (specify) ..........................................................

(9) (a) Have you ever approached a bank for a loan?

Yes □
No □

(b) If the answer to part 9(a) is “No”, why?

Lack of collateral □
High interest rates □
Unaware of such services □
Tough/stringent loan conditions □
Others (specify) ..........................................................

(10) (a) Have you approached any other financial institutions other than the bank for a loan?

Yes □
No □

(b) If the answer to part 10(a) is “No”, why?

Unaware of such institutions □
No such institutions in the District □
Inability to service the loan □
Stringent loan conditions □
Others [specify] ..........................................................
(11) (This question is for those who don't practice horticultural farming). This place is known to be good in horticultural production, why are you not practicing it?

- Lack of interest
- High prices of agro-inputs
- Lack of land
- Lack of knowledge in the type of farming
- Poor weather conditions

12. Are you able to sustain your family throughout the year from your farming income?

- Yes
- No

13. (a) Are the crops you are planting now the same ones you use to grow before?

- Yes
- No

(b) If the answer to part 13(a) is "No", why did you change?

- High cost of production of the old crops
- New crops more profitable
- Advised by agricultural officer
- Other (Specify) ..........................................................

14. In your own view, what factors do you think are responsible for all these hardships you are facing?

_________________________________________________________________________

15. What suggestions could you make to improve the situation?

_________________________________________________________________________

16. If you are to advise your fellow villagers, what kind of activity could you recommend them to engage in for a higher pay-off?
# APPENDIX IV: BUDGET

<table>
<thead>
<tr>
<th>ITEM</th>
<th>COST (KSHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Cost of proposal Development</strong></td>
<td></td>
</tr>
<tr>
<td>(i) Printing 30 pages at Kshs. 30.00</td>
<td>900.00</td>
</tr>
<tr>
<td>(ii) Binding 5 copies at Kshs. 120.00</td>
<td>600.00</td>
</tr>
<tr>
<td>(iii) Travelling expenses</td>
<td>5,000.00</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>6,500.00</strong></td>
</tr>
<tr>
<td><strong>b) Cost of Data Collection and Analysis</strong></td>
<td></td>
</tr>
<tr>
<td>(i) Travelling expenses</td>
<td>10,000.00</td>
</tr>
<tr>
<td>(ii) Data processing</td>
<td>10,000.00</td>
</tr>
<tr>
<td>(iii) Questionnaires</td>
<td>500.00</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>20,500.00</strong></td>
</tr>
<tr>
<td><strong>c) Production of the Final Document</strong></td>
<td></td>
</tr>
<tr>
<td>(i) Printing 60 pages at 30.00</td>
<td>1,800.00</td>
</tr>
<tr>
<td>(ii) Binding 5 copies at Kshs. 700.00</td>
<td>3,500.00</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>5,300.00</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>32,300.00</strong></td>
</tr>
</tbody>
</table>