AN ASSESSMENT OF FINANCIAL SAVING PATTERNS TOWARDS CAPITAL ACCUMULATION BY MICRO AND SMALL ENTERPRISES IN NUNGUNI MARKET, MAKUENI DISTRICT IN KENYA.

MUTISYA STEPHEN NDOLO

A THESIS SUBMITTED IN PARTIAL FULFILLMENT FOR THE DEGREE OF MASTER OF SCIENCE OF KENYATTA UNIVERSITY

OCTOBER, 2008.
DECLARATION

This thesis is my original work and has not been presented for a degree in any other university or any other award.

Mutisya Stephen Ndolo
Signature: [Signature]
Date: 6/10/04

I 58/7067/2002

We confirm that the work reported in his thesis was carried out by the candidate under our supervision.

1. Dr. Wanjau Kabecha.
Signature: [Signature]
Date: 6/10/08

2. Prof. Peter Kibas.
Signature: [Signature]
Date: [Signature]
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ACRONYMS AND ABBREVIATIONS

ACEG - Africa Center for Economic Growth.
ASCA - Accumulating Savings and Credit Association.
CBS - Central Bureau of Statistics.
DFID - Department for International Development.
KIPPRA - Kenya Institute of Public Policy Research and Analysis.
K-REP - Kenya Rural Enterprise Programme.
Ksh - Kenya Shilling.
MFI - Micro Finance Institution.
MSE - Micro Small Enterprise.
NCCK - National Church Council of Kenya.
NGO - Non Governmental Organization.
ROSCA - Rotating Savings and Credit Association.
SACCO - Savings and Credit Co-Operative.
UNDP - United Nations Development Programme.
USAID - United States of America International Development.
Ush - Uganda Shilling.
UWFT - Uganda Women Finance Trust.
The purpose of the study was to provide empirical knowledge and understanding of Kenyan rural Micro and Small Entrepreneurs (MSEs) sources of income, the saving patterns they adopt and the effectiveness of such patterns in capital accumulation. It also sought to determine the capacity of entrepreneurs to save and how they used such accumulated savings. The study used descriptive research design. Data was collected through administration of a structured questionnaire by the researcher. From the study it was found out that entrepreneurs had multiple income sources. The study focused on business income only. To save their business income, they adopted several saving patterns. The most adopted pattern was the Rotating Savings and Credit Association (ROSCAs) while the least adopted was Saving and Credit Co-operative Society (SACCO). The adopted patterns accumulated capital for either short, medium or long term. The entrepreneurs contributed money to the patterns on a regular basis. The entrepreneurs in all sectors adopted similar patterns with 74.9% adopting informal patterns. The effectiveness of the patterns in capital accumulation varied according to criteria used to access effectiveness. In terms of accessibility, informal patterns were found to be effective. On the other hand, they were ineffective in terms of security of savings and term of savings. The entrepreneurs were found to be able to save varying amounts ranging from Kshs 20 to over Kshs 1000 daily. Only 2.6% of them were found not able to save anything. They used their savings to finance needs facing them. These consisted of emergencies, lifecycle needs and long term investments. More than half (62.8%) of them saved for long term needs especially re-investments and to start new enterprises. The entrepreneurs had a significant capacity to save their business income. This was demonstrated by the many ingenious ways they used to save and the amount they committed to saving. Due to other expenditure needs facing the entrepreneurs, the amount of savings committed to re-investment and establishing new enterprises were low and therefore would have low impact to growth of enterprises, job creation and poverty reduction. Since the entrepreneurs adopted many informal patterns, they should be improved and formal patterns introduced in the market. Given the risks inherent in the informal sector saving patterns, regulations should be enacted to govern providers and promoters of formal saving patterns to the MSE sector. There is need for further research on the impact of re-invested savings and the viability and cost of saving mobilization. A replica study in markets in other regions in Kenya and a study with larger sample is also necessary.
ACRONYMS AND ABBREVIATIONS

ACEG - Africa Center for Economic Growth.
ASCA - Accumulating Savings and Credit Association.
CBS - Central Bureau of Statistics.
DFID - Department for International Development.
KIPPRA - Kenya Institute of Public Policy Research and Analysis.
K-REP - Kenya Rural Enterprise Programme.
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MFI - Micro Finance Institution.
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NCCK - National Church Council of Kenya.
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USAID - United States of America International Development.
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CHAPTER 1
INTRODUCTION.

1.0 Background

Savings is defined as the option not to consume cash (Robinson, 2001). Vogel called savings the forgotten half of rural finance (Vogel, 1984). For more than two decades, there has been an argument that there is large demand for financial services and that savings is the most fundamental and unavoidable first step in money management without which others cannot operate (United Nations Development Programme UNDP/Department for International Development, DFID, 2000). Over the years development specialists and experts have recognized that people require a wider range of financial services to manage risks, money and improve their welfare (African Centre for Economic Growth ACEG, 1999). Savings in particular have generated much interest in Africa where the supply-led and subsidised credit modes have not resulted in the much expected outreach and sustainability (Gadway, 1996). Savings include economic actors such as groups, individuals and enterprises (Gadway, 1996). The main determinants of an economic actors saving can be summarized as: transaction incurred on transforming available surplus into specific savings options or liquidating it, the liquidity of the saving option, the real rate of return of the specific option and the divisibility of savings. Others include safety of the savings option and trust worthiness and confidence and the possibility of using savings to gain...
access to credit or other services (Bouman, 1994).

1.1 Problem statement and justification.

Several studies have cited savings as a major source of startup and expansion capital by MSEs. The patterns the MSEs used to accumulate these savings have not been studied. Due to the various constraints facing the MSEs, majority of small scale enterprises close up at the startup stage of enterprise operation and do not grow to become medium scale enterprises normally referred to as the missing middle. Its enterprises in this category, which has the highest propensity to create jobs and venture into the export markets. Finance feature as a key constraint to the growth of MSEs and a major reason for MSEs business closures. To be able to grow to fill this gap, MSEs require capital amongst other services like marketing and capacity building. Capital accumulation through savings seems to be the viable option since credit is limited. The capacity of rural MSEs to accumulate capital through savings, the effectiveness of saving mechanisms in capital accumulation have not been studied as well as how the MSEs use such accumulated savings.

Based on the stated problem, the purpose of the study was to provide empirical knowledge and understanding of the MSEs sources of income saving patterns, their perceived advantages and disadvantages in capital accumulation, the capacity of the MSEs to save and how the MSEs used their savings.
1.2 Purpose of financial services

The purpose of financial services is to help people manage money. The most pressing money management need is building large sums of money out of small often irregular and fluctuating incomes scarcely big enough to cater for their basic needs (Robinson, 2001). Self generated capital through saving is an essential ingredient to finance social and economic development making it crucial in any strategic planning process for progressive growth of the people. Savings permit rapid expansion of business to meet new opportunities, act as evidence of financial probity of the saver and provide funds for personal use therefore protecting business from decapitalisation. Access to improved ways of saving help people from sliding deeper into poverty and helps lay foundation for their ambition to better themselves and their families and thus playing a vital role in poverty reduction (Kalala and Alpha, 2000).

1.3 Saving Modes

Incomes can be converted into lump sums through three ways which include saving-down, saving-up and saving-through (Rutherford, 1999). In saving-up series of savings made now are exchanged with lump sum in the future. In saving-down a lump sum taken in the form of loan is exchanged for future savings used in repayment installments. In saving-through a continuous stream of savings are converted into lump sum when required. If the amount needed is larger, then the saver takes a loan.
1.4 Saving patterns

Throughout the world people have saved. The importance they attach to savings is demonstrated by the many ingenious and modern ways they find to save. Voluntary savings can take the form of cash, institutional or in-kind savings (Robinson, 2001). Financial saving services can be categorized into informal, semi-formal and formal sectors. Saving patterns in the informal Sector are home, saving clubs, money guards, deposit collectors, reciprocal lending, Rotating Savings and Credit Association (ROSCA), Accumulating Savings and Credit Association (ASCA), pawn brokers and supplier credit. The semi-formal is comprised of Micro Finance Institutions (MFIs). The formal sector consists of banks, insurance companies and Savings and Credit Co-operative Societies (SACCO) (Robinson, 2001).

1.5 Reasons why people save

People save their income according to many motives. These include life-cycle motive, inter temporal, precautionary motive, improvement motive and independence motive (Robinson, 2001). Others are enterprise motive, bequeath motive and avarice motive. These motives can be classified into three groups which include life-cycle needs, emergencies and long term investment and opportunities (Robinson, 2001).
1.6 Constraints facing Micro and Small Enterprise (MSE) sector in Kenya
The MSE sector in Kenya experiences several constraints to its growth. These include access to markets, lack of capital, legal and regulatory framework, physical infrastructure, underdeveloped entrepreneurial skills and limited access to technology (Daniels and Musinga, 1995 and G.o.K, 1992). Of all these constraints, lack of capital feature amongst the most severe, especially in rural areas (African Centre for Economic Growth, ACEG/Central Bureau of Statistics, CBS, 1999).

1.7 Capital accumulation
Capital accumulation can be through two ways. These are credit and through savings. Credit as a mode of capital accumulation to the MSE sector is limited (Dondo, 2001). On the other hand, capital accumulation through savings by the MSEs has been found to be a major source of start-up and expansion capital for MSEs (Kioko, 1995).

1.8 General objective
The general objective of the study was to determine the saving patterns adopted by the entrepreneurs in capital accumulation.
1.9 Research objectives

The objectives of the study were

i. To determine the sources of income for the MSEs.

ii. To determine the saving patterns adopted by the MSEs capital accumulation.

iii. To determine the capacity of the entrepreneurs to save.

iv. To determine the effectiveness of adopted saving patterns for capital accumulation.

v. To establish how the MSEs use the saving.

1.10 Research questions

The study answered the following questions

i). What are the sources of income for the MSEs entrepreneurs?

ii) What saving patterns do the MSEs entrepreneurs adopt for capital accumulation?

iii). What is the effectiveness of adopted saving patterns for capital accumulation?

iv). What is the capacity of the MSEs entrepreneurs to save?

v). How do the MSEs entrepreneurs use their savings?
1.11 Significance of study

The results of the study are of importance to MSEs, MFIs and policy makers in several aspects. The results can be used by MFIs in development of saving mobilization strategies for the MSEs by building on the existing saving mechanisms and structures. Saving mobilization by MFIs would provide a fund that MSEs would borrow for growth and start up of enterprises and enhance the sustainability of the MFIs. Such growth of the MSEs would have a positive impact on job creation and poverty reduction in rural areas. It is hoped that results of this study will enhance understanding of the MSEs saving patterns. This can be used by policy makers in formulation of saving mobilizations policies responsive to the needs of MSEs.

It is against this background that the study sought to determine the MSEs sources of income, the saving patterns adopted by the MSEs, the effectiveness of the adopted patterns in capital accumulation, the capacity MSEs to save and how they use their savings.
CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter seeks to review earlier work that may have been done on savings in Africa and the rest of the world. Literature on the following will be considered relevant: constraints facing MSEs, MSEs access to credit, modes of capital accumulation and use of savings. It also gives the research gap which the study focused.

2.1 Constraints Facing MSEs

The MSEs continue to thrive because of the ingenuity of the micro entrepreneur, high degree of utilization of indigenous resources, the relatively more labour using technologies and their greater flexibility in production or provision of services (Robinson, 2001). Despite all these positive factors, micro enterprises experience constraints to its growth and development. These constraints can be generally classified as finance, legal and regulatory framework, infrastructure, market and marketing and technology (ACEG/CBS, 1999).
2.1.1 Legal and regulatory Framework

Excessive regulation inhibits business competitiveness worldwide (UNDP/DFID, 2000). They impose costs and inflexibilities that frustrate enterprise, hamper innovation, deter investment and minimize opportunities for employment. Large businesses have the capacity and resources to get around the regulations, but operation of MSEs which have fewer financial resources can be seriously hampered. In Kenya, cumbersome laws and regulations, particularly inhibit MSEs (ACEG/CBS, 1999). One of these regulations is the trade licencing considered as a major constraint to the entry to operation and development of business at all levels. The license requirements are duplicated at central government, local authority and among ministries. The whole system is characterized by lengthy and cumbersome approval procedures, use of inappropriate enforcement measures and licensing officers who are prone to corruption. This has led to the current situation of majority of MSEs (66.6%) operating without licenses and proportionately the continuous harassment of MSEs by local authorities. Another regulatory constraint is business registration, which is considered by MSEs as cumbersome, bureaucratic and costly process and a major roadblock to start-up. Business registration can only take place in three towns in Kenya (Nairobi, Mombasa and Nakuru) while registration of business name can only take place in Nairobi (KIPPRA, 2000).
2.1.2. Physical infrastructure

Physical infrastructure includes services accruing from power, telecommunication, water and sewerage, roads, security of tenure of premises and work sites (G.O.K, 1992). Good infrastructure has effect of promoting competitive MSE sector growth by lowering the cost of doing business. Significant evidence shows that poor physical infrastructure constraints the growth and development of MSE sector. The circumstances differ widely between rural and urban and type of business. Inadequate legally demarcated land for MSE operation and insecurity of tenure for work site has resulted into haphazard mushrooming of informal business and frequent harassment by local authorities. There has been effort to provide sheds by Nairobi city council in industrial area, Kenya Industrial Estates and the government. The sheds especially the Nyayo sheds by government were poorly planned and lacked utilities and their impact have been low (GOK, 1992). This is evident from a survey where almost half (40.11%) of the MSEs did not have security of tenure of worksite meaning they could be removed anytime (ACEG /CBS, 1999). There is also limited access to electricity, running water, sewer facilities which inhibits manufacturing, catering and food processing. Overall 57.7% of the MSEs had no access to electricity though urban MSEs had better access. Majority of MSEs (63.7%) depend on water vendors, 16.5% had piped water and 19.8% had water in their compound. The poor conditions of roads and resulting transport costs has an effect on dampening MSEs growth in a
number of ways. Customers are also discouraged from purchasing MSEs goods due to difficulties experienced in reaching sites without access roads. In Kenya, the condition of roads is poor with 61.1% being bad, 33.9% rated as fair and only 5.0% rated as good. In general, 3.6% of MSEs studied cited infrastructure as a constraint to their performance (ACEG/CBS, 1999).

2.1.3 Markets and marketing

There is a big discrepancy between supply and demand of MSEs products. Oversupply by many enterprises producing many similar products leads to dead stock and business stagnation or even closure. Inadequate access to markets and competition was found to be the most severe constraint facing MSEs in Kenya (34.1%) and the second most cited reason for business closure after lack of operating funds (ACEG/CBS, 1999). This can be attributed to narrow product range which leads to stiff competition and market congestion. There is also weak interfirm linkages and subcontracting. This is evident from the fact that majority of MSEs product buyers are individuals (86.8%) with government and non-MSEs accounting for only 1.6% and 0.9% respectively. The promotion of products using electronic and print media, trade exhibitions, posters, and fliers is minimal. Despite these initiatives almost half of the MSEs (49.2%) do nothing to promote their products (ACEG/CBS, 1999).
2.1.4 Underdeveloped entrepreneurial skills

As most business operations are becoming more and more knowledge based so should entrepreneurs become knowledgeable. Education is an important attribute in terms of revenue returns, technology adoption, marketing, management and growth of the MSE sector. A 1999 ACEG/CBS survey found out that highest revenue returns were found in the post graduate groups while lowest level of revenue was amongst the entrepreneurs with no education. Membership in groups is useful in that it brings an entrepreneur into business contacts, promotion of business interests and potential for financial as well as non-financial assistance. Such benefits are more in high level business organizations than the low ones. Membership in groups also depends on level of education. Most of Kenyan entrepreneurs are not educated beyond secondary level (98.2%) and therefore not members of such organizations and thus reap minimal benefits. Apart from formal education, very few entrepreneurs (4.9%) have been trained in areas of marketing, management, record keeping, technical training, all important aspects in entrepreneurship (ACEG/CBS, 1999). Training in the MSE sector is carried out largely through apprenticeship system particularly in the manufacturing and services sector. Though cost-effective it does not prepare an entrepreneur to all the challenges of self-employment (ACEG/CBS, 1999).
2.1.5 Access to technology

Technology is a body of knowledge of techniques, methods, process and design (GOK, 1992). In most cases technology is reduced to hardware and therefore MSEs have yet to embrace all the dimensions of technology. There are several constraints facing technology development by MSEs. One of them is lack of appreciation by the MSEs of the link between the success of product in the market and technology used in production. Investment in technology is also affected by lack or inadequate capital to invest as found out in Mali where many metal working artisans had attempted to make their own machines but failed because of lack of finance (DFID/UNDP, 2000).

Other constraints to technological development is poor access to electricity as most of process of production requires electricity and poor skill foundation/training amongst the MSEs. Most of the entrepreneurs are trained through apprenticeship system, which is usually product-specific and not process-oriented. This limits the potential for growth for both individual and enterprise. Another constraint is limited access to technological information. Information on where and how to source available technologies is hardly available to MSEs (ACEG/CBS, 1999). There are no networks established between the developers of technologies and MSEs. Equally weak is the capacity of MSEs to access and interpret the little information that is available. Others are limited access to appropriate technology, undeveloped entrepreneurial skills and non-functional innovative system (DFID/UNDP
2.1.6 Finance

The availability of financial services especially credit and savings is a prerequisite to the proper functioning and growth of any sector (ACEG, 1999). A sector that has no access to finance is doomed to stagnation. This is largely the case with Kenyan MSEs. Recent studies in the country show that lack of finance whether for working capital, fixed capital or other types is a major constraint to 32.7% of firms in MSE sector (Kioko, 1995). In fact most of the MSEs rely primarily and exclusively on own savings and re-invested profits for business finance. That these may not be sufficient to effectively manage cash flow account for 30.15% of enterprises closures (ACEG/CBS, 1999).

2.2 Access to Credit

2.2.1 Availability of Credit

Of the financial institutions operating in the financial sector in Kenya today, only three are active in financing MSE activities. Prominent among them are SACCO, NGOs and informal associations such as ROSCA. A survey by KIPPRA (2001), on financial institutions found out that credit disbursed increased from Kshs 89 Billion in 1993 to Kshs 238 billion in 1997. The bulk of this credit went to large enterprises in urban areas. These schemes
are available in specific branches especially in urban areas a situation which limits the availability of such credit to most MSEs especially in rural areas. Another available loan facility in banks is the export financing by the exchange operation. Such finance is restricted to clients of a particular bank. Similarly to the credit schemes, this type of finance is limited to some bank branches. Loans are also available from the more than 3169 SACCOs in Kenya, NGOs and MIFs. Since inception in 1975 by National Church Council of Kenya (NCCK) and United States of America International Development (USAID) with capital of $10,000 to inception of Kenya Rural Enterprise Programme (K-REP) in 1985, loans to MSE sector has been increasing. By 1998 there were over 86 NGOs and other organizations involved in providing microfinance. Credit is also available from informal organizations such as ROSCAs, trade credit, money leaders (KIPPRA, 2001).

2.2.2 Amount of credit available

It is difficult to determine how much has been loaned to the MSE sector by financial institutions. However, it is known that loans to MSEs represent a small fraction of total loan portfolio (GOK, 1992). Dondo (2001) estimated supply of credit to the MSEs to be Kshs 2 billion from 1983 to 1990. Of the 24 organizations he studied, loans increased from Kshs 11.5 million in 1990 to Kshs 241 million in 1992. Though the loan volumes have increased significantly, the gap between supply and demand for credit by MSEs is still
Credit has been found to be limited to the MSEs. This is due to MSEs lack of collateral, lack of financial records, lack of credit history and the formal banking industry which remains largely oblivious to the credit needs of the emergent MSE sector because they are taken to be high risky. Due to this limited access to credit as a mode of capital accumulation, the only other viable option for capital accumulation is through savings. A 1999 survey shows that 89.6% of studied MSEs had never received any credit, 1.2% had received credit from SACCO, 2.8% from NGOs, 1.5% from banks, 0.2% from government, 0.1% from money lenders and 0.6% from trade suppliers (ACEG/CBS, 1999). A study by Kioko and Oketch (1993) found out that 0.2% of the MSEs studied got credit from NGOs, 0.4% from commercial banks, 6.9% from family and 10.3% from friends. The rest 82.2% had never received credit. Of Juhudi credit scheme in Nyeri, 15.7% got credit from formal institutions (NGOs, banks and SACCO), 2.2% from friends and 82.6% had never received credit (Kioko and Oketch, 1993). Fewer of the small enterprises have accessed credit than the relatively larger ones. Less than 20.0% of 1-2 workers enterprises have accessed credit. The Gemini survey found a similar situation where 90.0% and 80.5% of 1-2 workers and 3-5 workers respectively had not received credit (Musinga and Daniels, 1995). In Peru financing small enterprises is hindered by the policies of the Superintendence of banks that require banks to provide financial statements emphasizing solvency,
liquidity ratios, projected cash flows, income tax and equity declaration for each client. In Columbia commercial banks have special techniques for handling their personal clients but very few have any type of structure geared to small enterprises. The development of the MFI industry in Kenya traces back to late 1970s when organizations (NGOs) were registered. Despite the number of MFIs and their commendable effort to provide credit, the impact is minimal. A 1995 survey by Kioko found that 71.0% of the MSEs depended on profits from business and 22.0% depended on previous savings to finance additional investment. A Comparison of three baseline studies of 1993, 1995 and 1999 show minor improvement in access to credit from 8.9% in 1993 to 10.8% in 1999 (Oketch et al 1999). In East Africa the coverage of MSEs by MFIs is very low at 1.0-2.0%. The MFIs have primarily focused on clients who have an asset base that can serve as collateral or quasi collateral. The current product (Credit) is very expensive. The interest rate ranges between 35% p.a to 70% p.a (UNDP/DFID, 2000).

2.3 Capital accumulation

Capital can be accumulated through either credit or savings or both. Capital accumulation through credit though limited to MSEs has been reviewed in section 2.2 This section reviews capital accumulation through savings.
2.3.1 Keeping cash at home

Keeping cash at home involves keeping small amounts secretly in the home either in boxes, hiding in holes, sewing cash in clothing and in-home banks. A study by Rutherford found out that almost all respondents kept cash at home. A Ugandan bicycle taxi boy kept cash Ushs 1,500 daily in his parents house and managed to save up to Ushs 68,000 (Rutherford, 1999). A money exchange operator in 1986 in Ghana brought a large hood of bank notes into the open, which were home savings (Rutherford, 1999). Three women in Bangladesh saved a few taka from sale of eggs and fruit in clay banks shaped like fish (Wright et al, 1997). In Tanzania, 96% of all respondents held some cash at home (Lwoga, 1999). Almost all persons interviewed in a 2002 study by Mutesasira and Chigara had savings at home (Mutesasira and Chigara, 2002). Home savings are always in liquid form satisfying the savers liquidity preference in serving needs like emergencies and lifecycles needs. Amongst all the saving devices, it has the smallest transaction cost and is zero priced. The risks associated with home savings are high. They include trivial spending, theft, loss and claim by others.

2.3.2 Money keepers/Money guards

Another pattern is the money keepers/money guards. These are people who keep money for others for free but use the money while it is with them. They include parents, relatives, business friends, retirees, religious leaders etc.
In Uganda people kept their money with trusted friends, religious leaders or prominent merchants. In Mexico neighbours placed irregular savings with trusted shopkeepers. In Uganda a young man kept his money with his grandmother until he had enough to buy a bicycle and small entrepreneurs who did not own an account deposited their daily sales with shopkeepers who acted as overnight bankers (Rutherford, 1999). In Benin and Mali within the Muslim community, there existed money keepers and in the city of Bamako where people kept their money with vehicle owners until they were able to own the vehicle (Kalala and Alpha, 2000). In Uganda and Kenya people kept with shop keepers (Lwoga, 1999). Of all respondents studied in East Africa, 10.0% saved with trade suppliers (Graham and Mutesaria, 2000). In Zimbabwe apprentice workers, farm labourers and many low income workers saved with their employers that allowed them accumulate their meager wages into lump sum (Mutesasira and Chigara, 2002). Saving with money guards has several advantages. It guards against trivial spending and serves as an effective mode for dedicated saving for a specific use. It also offers an opportunity to save for a longer period since the money is not readily available. The cost of transaction is also low. The major disadvantage in using this mode is the possibility of the money guard failing to repay or delay when needed (Robinson, 2001).
2.3.3 ROSCAs

ROSCAs are groups of people wishing to build lump sum from regular savings. In one occasion the full amount is given to one member. The meetings continue until every member gets his/her prize. In Nigeria there was a ROSCA \textit{(esusu and dashi)} with 200 members and life cycle of 4.5 years (Bascom, 1952). In Kenya ROSCAs feature as sources of start-up and expansion capital indicating the MSEs had been saving in them. Of all borrowers of Juhudi credit scheme, 34.9% and 1.5% had used ROSCA money for start-up and expansion capital respectively (Kioko, 1995). The ROSCA instills great saving discipline in savers through its fixed saving function. Through this system savers strive to pay their shares to escape stiff penalties imposed on defaulters. A major limitation in using ROSCAs to save money is the action audit system. In this system, contribution ceases at the end of every cycle. Members choose either to continue or stop the contributions. This means that the term of saving is limited to the duration of a particular cycle which sometimes can be as low as a week (Wright, 2000).

2.3.4. SACCO.

A SACCO is an organization formed by people who come together to pool their savings and from this pool they take loans on which they pay interest that is in turn used to reward the members. In Uganda and Kenya 23.0% and 3.8% of the respondents saved with SACCO respectively (Mutesasira
In Philippines SACCOs offered saving boxes which the co-operative worker had the key to open and update the passbooks. There also existed a SACCO life insurance known as the “Mortuary Aid Plan” where members paid an initial payment of $8.57 (for twenty deaths) and thereafter through automatic deduction from their savings account at the SACCO according to the number of deaths. In Kibwezi and Bondo areas in Kenya, the communities saved in a SACCO known as *saga save* (Wright, 2000). Various SACCO societies were found in Zimbabwe some work based and others community based in terms of membership (Mutesasira and Chigara, 2002). SACCOs are able to offer various financial services to its members. A well run SACCO is able to offer short to long term savings, an opportunity to access credit, pension plans and insurance. Once a member qualifies for membership by virtue of employment or association/group the transaction cost of using SACCO are generally low. Though widely used, SACCOs are not accessible to all people especially the poor, illiterate and unorganized groups. The savings of savers are sometimes at risk due to mismanagement and corruption amongst SACCO leaders (KIPPRA, 1999).

### 2.3.5 In-Kind Savings

In-kind savings include things like grains, animals, gold, jewelry, construction materials e.t.c which can be liquated in to cash. In Indonesia, (Bouman, 1994)
found savings in grains and animals. In Gambia, most savings were in non-monetary terms—livestock, grains, tools, household goods, and jewellery (Shipton, 1998). In-kind savings have to be liquidated into cash when needed. This serves the illiquidity preference by savers and enables them get around the problem of trivial spending. In-kind savings especially animals also act as extra sources of income through their by-products which can be sold. They also serve other social functions such as payment of dowry. Despite these, in-kind savings can easily deteriorate when not looked after very well and do not have edge against inflation. They are also indivisible and thus not appropriate in meeting small needs of money. In Zimbabwe people saved by buying furniture (urban areas) and goats and cattle in rural areas (Mutesasira and Chigara, 2002).

2.3.6 Welfare association

Another informal pattern of saving is the informal insurance schemes /welfare associations. These are groups of people who pool their resources together for a particular activity concerning death, marriage, birth and other social functions (Wright, 2003). Such welfares were found out in Uganda, Gambia, Tanzania and Ethiopia where people contributed monthly to meet emergencies (Shipton, 1998, Lwoga, 1999 and Arendo, 1993). In India a welfare involving marriage where members saved weekly for a long time for their marriage of the daughters. Funeral cost funds welfare was also formed.
in the same country. Members contributed monthly for one year. Unused funds at the end of the year were refunded to the members (Rutherford, 1996). A Ugandan self help group (Mumo Mukabi) saved for functions e.g. weddings, baptismal parties for children, graduation and buying items for large social functions. Small shopkeepers in Dhaka formed an insurance fund managed by a 12-man committee by paying daily while Uganda 15 soft drink vendors paid Ushs 1000 daily for 3 months to cover losses due to fires. If no losses in the given period, the money was refunded. In Ethiopia there existed burial societies known as idirs formed by groups of people. This fund was used to meet emergency needs especially medical and funeral expenses (Mutesasira, 1999). A study by Wright (2003), found several welfare associations known as Stokvel in South Africa. There were stokvels for food, money and alcohol. Burial societies were found in Zimbabwe and Malawi (Mutesasira and Chigara, 2002). Social welfares are valuable mechanisms that enhance social relationship amongst members. This is made possible through occasions organized by these groups either to celebrate weddings, baptismal and to bury loved ones. Social welfares also offer members an opportunity to save for a dedicated purpose in their life or their relatives.

2.3.7 Deposit Collectors

Deposit collectors are people who collect money in regular and reliable way for others and earn a fee normally a day’s deposit in a month. A deposit
collecting organization formed by business executives known as
CONVERGENCE 2000 in Catonou in Mali collected deposits daily from
merchants, crafts men, porters, uneducated and small retailers in market
places. In west Africa Susu collectors took regular deposits and refunded
accumulated money less one day's deposit as commission. A deposit collector
(Jyothi) in India collected money from women daily who paid money for
220 cells the Jyothi repaid 200 cells and kept 20 cells as a fee. Bicycle taxi
operators, wheelbarrow pushers and market women in Uganda kept their
money with a deposit collector (Rutherford, 1999). An association of rickshaw
pullers in Zaire of 54,000 members had a scheme called “papa card” and
“mama card” in which they would deposit daily either with “mother” or
“father.” They would then return the money and keep a day’s deposit as fee
(Wright, 2000). There also existed a deposit collector in South Africa in
Kwazulu-Natal (Wright, 2003). Deposit collectors usually collect
agreed sum on a daily basis and charge one day’s deposit per month as their
commission. Therefore a saver pays fees of about 3% of her/his deposits. A
saver who saves less often pay more in proportion to her/his lapses that
serves as a strong incentive to be a disciplined saver. Some deposit
collectors also offer loans to their savers. Deposit collectors accounts are
usually cleared at the end of every month practice similar to ROSCAs. Such
action audit limits the term of savings and thus savers can only save for a
short period (one month).
2.3.8 Saving clubs

Savings clubs are comprised of people who save together (but not jointly) and thus monitor each other savings discipline (Kalala and Alpha, 2000). The deposits are either kept by a cashier or by a cashbox holder normally a member of the club. A saving club was found whose members wrote their names on bank notes with their names (Rutherford, 1996). Several savings clubs were found in Cochin in Kerala state of India. Savers deposited weekly and the period fixed at one year. The total was returned at the end of the year plus the interest from loan (Rutherford, 1996). In Ghana there existed saving clubs known as susu clubs. The members met weekly at the organizers residence to deposit their savings and receive loans. The savings were done on a 100-week cycle (Aryeetey and steel, 1994). Savings clubs of 10-30 members were found in Zimbabwe (Mutesasira and Chigara, 2002). The clubs were for acquiring farm inputs, school fees and uniforms, business working capital etc. As in ROSCAs and deposit collectors, saving clubs enhance regular deposits (saving discipline) and guard the risk of trivial spending. The transaction costs associated with savings clubs are also low. It involves only acquisition of a cash box. though they reduce trivial spending, they introduce a fresh risk of fraud by the cashier or the cash box holder.
2.3.9 Bank

A study of K-REP’s ROSCA (Chikola) groups found out that 56.3% had savings account of Kawagware Chikola members who had an account 82%, 15.2% and 1.6% had savings current and fixed deposit account respectively, (Oketch and Kioko, 1993). Another study found out that 18.0% of Juakali operators who borrowed from K-REP had bank accounts before joining K-REP (Oketch et al., 1999). In Cutback in the Western Indian State of Orrissa, the Urban Co-operative Bank (UCB) ran a daily savings collection scheme. A team of commission agents collected deposits from registered savers who were not organized in groups. One branch had 2500 such accounts. The savers did not get any salary but kept 3.0% of whatever they got. The bank Rakyat Indonesia had several products savers. One of them was SIMPEDES TABANAS for middle level savers and DEPOSITO a fixed deposit facility for wealthier individuals and firms. In December 1996 there were 16.1 million savers who had saved $2.7 billion and $2.3 million borrowers with loans of $1.7 billion (Graham and Mutesasira, 2000). In Uganda, bicycle taxi savers lost their savings when a bank collapsed and 15.0% Ghana bank savers also lost their savings (Graham and Mutesira, 2000). In Kenya K-REP’s Chikola groups doubled their joint savings within two years of K-REP’s intervention (Oketch and Kioko, 1993). Apart from accepting deposits banks are able to offer various financial services. They include loans, advances and foreign exchange services, money transfer
Despite this wide range of financial services, accessibility by majority of people in rural areas is low due to limited outreach, introduction procedures needed to open an account, high minimum balance requirement transaction, charges and illiteracy. (ACEG/CBS, 1999).

2.3.10 Insurance

A vegetable seller in Nyeri had a policy insuring her own life. A grain trader and many poor people had policies in the failed Kenya National Assurance (UNDP/DFID, 2000). Gono Bima a private insurance company in Bangladesh offered a life insurance product with no fixed ratios, fixed equal monthly premium payments and no medical check requirements (Graham, 1997). At the end of 1997, it had 513,000 policy holders insured for $112 million assured sum. In Bangladesh Association for Social Advancement offered all its borrowers a life insurance policy with sum assured equal to the face value of the loan and premium equal to 0.5% the face value of loan. The sum assured was paid to a nominated family member upon death less any loans outstanding. WEDCO in Kenya offers a similar system (Graham, 1997). A health insurance scheme in Uganda known as the Ishaka Community Health Plan Scheme covered inpatient and outpatients in Ishaka Hospital. Members paid quarterly premiums of $4.17 to cover a family of four. The family made additional contributions of $0.35
and 0.70 for outpatient and inpatients respectively. It had over 1000 members (Wright, 2000).

2.3.11 MFIs

People also save their money in MFIs. A study by Winswiki (1999) from six deposit taking MFIs found out that Banco Caja Social (BCS) of Columbia had $35 in deposits and Centenary Rural Development Bank (CERUDEB) of Uganda had $186 million. Village bank of Dogon land of Mali, Bank for Agriculture and Agricultural Co-operation (BAAC) Thailand and Rural Bank of Parambo (RBP) had $37 million, $279 million and $247 million respectively of deposits. Association for Social Advancement (ASA) of Bangladesh offered several saving accounts for its clients. The General members savings had 1,096,000 members and $5,713,000 in deposits by 1999. Other accounts were voluntary saving account with 194,000 members and $53,000 deposits long term saving account operated for five years with monthly contributions had $474,000 in deposits, term deposits savings, total sum savings etc. In Uganda (UWFT) had 34,363 clients with over $1 million in savings (Winswiski, 1999).

2.4. The uses of savings

This section reviews the use of savings in four categories, savings for emergencies, lifecycle needs, long-term investment, and opportunities and to
2.4.1 Emergencies

People save money to be used during personal emergencies that include illness, accidents, bereavement, desertion, and divorce, and for personal emergencies caused by floods, cyclones and fires. A study in Uganda found soft drink vendors who saved their incomes for emergencies especially fires and a group of people who saved for death. Other cases that people saved for emergencies especially to cover death were found in Bangladesh, Philippines and India where households contributed two rupees per week into funeral fund every month (Rutherford, 1996). Arendo also found a similar use of saving in Ethiopia where a group of people contributed a fixed amount every month used to meet emergency needs particularly medical and funeral expenses (Arendo, 1993). In Dhaka several hundred shopkeepers set up an insurance fund to guard against damages and destruction by floods, fires and bulldozers of the city Corporation. Everyone put in two taka a day and was banked by an eleven-man committee. Three times they had drawn funds and used them to repair damaged shops and workshops—once by fire and twice by bulldozers (Arendo, 1993). In South Africa people saved for emergencies (Sibusiso, 2002, Wright, 2003).
2.4.2 Lifecycle needs

Life cycle events that impose financial burdens include birth, marriage, education, homemaking, old age and the need to leave something behind for one's heirs (Graham, 1997). In southern India social groups such as churches arranged marriage funds that allowed members to save every week for the marriage of their daughters as well as in Uganda where people saved for marriage, birth and other social functions. A Ugandan self help group known as *Muuno Mukabi* was composed of people who saved for emergencies, for marriages and children graduations (Wright et al., 1997). In Bangladesh people saved for specific often time bound goals such as marriages and performing Hajji. A study in Philippines found out that people had education plan savings for their children. In South Africa people saved for education for their children and other human resource development (Wright, 2003 and Sibusiso et al, 2002).

2.4.3 Opportunities

As well as needs, there are opportunities that require large sums of money such as starting or running business, acquiring productive assets or buying life enhancing consumer durables such as farms, television, refrigerators etc. Several studies have found several individuals or groups that saved to start business. A study by Rutherford (1996) in Uganda found a young man who kept money with his grandmother until he was able to buy a bicycle to operate
as a taxi. Kalala and Alpha (2000) found taxi operators who had saved with money guards to buy vehicles, which they operated as taxi. In Kenya, studies have found out that savings form major source of start-up and reinvestment capital for MSEs (ACEG/CBS, 1999, Kioko, 1995, and Oketch, 1993). People also have saved to acquire households goods. In Tanzania in a ROSCA known as Kabati, the members saved to buy household goods and in Bangladesh people who saved to buy large assets such as land (Lwoga, 1999). Savings for assets accumulation was found amongst families with children in IDAS (Griristein et al., 2005).

2.4.4 Financial reciprocity

Saving -through is one of the methods of capital accumulation. In this system savings are made on a continuous and regular basis and lump sum (credit) is made available at some point. Thus people would save to access credit facilities. In Ghana susu clubs members were supposed to save $11 week to be able to get a loan of $1000. A similar scheme existed in Philippines where members saved $2.86 to be able to get a loan at the rate of 10.0% per month (Aryeetey and Steel, 1994). A survey of MSEs in Kenya found out that 1.2% had received credit from SACCO. Of Juhudi credit scheme members in Nyeri, 3.5% received credit from SACCO for their expansion capital. Credit provision is restricted to SACCO members meaning that the recipients of SACCO credit had been saving in SACCOs (ACEG/CBS, 1999). In Benin
and Mali MFI s offered a term deposit saving facility known as the linked savings or blocked in proportion to the amount of loan. The required savings was 10.0% of a small loan and 30% for big loans. Other credit facilities linked to savings were entrepreneur savings where the amount of savings represents 10.0% of the loan and Cotonou mandatory savings offered loans to groups of women in neighborhoods of Cotonou (Kalala and Alpha, 2000).

2.5 Theoretical framework

Saving behavior is most described as a function of income and consumption. Institutional model of saving suggests that institutional factors greatly influence an individual ability to save. Five institutional variables are considered instrumental in individual saving and assets accumulation. The first variable is access. Individuals who have access to institutionalized mechanisms are more likely to have higher saving rates than those who lack access. The second variable is information. Information refers to the extend to which people understand the process of rewards of saving. The more people understand the more likely they will be engaged in savings. The third variable is incentives. People are more likely to save when there are enticements to do so. The fourth variable is facilitation. People who are provided with saving facilitation which makes saving more manageable and convenient. The fifth variable is expectations. People who have specific savings expectation are more likely to save more than those who do not have
savings expectations (Graham, 1997).

2.6 Research gap

Saving patterns vary from region (Rutherford, 1999). This means that though studies on savings have been done in Uganda and Tanzania, a different scenario would exist in Kenya. The studies in Uganda and Tanzania were not extensive and did not focus on saving by MSEs and knowledge of MSE saving patterns is still sketchy. In Kenya, studies focusing on access to credit by MSEs have shown that savings form a major source of start-up and expansion capital. The sources of income saved and the saving patterns used to accumulate these savings have not been studied. People save their income for various reasons/needs/uses (Robinson, 2001). The study sought to find out the uses of savings once accumulated by rural MSEs in Kenya, which once again has not been studied. The effectiveness of saving patterns have also not been done for rural MSEs in Kenya. To fill this research gap, the study focused on finding out from the MSEs their source of income, the saving patterns adopted for capital accumulation, the effectiveness in capital accumulation and how the MSEs used the savings once accumulated.
CHAPTER 3
METHODOLOGY.

3.0 Introduction

This chapter gives the research design that was used in carrying out the research, the population and the sampling procedure that was used to select respondents. It also describes the type of questionnaire that was used to collect data, data analysis and data representation.

3.1 Research design

The study had the main objective of determining MSEs capital accumulation through saving patterns. The study used descriptive research design. Descriptive research is used when the purpose of the study is to collect data and answer questions concerning the current status of objects under study (Mugenda and Mugenda, 1999). This research design was appropriate since the study objectives were to collect data and report on the current status of the MSEs sources of income, their saving mechanisms, the effectiveness of such adopted mechanisms in capital accumulation and how the entrepreneurs used their savings. The study focused on trade, service, transport and manufacturing economic sectors that were identified through a pre-study survey in Nunguni market. A total of 318 MSEs engaged in these sectors within the sampled market were studied. Purposive sampling was used to pick
Nunguni market. This was because the focus of the study was to provide in-depth information on the MSEs saving patterns and not making inferences and generalizations. It was also because Nunguni market had the required economic sectors.

3.2. Population.

The target population was the MSEs in Makueni district. The accessible population was all the MSEs in Nunguni market. A field pre-study review by the researcher established a total population of 378 MSEs with 274 in trade, 53 in service, 29 in transport and 23 in manufacturing sectors. The field pre-survey was to verify the validity of licensing list of Makueni county council of the year 2004.

3.3 Sampling procedure.

Purposive sampling was used to pick Nunguni market. To select respondents, stratified random sampling technique was used. This technique is used if the goal is to achieve desired representation from various subgroups in the population (Mugenda and Mugenda, 1999). The respondents are selected such that the existing subgroups in the population are reproduced in the sample. This technique was used to ensure inclusion in the sample of subjects in subgroups which otherwise would entirely have been omitted by other sampling methods because of their small members in the population. The
accessible population was stratified into four groups using the type of sector as the criteria for stratification. Through this technique 20% of respondents in each sector formed the sample. This resulted to 77 MSEs which formed 20.3% of the population as shown in table:- (20.3% due to round off.)

<table>
<thead>
<tr>
<th></th>
<th>Trade</th>
<th>Service</th>
<th>Transport</th>
<th>Manufacturing</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>274</td>
<td>53</td>
<td>29</td>
<td>23</td>
<td>378</td>
</tr>
<tr>
<td>20%</td>
<td>55</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>77</td>
</tr>
</tbody>
</table>

20.3% is well over the 10% recommended for descriptive research (Mugenda and Mugenda, 1999). The high percentage was chosen in order to represent the salient features of the accessible population. A large sample also minimizes errors and enhances precision. The respondents were sampled through systematic random sampling with a sampling interval of five. (Using the formula, population in economic sector divided by sample size in the sector). MSEs in each economic sector were assigned numbers. These numbers were then randomized using calculator random numbers to get the respondents.

3.4 Pre-testing questionnaire

The questionnaire was pre-tested on a randomly selected sample (not in the actual sample) which was similar to the actual sample that was studied.
interns of economic sectors. A pre-testing sample of 1% of sample size resulting to 8 MSEs was used. A pretest sample of between 1% and 10% of the sample in recommended (Mugenda and Mugenda, 1999). The purpose of the pretest was to identify ambiguities in questions and responses. This was to enhance reliability of the questions and responses so as to achieve intended measurement of variables of study. Relevant comments, questions and responses were checked against objectives of the study and necessary revision made to enhance reliability. A test for reliability was not done. It was considered appropriate to use the questionnaire after revision.

3.5 Data Collection Procedure

Data was collected from entrepreneurs in the market engaged in the identified economic activities. For this purpose one questionnaire was administered. Close-ended questions were used to collect data. These type of questions were preferred because they are easier to administer and analyse collected data. Contingency questions were also used as follow up questions to probe for more information from respondents. The questionnaire consisted of three sections: business profile, source of income dwelling much on income from business and saving patterns adopted by the MSEs. Questions were administered orally by the researcher mainly through kikamba language. The oral administration of questionnaire was in order to get in depth information about aspects of study. It was also used to build rapport with the subjects in
order to get sensitive information and provide continuous assurance of confidentiality of information that would not have been possible with other approaches. The researcher asked questions and ticked the appropriate answers and in most cases a discussion followed. Information considered important and not catered for questionnaire was noted under voices from the field. The questionnaire was administered to all 77 MSEs by the researcher. Four questions regarding saving at home, money guards, buying domestic animals and type of animals got less than 100% response.

3.6 Data analysis

Collected data was analysed at four levels these being trade, service, transport and manufacturing sectors. At each level data was grouped and coded in terms of business profile, sources of income and saving patterns with a view to determine how the concerned MSEs accumulated capital. Simple descriptive indices were used to present data in percentages and table. Histograms were also used for better understanding of results. Reports from the field concerning various aspects of the study are also given as voices from filed. Data analysis was through Statistical Package for Social Science (SPSS). Economic sectors were the units of analysis.
CHAPTER 4

RESULTS AND DISCUSSION.

4.1 Introduction.

This chapter gives the results of the study and discussion of the results. Its organized in 6 sections which include business profile, the MSEs sources of income, the savings patterns adopted by the MSEs for capital accumulation, the capacity of MSEs to save, the effectiveness of the adopted patterns for capital accumulation and the uses of savings by the MSEs.

4.2 BUSINESS PROFILE

4.2.1 Business Ownership

Male sole proprietors owned majority of the MSEs as shown in table 4.2.1. on page 40. Men own all the MSEs in both manufacturing and transport sectors. In both manufacturing and transport sector there is demand for prior training in specific skills like carpentry, driving e.t.c which rural women don’t possess. These sectors also require large initial and expansion capital which also may not available to women. The gender differences in the society have permitted the credit market to favour the male entrepreneur. This lack of credit for women can be attributed to lack of collateral (where collateral is available is controlled by men/husbands) and sometimes a negative attitude that perceives them as uncredit worthy. The nature of work in these sectors require a lot manual activity, are time consuming and doesn’t
rhyme with multiple domestic chores that are undertaken by women. The highest ownership of women is in the trade sector. This is because trade require lower initial investment capital and no need for prior training compared to activities in transport and manufacturing. Activities in trade are also not time consuming and hence the female entrepreneur can have time to perform the multiple domestic chores.

Table 4.2.1 Distribution of ownership

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport %</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>41.8</td>
<td>54.5</td>
<td>85.7</td>
<td>100.0</td>
<td>51.3</td>
</tr>
<tr>
<td>Female</td>
<td>27.3</td>
<td>9.1</td>
<td>-</td>
<td>-</td>
<td>20.5</td>
</tr>
<tr>
<td>Male and Female</td>
<td>1.8</td>
<td>18.2</td>
<td>14.3</td>
<td>-</td>
<td>6.4</td>
</tr>
<tr>
<td>Female and Male</td>
<td>29.1</td>
<td>18.2</td>
<td>-</td>
<td>-</td>
<td>22.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.2. Employment.

All the MSEs studied were micro enterprises (those employing 1-10 workers) as shown in table 4.2.2 on page 41. None of the MSEs was a medium scale enterprise (11-49 workers) normally referred to as the “missing middle”. This is because a large proportion of MSEs (71.8%) operate on own account basis where the owner is the only worker and does not employ anybody else. This
is more so in trade. Since they are small they are easily manageable by the owner. Again the returns from such enterprises might not be enough to pay workers and meet the entrepreneur's needs. The service, transport and manufacturing sectors seem to employ more workers than trade. This is due to the nature of work which require assistants e.g. hotel proprietor will need waiter(s) and cook(s), a vehicle owner will need a driver and assistant.

Table 4.2.2 Employment

<table>
<thead>
<tr>
<th>Workers</th>
<th>Trade%</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>100.0</td>
<td>54.5</td>
<td>57.1</td>
<td>40.0</td>
<td>85.9</td>
</tr>
<tr>
<td>3-4</td>
<td>-</td>
<td>45.5</td>
<td>28.6</td>
<td>40.0</td>
<td>11.5</td>
</tr>
<tr>
<td>5-6</td>
<td>-</td>
<td>-</td>
<td>14.3</td>
<td>20.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.3 Age of enterprise

70.6% The mse in the start-up (0-3 years) and survival stages (4-7 years) of enterprise development. The market has been in existence for over fifty years and the normal expectation would be that majority of the enterprises would be in growth and development stages. But this is not the case as shown in table 4.2.3 on page 42. This high percentage in these two stages strongly indicates that majority of the MSEs close up at these stages. This could be due to the various constraints facing MSEs in the country. They include competition, lack of adequate operating capital, poor infrastructure etc. High
percentages of enterprises in these stages in trade and service sectors can be attributed to the stiff competition that normally exists in these two sectors. The two sectors account for the 86.5% of all MSEs in the market and also tend to sell similar goods and hence compete for customers. There is also easy entrance to trade and service sectors than in transport and manufacturing due to the lower initial capital required. The low percentage of enterprises in the growth, development and expansion stages in trade and service sectors can also be attributed to MSEs operating more than one enterprise. This practice substantially increases the risk of business closure due to undercapitalization and management concerns.

Table 4.2.3 Age of enterprise.

<table>
<thead>
<tr>
<th>Age (years)</th>
<th>Trade%</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3</td>
<td>38.2</td>
<td>36.4</td>
<td>28.6</td>
<td>60.0</td>
<td>38.5</td>
</tr>
<tr>
<td>4-7</td>
<td>32.7</td>
<td>54.5</td>
<td>14.3</td>
<td>-</td>
<td>32.1</td>
</tr>
<tr>
<td>8-25</td>
<td>25.5</td>
<td>9.1</td>
<td>42.9</td>
<td>40.0</td>
<td>25.6</td>
</tr>
<tr>
<td>Over 25</td>
<td>3.6</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

This relationship is evident from this study where 50.0% of MSEs who operated more than one enterprise were in trade and 28.6% were in the service sector. Fewer MSEs in transport (14.3%) and manufacturing (1.7%) operated a second enterprise and hence the higher representation in growth
and expansion stages. Enterprises in manufacturing and transport sectors seem to operate longer than trade and service in the market. This can be attributed to less competition in the sectors. Business competition is a function of number of operators, variety of goods and services being offered among others. Lower competition in these two sectors can be attributed to their numbers. MSEs in these two sectors are fewer accounting for 13.8% of all MSEs in the market. Entrepreneurs in these two sectors offer wide variety of services unlike in trade and service that sell similar goods and services. In manufacturing there are carpenters, tailors and metal fabricators as well as in transport where there are public service vehicles, taxis and transporters. Wide variety of goods and services bears a positive impact on sales and business profits which proportionately enhances business operation and survival.

4.3 MSEs SOURCES OF INCOME.

53.9% of the MSEs had more than one income source. Such multiple sources of income may enable the entrepreneurs to generate money to meet their needs and at the same time minimize risks in case one source fails. It is important to note that the number of sources of income may or may not be a reflection of the amount available to the entrepreneur. Capital forms an essential ingredient to the growth and development of enterprises worldwide. Thus the number of income sources may have an impact to the growth and survival of MSEs. If the number of income sources reflects the amount available, then MSEs with more sources are more likely to operate longer
than those with fewer sources and vice versa. This is evident from the fact that MSEs in transport were found to operate longer than MSEs in the other sectors and proportionately had more sources of income as shown in table 4.3.1 on page 45. Of importance to this study was income from business activities. It is important to note that a significant number of MSEs-18.9% operated more than one enterprise. They did this to increase and minimize risks in case one business fails. The practice though good can lead to undercapitalization of enterprises and failure of MSEs in the start-up stages. Profit from business activities and agriculture featured as the most predominant sources of income for entrepreneurs in the market. This is because 88.0% of the MSEs were self-employed and 30.7% of them practiced farming. Income from farming is not steady and normally lead to massive losses due to the consistent drought spells in the district. 60.2% of the MSEs had lost crops and animals due to drought, pests and sicknesses as shown in table 4.6.1 on page 72. Since the entrepreneurs used business income in farming, such losses would undercapitalize the enterprise. For entrepreneurs who close their business to farm, the cost of farming in terms of lost business hours is extremely high especially in wet seasons. This leads to reduced sales volume and proportionately lower profits for investments or start-up. This trickles down to slowed growth and development of MSEs. Profit from business is also not steady and normally fluctuates depending on seasons. A windfall may be experienced during celebrations like Christmas and a low season during drought when income from rural people is low.
Table 4.3.1 Number of income sources.

<table>
<thead>
<tr>
<th></th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport %</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>45.5</td>
<td>63.6</td>
<td>14.2</td>
<td>60.0</td>
<td>46.2</td>
</tr>
<tr>
<td>2</td>
<td>50.9</td>
<td>36.4</td>
<td>42.9</td>
<td>20.0</td>
<td>46.2</td>
</tr>
<tr>
<td>3</td>
<td>3.6</td>
<td>-</td>
<td>42.9</td>
<td>20.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.1</td>
</tr>
</tbody>
</table>

Despite these fluctuations of major sources of income, the MSEs are faced by large and multiple expenditure needs in relation to the money they have as shown in table 4.7.1 on page 76. Due to this, the multiple sources of income may not result to growth and expansion of enterprises. Sources of income other than business. The MSEs have varying sales revenue. The upper limit revenue consists of MSEs in trade and transport sectors as shown in table 4.3.2 on page 46. The quick turn around from purchase of goods to sales revenue account for the high sales in trade. The recent reforms in the transport sector which requires operators to fit safety belts and speed governors has pushed some operators out of business. This has created a shortage of vehicles and the fully compliant ones are doing booming business and hence the high returns in this sector. Enterprises in manufacturing though not in the low revenue category (Khs 0-100), majority of them seem to realize lower returns than MSEs in the other sectors with 80.0% in the range of Kshs
101-500 compared to 32.7% ,27.3% and 14.3% in trade, service and transport sectors respectively .As the daily sales increases their representation decreases with none realizing beyond Kshs 1,000. This could be due to the nature of their products (furniture, doors, windows, clothes and metal products) which are more costly than products in the other sectors hence not easily affordable by many rural people .Their products are also dependant on other factors such as social occasions like weddings and holidays for clothes and construction materials like furniture ,doors ,windows both wooden and metal which are also not common in rural areas all year round.

Table 4.3.2 Daily sales.

<table>
<thead>
<tr>
<th>Sales (Kshs)</th>
<th>Trade%</th>
<th>Service%</th>
<th>Manufacturing%</th>
<th>Transport%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100</td>
<td>10.9</td>
<td>36.4</td>
<td>-</td>
<td>-</td>
<td>12.8</td>
</tr>
<tr>
<td>101-500</td>
<td>32.7</td>
<td>27.3</td>
<td>80.0</td>
<td>14.3</td>
<td>33.3</td>
</tr>
<tr>
<td>501-1000</td>
<td>49.1</td>
<td>36.4</td>
<td>20.0</td>
<td>57.2</td>
<td>46.1</td>
</tr>
<tr>
<td>5001-10000</td>
<td>7.3</td>
<td>-</td>
<td>-</td>
<td>28.6</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.1</td>
<td>100.0</td>
<td>100.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4 SAVING PATTERNS.

4.4.1 In-kind savings

In-kind savings include savings in things like grains, animals, gold, jewelry, construction materials, etc., which could be liquidated into cash when needed. A total of 52.6% of the MSEs saved their income by buying livestock as shown in table 4.4.1.a below. Livestock serve multiple purposes in the MSEs' lives. They can be used as food for families and their by-products can be sold to earn extra income. This may relieve the burden of using business money to cater for such needs and probably lead to growth of enterprises. Animals also serve other social functions like paying dowry and are a sign of wealth, especially cows in rural societies.

Table 4.4.1a Saving by buying domestic animals.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade</th>
<th>Service %</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>45.5</td>
<td>54.5</td>
<td>85.7</td>
<td>80.0</td>
<td>52.6</td>
</tr>
<tr>
<td>No</td>
<td>52.7</td>
<td>45.5</td>
<td>14.3</td>
<td>20.0</td>
<td>46.2</td>
</tr>
<tr>
<td>No answer</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>*100.1</td>
</tr>
</tbody>
</table>

* >100.0 Due to rounding off.

An analysis by type of domesticated animal, shows cows being popular with entrepreneurs in transport and manufacturing sectors. The MSEs in these two sectors realize high returns as shown in table 4.3.2 on page 46 and hence
are in a better position to afford the high price of cows. This can also be attributed to the fact that all enterprises in these sectors are owned by men and that cows are expression of wealth by men in rural societies. On the other hand, women entrepreneurs prefer to save in poultry. This is evident from the fact that of the entrepreneurs who saved in poultry, 77.8% were in trade where there is the highest representation of women ownership as shown in table 4.2.1 on page 40. It has also been found out that MSEs in trade realize lower returns and may not afford the high prices of cows. Growing of crops was also another in-kind saving pattern adopted by 53.1% of the MSEs. As in animals, crops are used as food for families and can be sold extra income if they are surplus. Animals and grains effectively serve the avarice motive by the MSEs. This motive prohibits an entrepreneur from spending or withdrawing savings in response to trivial needs and impulse spending. On the other hand, grains and crops can easily deteriorate when they are not looked well. In such cases they have to be sold at a loss depending on the physical condition. They are also indivisible and thus not appropriate in meeting small expenditure needs. They also require time to be converted into cash and therefore cannot be used for emergency purposes. They are also prone to drought, pests, sickness and theft. Of the MSEs who had saved in grains and animals, 50.0% lost their savings as shown in table 4.5.1 on page 67. Due to such massive losses, savings in crops and animals might have a negative impact to the growth and expansion of enterprises.
Table 4.4.1.b Type of domestic animal.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade%</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cows</td>
<td>25.5</td>
<td>27.3</td>
<td>71.4</td>
<td>60.0</td>
<td>32.1</td>
</tr>
<tr>
<td>Poultry</td>
<td>12.7</td>
<td>9.1</td>
<td>14.3</td>
<td>-</td>
<td>11.5</td>
</tr>
<tr>
<td>Goats</td>
<td>5.5</td>
<td>18.2</td>
<td>-</td>
<td>20.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Sheep</td>
<td>1.8</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>No answer</td>
<td>54.5</td>
<td>45.5</td>
<td>14.3</td>
<td>20.0</td>
<td>47.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 Saving at home

Saving at home involves keeping cash secretly in the house in different ways. Some of the ways found in the study were putting money in a welded box, metallic cloth boxes, sealed unlabeled envelopes as in box 1 in page 51. Of the MSEs studied 60.3% saved their business profit by keeping it at home. Though 35.9% kept some cash at home they did not consider it as a mode of saving because they regarded the amounts trivial in relation to their overall cash flow. As shown in table 4.4.2 on page 51, majority of the entrepreneurs who saved at home were in the manufacturing sector. It has been found that they realize lower sales revenue as shown in table 4.3.2 on page 46. Also the amounts available to them for saving were also low with 80.0% being able to save less than Kshs 100 as shown in table 4.5.1 on page 67. Such small amounts would not pose a major risk like theft if kept at home. MSEs in trade
seem to keep larger amount at home with 87.5% of MSEs who had saved more than Kshs 5,000 being in trade. The rest were in service. This could be due to the fact that there is quick turn around from purchase of goods to sales revenue and the need to restock daily. Very few MSEs saved large amounts in this way due to security concerns. This is evident from the fact that of the MSEs who saved at home more than half had saved Kshs 0-1,000 19.2% had saved Kshs 1,000-5,000 and 6.4% had saved Kshs 5,000-10,000 at the time of study. Such lower home savings can also be attributed to the high level of liquidity and therefore are often depleted by impulse and trivial spending. Of all the MSEs studied, only 8.0% saved daily in the other mechanisms especially in ROSCAs. This indicates majority of daily savings are done at home and this could indicate that home savings serve as a conduit to other saving mechanisms. Due to this transfer of home savings, the introduction of a bank or SACCO in the market may not have an impact on the level of amount saved at home though might have on saving in other patterns currently recipients of home savings. This is because home savings would now be a conduit to the bank or SACCO but not the other mechanisms. In general sums saved at home show high level of liquidity satisfying the MSEs liquidity preference during times of emergencies. On the other hand there are many risks associated with home savings. They include theft, loss, trivial expenditure and claim by family members during bad times.
Table 4.4.2 Saving at home.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>60.0</td>
<td>72.7</td>
<td>28.6</td>
<td>80.0</td>
<td>60.3</td>
</tr>
<tr>
<td>No</td>
<td>36.4</td>
<td>18.2</td>
<td>71.4</td>
<td>20.0</td>
<td>35.9</td>
</tr>
<tr>
<td>No answer</td>
<td>3.6</td>
<td>9.1</td>
<td>-</td>
<td>-</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.3 Money guards

These are people who keep money for others for free but use the money while its with them. As shown in table 4.4.3 on page 52. 87.2% of the MSEs in the

**Box 1: Voices from field -home bank**

One young man, a shoe shiner kept money safely in his house in a fully welded metal box with a hole to put money inside (home bank). He could not save in bank because he did not have identity card required to open bank account. His plan when he acquires the identity card is to open a saving account with the Post bank Nunguni branch. One lady vegetable dealer kept her money at home in her metal cloth box and another kept in sealed unlabelled envelopes -respondent. envelopes -Respondents.

The market did not save with money guards. This low percentage is due to mistrust. The MSEs fear that if they keep their with individuals, they may not repay them when they demand or they may not get all their savings back. Those
who saved in this mode, 7.7% cited trust as a major factor to consider in choosing money guards. Other factors cited by the MSEs are access to credit as shown in box 2 below and the ability to deposit any amount of money available to them at any given time. They were also through his pattern able to get around the problems of home saving especially that of trivial spending.

Table 4.4.3 Saving with money guards.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>5.5</td>
<td>9.1</td>
<td>28.6</td>
<td>-</td>
<td>7.7</td>
</tr>
<tr>
<td>No</td>
<td>90.9</td>
<td>81.8</td>
<td>57.1</td>
<td>100.0</td>
<td>87.2</td>
</tr>
<tr>
<td>No answer</td>
<td>3.6</td>
<td>9.1</td>
<td>14.3</td>
<td>-</td>
<td>5.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Box2: Voice from the field – money guards

One lady vegetable dealer kept her money with her mother because she is the only one she could trust. Two male partners operating a hotel kept their money with an employed relative because he was rich and could always give their money on demand from his salary. They also trusted him. Two MSEs saved with prominent businessmen in the market because they trusted them and they could lend them money and goods in time of need-Respondents.
The MSEs as in other studies cited trust as the main consideration in choosing their money guard. The results in this study are similar to others reviewed in terms if reasons why the MSEs save with money guards. This include access to credit, flexibility and to get around. the problem of trivial spending. The only noticeable difference is the money guard chosen. In this study there was no religious leader chosen as money guard.

4.4.4 Rotating Savings and Credit Associations

More men seem to save their business income in ROSCAs than women as shown in table 4.4.4 on page 54. This is evident from the fact that high participation in ROSCAs in the transport and manufacturing enterprises all owned by men. This would mean that ROSCA have graduated from being mere social organizations to money saving mechanisms in business and hence the high participation of men. Of all adopted patterns, it is the most popular with 23.5% of the MSEs adopting it. This can be explained by the regular opportunity it offers the MSEs to save. The MSEs said they liked it because it cultivates a saving discipline in them through its fixed saving function unlike other patterns where there is no such commitment. It enables them save small amounts, which are effectively accumulated into lump sums for restocking their business and meeting other needs. A significant number (15.4%) of MSEs saved as little Kshs 50 per interval. ROSCAs are also very simple and the MSEs understand their operations. There are no
accounting procedures since no money is retained making it very convenient to the MSEs.

Table 4.4.4 ROSCA savings.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>61.8</td>
<td>45.5</td>
<td>71.4</td>
<td>100.0</td>
<td>69.2</td>
</tr>
<tr>
<td>No</td>
<td>38.2</td>
<td>54.5</td>
<td>28.6</td>
<td>-</td>
<td>30.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

46.1% of the MSEs participated in more than one ROSCA. They do this to be able to save more by saving different amount at different intervals. Small amounts were found to be contributed more often (daily and weekly) while larger amount were contributed less frequently.

4.4.5 Bank savings

39.7% of bank savers had accounts in Nunguni Post bank branch as shown in table 4.4.5 on page 56. This glaring difference between the number of savers in Post bank and other banks in Machakos in town is an indication of the impact of accessibility in terms of physical proximity of the bank on savings. The close proximity to the entrepreneurs reduces transaction costs in terms of fare and man hours lost in traveling if the bank was far as shown in box 3 on page 55. All bank savers in transport had accounts in Post bank Nunguni branch. Though majority of MSEs in the other sectors operated accounts in
the same branch, 20.0%, 9.1% and 10.9% in manufacturing, service and trade respectively operated bank accounts in Machakos town. It has been found out that MSEs in these sectors were active.

**Box 3: voices from the field – Accessibility.**

Shopkeeper who saved with Post bank in the market said, “I cannot with other banks due to the fair and the time spent on traveling to Machakos. Instead of going to Machakos at a cost of Kshs 400/= and close my shop for a day or half I would rather, deposit my money and the Kshs 400/= in the post bank” – Respondents.

Home savers than those in transport. It has also been found that MSEs in transport realized higher sales revenue than the MSEs in other sectors. Such amounts would pose a major risk of theft of kept at home. The Post bank therefore provided a safe and easily accessible mode to save. In the banks a small percentage (6.4%) of the entrepreneurs operated more than one account. They operated these multiple accounts for various reasons including accessibility and withdrawable amount as in box 4 on page 56. Of the MSEs who had bank accounts, 80.9%, 12.8% and 6.3% to had savings, current and joint accounts respectively. As in other studies reviewed the most popular account is the savings account.
Box 4 - Voice from the field-Multiple accounts

A hotel owner operated accounts one at Post bank Nunguni branch, one at Co-operative and Barclays banks in Machakos said, “at Post bank I am able to deposit any time of the day I don’t have to leave the hotel with workers for along time. At Post bank I can only withdraw at most Kshs 3000 every seven working days. I operate the other accounts so as to withdraw a lot of money when I need it”.- Respondents

Table 4.4.5 Savings in bank.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post bank</td>
<td>43.6</td>
<td>27.3</td>
<td>49.2</td>
<td>20.0</td>
<td>39.7</td>
</tr>
<tr>
<td>Co-operative</td>
<td>1.8</td>
<td>9.1</td>
<td>-</td>
<td>-</td>
<td>2.7</td>
</tr>
<tr>
<td>Barclays</td>
<td>3.6</td>
<td>-</td>
<td>-</td>
<td>200.</td>
<td>3.8</td>
</tr>
<tr>
<td>Standard chartered</td>
<td>5.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.8</td>
</tr>
<tr>
<td>No</td>
<td>45.5</td>
<td>63.6</td>
<td>40.8</td>
<td>60.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.6 Co-operative.

Majority of entrepreneurs had no shares in any SACCO as shown in table 4.4.6 on page 57. The only entrepreneur who saved in this form was a member
of a SACCO known as BIC in Machakos. This low percentage of savings in SACCO is due to the fact that there doesn’t exist a SACCO society in the market. This scenario can be also be attributed to the high organizational management capacity required to track down savings and credit, keep books of accounts and prepare monthly reports to the ministry of Co-operative development. Though the MSEs can raise the minimal share contribution of Kshs 400 for a SACCO, they lack organizational capacity for this level of venture. They may also not be able to hire high caliber staff to run the SACCO.

Table 4.4.6 Saving in SACCO.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>No</td>
<td>98.2</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
<td>98.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.7 Insurance

From table 4.4.7 on page 58, none of manufacturing entrepreneurs saved in insurance. All the MSEs who saved in insurance had life insurance policies mostly about education for their children. Analyzed by sector, entrepreneurs in the transport sector seem to be active savers in insurance than the other sectors. This can be explained by the fact they are well informed about the insurance industry more than the other sectors. They all pay insurance premiums for
their vehicles. This shows that information about savings mechanisms is a factor effecting saving by MSEs. The 8.6% though low is a significant level for a rural market. This has been made possible by the regular visits British American and Alico insurance companies agents bringing this type of formal service close to the MSEs.

Table 4.4.7 Saving in insurance

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>5.5</td>
<td>9.1</td>
<td>28.6</td>
<td>-</td>
<td>8.6</td>
</tr>
<tr>
<td>No</td>
<td>94.5</td>
<td>90.9</td>
<td>71.4</td>
<td>10.0</td>
<td>91.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.8 Other saving patterns found amongst MSEs

A total of 2.7% of the MSEs saved in ASCA. An ASCA is similar to a ROSCA but the credit that flows can be accumulated rather than be liquidated at each meeting. One ASCA consisted of MSEs who contributed Kshs 100 for eleven months. At the end they would share the money plus interest from borrowed money to buy household utensils. Another ASCA known as Mutu of women contributed Kshs 100 monthly. They shared the money plus interest two days before Christmas day. They use the money to buy baking flour (Mutu) and other foodstuffs for Christmas. Though the ASCA provide a mechanism for disciplined saving, they require accounting skills to track
saving and credit transactions and that makes them inappropriate for most of the MSEs who rarely possess these skills. This is because money is not distributed immediately to all members as in the case of ROSCAs. It also requires a honest treasurer who will hold the funds for a given duration. One lady respondent said she saved her money by lending to other people at a fee of Kshs 100 for every one thousand lent per month. Another form of savings found out was through buying shares in companies. A transporter said other than the other methods he uses to save he buys shares in companies, he had Kshs 520,000 of shares in Kenya Commercial Bank and Kshs 780,000 in Kenya airways. Other MSEs (6.4%) had bought initial share capital of Kshs 300 in K-REP bank that was about to start in the market. Of the saving patterns found in literature review, deposit collectors, saving clubs, welfare associations and MFIs did not exist amongst the MSEs. This is possible since saving patterns vary from one region to another. The absence of MFIs in the market can be explained by the fact that MFIs are not allowed to take deposits from the public in Kenya.

4.4.9 The number of saving patterns adopted by the MSEs.

Majority of MSEs participate in more than one saving pattern as shown in table 4.4.8 on page 60. This can be explained by the MSEs need to save more while not putting all eggs in the same basket. This enables them minimize losses in case one pattern fails. This can also be explained by the fact that the MSEs are faced by multiple expenditure needs involving emergencies, lifecycle needs and long term investment and opportunities. The
short term mechanisms which are more liquid like home savings, money guards and ROSCAs are used to take care of emergencies and lifecycle needs while medium and long term patterns like banks, SACCO, ROSCAs and insurance are used to finance both lifecycle and long term investment and opportunities needs.

Table 4.4.8 The number of saving patterns adopted.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service %</th>
<th>Transport %</th>
<th>Manufacturing %</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>3.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.6</td>
</tr>
<tr>
<td>1</td>
<td>12.7</td>
<td>27.3</td>
<td>-</td>
<td>20.0</td>
<td>14.1</td>
</tr>
<tr>
<td>2</td>
<td>20.0</td>
<td>18.3</td>
<td>-</td>
<td>-</td>
<td>16.7</td>
</tr>
<tr>
<td>3</td>
<td>23.7</td>
<td>9.1</td>
<td>28.6</td>
<td>20.0</td>
<td>21.8</td>
</tr>
<tr>
<td>4</td>
<td>18.2</td>
<td>9.1</td>
<td>28.6</td>
<td>40.0</td>
<td>19.2</td>
</tr>
<tr>
<td>5</td>
<td>16.4</td>
<td>27.3</td>
<td>14.3</td>
<td>20.0</td>
<td>17.9</td>
</tr>
<tr>
<td>6</td>
<td>3.6</td>
<td>9.1</td>
<td>14.3</td>
<td>-</td>
<td>5.1</td>
</tr>
<tr>
<td>7</td>
<td>1.8</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>*100.1</td>
<td>100.1</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*more than 100.0 due to rounding off.

Such adoption of multiple patterns can also be attributed to the frequency of saving in each pattern and the amounts involved. The frequency of saving in different patterns is well designed to enable an MSEs to save in different patterns over a given period. An MSE in a single month can save daily at
home, weekly in ROSCA, fortnightly in bank and monthly in SACCO or insurance. The amount saved in various patterns also enables an MSE to effectively adopt more than one pattern. An MSE with say Kshs 200 can save Kshs 50 at home, Kshs 100 in ROSCCA and keep Kshs 50 with a money guard in a single day. MSEs in transport seem to adopt more mechanisms than the MSE in the other sectors. This can be explained by the fact that the MSEs in this sector had more sources of income other than business profit and realized higher business returns than the MSEs and thus enable them to have more business money at their disposable to save in the multiple patterns. MSEs in transport were found to be active savers in saving mechanisms that instill saving discipline by their fixed saving function. These include ROSCAs as shown in table 4.4.4 on page 54 and insurance in table 4.4.7 on page 58. Such saving discipline is expressed in number of saving mechanisms adopted. MSEs in transport can also be said to have better accessibility to information about saving mechanisms e.g. insurance than the other sectors. They access this information as they pay the mandatory vehicle insurance premiums.

4.4.10 Frequency of saving

A total of 84.0% of the MSEs saved their business profit regularly as shown in table 4.4.9 on page 62. This is because some of the mechanisms especially ROSCAs, insurance and SACCO encourage a regular saving mode through their fixed saving function and penalties charged in case of default. This can
also be attributed to the fact that most of the entrepreneurs in the market participated more in informal saving mechanisms that are easily accessible providing the MSEs with an opportunity to save regularly. Saving regularly also enables MSEs to save more by putting aside small amounts daily, weekly, fortnightly or monthly and satisfies the MSEs avarice motive by prohibiting them from trivial and impulse spending of business money.

4.4.11 Sectoral saving patterns.

Analysis of sector savings show that the MSEs adopt almost similar saving patterns. The only noticeable difference is in the manufacturing sector where they do not save in money guards, SACCO and insurance.

Table 4.4.9 Frequency of savings.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing %</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>12.9</td>
<td>25.3</td>
<td>-</td>
<td>14.3</td>
<td>12.0</td>
</tr>
<tr>
<td>Daily</td>
<td>8.2</td>
<td>16.7</td>
<td>4.8</td>
<td>-</td>
<td>8.0</td>
</tr>
<tr>
<td>Weekly</td>
<td>20.1</td>
<td>-</td>
<td>-</td>
<td>14.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Two/week</td>
<td>5.9</td>
<td>16.7</td>
<td>9.5</td>
<td>-</td>
<td>7.2</td>
</tr>
<tr>
<td>Monthly</td>
<td>25.9</td>
<td>-</td>
<td>42.9</td>
<td>42.9</td>
<td>29.6</td>
</tr>
<tr>
<td>Yearly</td>
<td>3.5</td>
<td>25.0</td>
<td>28.3</td>
<td>-</td>
<td>6.4</td>
</tr>
<tr>
<td>Irregularly</td>
<td>18.8</td>
<td>8.3</td>
<td>9.5</td>
<td>14.3</td>
<td>16.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.1</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*more than 100.0 due to rounding off
NB: Those MSEs indicated as having frequency as once are those who had contributed initial share value of Kshs 300 to the starting K-REP.

These three mechanisms are least adopted across all sectors and this might not indicate a strong difference in saving patterns in the sectors. Mistrust by entrepreneurs on money guards can explain their low participation.

Accessibility has been found to be a major factor in choosing a saving mechanism. Low participation in SACCO and insurance can thus be attributed to their poor accessibility and lack of information.

Table 4.4.10 Sectoral patterns.

<table>
<thead>
<tr>
<th>Saving pattern</th>
<th>Trade</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-kind</td>
<td>45.5</td>
<td>54.5</td>
<td>85.7</td>
<td>80.0</td>
<td>19.3%</td>
</tr>
<tr>
<td>Home</td>
<td>60.0</td>
<td>72.7</td>
<td>28.6</td>
<td>80.0</td>
<td>22.3%</td>
</tr>
<tr>
<td>Money guard</td>
<td>5.5</td>
<td>9.1</td>
<td>28.6</td>
<td>-</td>
<td>2.8%</td>
</tr>
<tr>
<td>ROSCA</td>
<td>61.8</td>
<td>45.5</td>
<td>71.4</td>
<td>100.0</td>
<td>25.4%</td>
</tr>
<tr>
<td>Bank</td>
<td>54.5</td>
<td>36.4</td>
<td>49.2</td>
<td>40.0</td>
<td>18.4%</td>
</tr>
<tr>
<td>SACCO</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.4%</td>
</tr>
<tr>
<td>Insurance</td>
<td>5.5</td>
<td>9.1</td>
<td>28.6</td>
<td>-</td>
<td>3.3%</td>
</tr>
<tr>
<td>Others</td>
<td>8.2</td>
<td>6.3</td>
<td>4.2</td>
<td>6.3</td>
<td>8.0%</td>
</tr>
<tr>
<td>Total</td>
<td>*242.8</td>
<td>*233.6</td>
<td>296.3</td>
<td>*206.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*More than 100.0 because MSEs adopted more than one saving pattern.
The most adopted pattern is ROSCA. This is because they are simple, accessible and affordable to many MSEs with some contributing Kshs 20.00 daily and due to its fixed saving function which cultivates saving discipline.

Figure 1-Saving patterns.

Key

1-In kind  2-Home  3-Money Guards  4.ROSCA  5.Bank
6.SACCO  7.Others

4.4.12 Informal and formal saving mechanisms

When the savings patterns are grouped into formal and formal, 74.9% of the studied MSEs were in the informal involving in-kind, keeping cash at home, money guards, ROSCAs and ASCA, while 25.1% saved in the formal patterns involving banks, SACCO and insurance as in figure 2 on page 65, the scenario
can be attributed to the accessibility and convenience of the informal mechanisms. This means that they provide a regular opportunity for the MSEs to save sometimes small amounts at minimal or no cost. They are also not exposed to the formal due to lack of information about the various saving options available to them some of which may be geared towards tapping MSE savings. This can also be attributed to the fact that the informal mechanisms are simple to enter and operation procedures are simple. They also do not have lengthy introduction procedures, complicated statement of accounts for the MSEs to track down their savings. This can also be due to the fact most of the MSEs are informal. The choice of informal mechanism is therefore an expression of their status. Though the MSEs adopt informal mechanisms it has been found in this study that the MSEs have suffered massive losses. This brings to the fore the need to improve informal mechanisms since they are preferred or the provision of MSE friendly formal saving of options.
informal and formal saving

Figure 2- Informal and formal saving patterns

Key 1: Informal

Key 2: Formal

4.5 MSES CAPACITY TO SAVE.

The MSEs capacity to save is discussed under the following; the amount they were able to save from business daily, the amount of money contributed and the amount they had been able to accumulate at the time of study.

4.5.1 Amount of business profit that can be saved daily.

The MSEs had multiple sources of income. Of importance of this study was the amount of income from business activities. A small percentage (2.6%) all in trade indicated that they were not able to save anything in any form. They used the little they realised from the business to cater for lifecycle needs and emergencies. One of the MSE said that she never thought of long term investment because of the large amounts involved. The highest amounts saved were by MSEs in the transport sector. This can be explained by the high returns
currently being experienced in the sector after the reforms by the government in
the beginning of the year 2004 which created a shortage of public service
vehicles. Those vehicles that have complied with the government requirements
were doing booming business due to less competition. This could also be due to
income from other sources which meet their expenditure needs hence be able to
save the business money. From table 4.3.1 on page 45, 58% of transport MSEs
had other sources of income in the addition to the business income compared to
53.9%, 36.4% and 54.5% in manufacturing, service and trade sectors
respectively. From table 4.3.2 on page 46. The MSEs had varying amount of
income from business activities and had also different expenditure needs
and therefore proportionately able to save varying amounts at a given time.
From table 4.5.1 on page 67. Majority of the MSEs (89.7%) saved between
Kshs 0 – Kshs 500 daily in the different saving mechanisms. The amount
available daily doesn’t reflect actual amounts saved daily due to the expenditure
needs involving emergencies and lifecycle needs facing the entrepreneurs. This
translates into lower amounts being saved daily and cumulatively low savings
over time. Such savings indicate low amounts that can be committed to re-
investment and starting new enterprises and proportionally low impact to the
growth and development of enterprises. This has led to the current lack or
minimal growth and development or closure of MSEs impacting negatively on
job creation and poverty reduction

4.5.2 Amount that can be saved in ROSCA.

The MSEs contributed differing amounts of money to the multiple saving
patterns they adopted. Except in ROSCAs where there are definite amounts saved at particular interval, the MSEs could not state the amount they saved in the other saving patterns at a time.

Table 4.5.1 – Amount that can be saved daily.

<table>
<thead>
<tr>
<th>Amount Kshs</th>
<th>Trade%</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-100</td>
<td>41.8</td>
<td>45.5</td>
<td>-</td>
<td>80.0</td>
<td>41.0</td>
</tr>
<tr>
<td>101-500</td>
<td>49.1</td>
<td>36.4</td>
<td>71.4</td>
<td>20.0</td>
<td>48.7</td>
</tr>
<tr>
<td>501-1000</td>
<td>5.5</td>
<td>18.4</td>
<td>-</td>
<td>-</td>
<td>64</td>
</tr>
<tr>
<td>1001-5000</td>
<td>3.6</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
<td>38</td>
</tr>
<tr>
<td>5001-10000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Over 10000</td>
<td>-</td>
<td>-</td>
<td>14.3</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>*100.1</td>
</tr>
</tbody>
</table>

* more than 100.0 due to round off.

The amount the MSEs were able to contribute at a given time can determine the MSEs capacity to save. The MSEs saved between Kshs 20 to Kshs 2000 at a time. The smaller amounts were contributed more often while the larger amounts were saved less often. A total of 42.3% of the MSEs saved more than Kshs 200 at every interval. The small amount saved regularly normally translates to a large lump sum over the cycle as shown in box 5 in page 79. Almost a quarter (24.4%) of the MSEs were able to have accumulated between KShs 20,000/= and Kshs 50,000/= at the time of study as shown in
table 4.5.3 in page 70. This relatively large lump sums saved through this mode give a strong indication that the MSEs can save.

4.5.3 Amount saved

Through the multiple saving mechanisms the MSEs adopted, they have been able to accumulate savings ranging from Kshs 240 the least amount in ROSCA to over Kshs 50,000 especially in banks.

Table 4.5.2 Amount saved in ROSCA at an interval.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade %</th>
<th>Service %</th>
<th>Transport %</th>
<th>Manufacturing %</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>34.5</td>
<td>36.4</td>
<td>28.6</td>
<td>-</td>
<td>32.1</td>
</tr>
<tr>
<td>0-50</td>
<td>14.5</td>
<td>18.2</td>
<td>-</td>
<td>40.0</td>
<td>15.4</td>
</tr>
<tr>
<td>51-100</td>
<td>12.7</td>
<td>9.1</td>
<td>-</td>
<td>-</td>
<td>10.3</td>
</tr>
<tr>
<td>101-200</td>
<td>16.4</td>
<td>18.2</td>
<td>-</td>
<td>40.0</td>
<td>16.7</td>
</tr>
<tr>
<td>201-500</td>
<td>5.5</td>
<td>9.1</td>
<td>-</td>
<td>20.0</td>
<td>6.4</td>
</tr>
<tr>
<td>501-1000</td>
<td>12.7</td>
<td>9.1</td>
<td>14.3</td>
<td>-</td>
<td>11.5</td>
</tr>
<tr>
<td>&gt;1000</td>
<td>3.6</td>
<td>-</td>
<td>57.1</td>
<td>-</td>
<td>7.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>*100.1</td>
</tr>
</tbody>
</table>

*.100.00 due to rounding off

More than half (63.3%) of the MSEs did not respond to this question citing confidentiality of their savings. MSEs in transport seemed to have saved more than the MSEs in other sectors. Do not guard against trivial spending and their term of savings is short. This also could be due to the fact that MSEs in
transport have more sources of income. The higher savings in transport sector can partly be explained by the fact that majority of them 85.7% saved in-kind form, in banks and insurance which are less accessible. Fewer MSEs in this sector saved in the most liquid forms which income than MSEs in the other sectors.

Table 4.5.3 Amount saved.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Trade</th>
<th>Service</th>
<th>Transport</th>
<th>Manufacturing</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>No answer</td>
<td>66.6%</td>
<td>58.1%</td>
<td>57.1%</td>
<td>30.0%</td>
<td>63.3%</td>
</tr>
<tr>
<td>0-1000</td>
<td>8.6%</td>
<td>17.4%</td>
<td>2.0%</td>
<td>15.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>1001-5000</td>
<td>9.1%</td>
<td>10.3%</td>
<td>4.1%</td>
<td>25.0%</td>
<td>9.2%</td>
</tr>
<tr>
<td>5001-10000</td>
<td>6.1%</td>
<td>2.3%</td>
<td>6.1%</td>
<td>5.0%</td>
<td>9.5%</td>
</tr>
<tr>
<td>20000</td>
<td>4.5%</td>
<td>8.1%</td>
<td>4.1%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>20001-50000</td>
<td>3.6%</td>
<td>3.5%</td>
<td>20.4%</td>
<td>20.0%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Over 50000</td>
<td>1.4%</td>
<td>1.2%</td>
<td>8.2%</td>
<td>-</td>
<td>1.9%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Apart from business activities, 85.8%, 40.0%, 36.4% and 54.5% of the MSEs in transport, manufacturing, service and trade respectively had extra income. This means that the MSEs in transport had more extra income to cater for their expenditure needs and therefore save business incomes. Though the MSEs were found to have saved significant amounts at the time as study, some said they had withdrawn their savings especially in banks and money
guards either to reinvest or meet other needs. This would mean that the MSEs could save more than found through this study. A small percentage of the studied MSEs 2.6% all in trade were not able to save anything in any form.

4.6 EFFECTIVENESS OF SAVING PATTERNS IN CAPITAL ACCUMULATION.

In this section, effectiveness of savings patterns for capital accumulation is discussed on basis of security offered on savings, the accessibility of the saving patterns and the term of savings.

4.6.1 Lost savings.

From table 4.6.1 on page 72 and figure 3 on page 72. The most ineffective saving mechanisms were in-kind and home savings with more than three quarters having lost their savings in them. Such losses were attributed to drought common in the district and livestock diseases for in-kind savings and theft for home savings. One entrepreneur lost more than Kshs 20,000 he had used in previous seasons due to drought. Due to the current drought being experienced in the district, he expected to lose Kshs 8,000 he had used in planting. Though most adopted by the entrepreneurs, ROSCA registered fewer losses. This is because of penalties involved that forces members to pay their dues on time. This could also be because ROSCA members know each other very well. The losses found out in one ROSCA as due to death of a member and an entrepreneur who closed her business and left the market. Another
pattern that registered low losses was the money guards due to the trust inherent between the saver and the money guard. Banks, SACCO and insurance were the most effective mechanisms.

Table 4.6.1 Lost Savings.

<table>
<thead>
<tr>
<th>Saving pattern</th>
<th>Trade %</th>
<th>Service %</th>
<th>Transport %</th>
<th>Manufacturing %</th>
<th>Mean %</th>
</tr>
</thead>
<tbody>
<tr>
<td>In kind</td>
<td>54.5</td>
<td>63.6</td>
<td>85.7</td>
<td>80.0</td>
<td>60.2</td>
</tr>
<tr>
<td>Money guard</td>
<td>-</td>
<td>9.1</td>
<td>14.3</td>
<td>-</td>
<td>3.8</td>
</tr>
<tr>
<td>Home</td>
<td>27.3</td>
<td>45.5</td>
<td>14.3</td>
<td>40.0</td>
<td>29.5</td>
</tr>
<tr>
<td>ROSCA</td>
<td>3.6</td>
<td>27.3</td>
<td>14.3</td>
<td>20.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Bank</td>
<td>1.8</td>
<td>-</td>
<td>287.6</td>
<td>-</td>
<td>3.8</td>
</tr>
<tr>
<td>Insurance</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>*89.0</td>
<td>*145.5</td>
<td>*157.2</td>
<td>*140.0</td>
<td>*107.6</td>
</tr>
</tbody>
</table>

*more than 100.0 because entrepreneurs lost in more than one saving pattern.

Those entrepreneurs who had lost in banks had accounts in Daima and Trade banks that had already collapsed while the one who had lost in insurance had a policy with Stallion insurance company. In this study, savings have not been lost through money guards. This is different from reviewed studies were there is such losses. A similar cause of loss of saving in ROSCA, death of a member exist in this study as in reviewed structure.
Figure 3-Lost savings

Key 1-Inkind 2-Money Guard 3-Home 4-ROSCA 5-Bank 6-Insurance

Since they are adopted more by the MSEs in the market, such losses of savings result in low capital available for re-investment and to start new enterprises. Such low volumes will have minimal positive impact to the growth and development of enterprises, job creation and poverty reduction.

4.6.2 Accessibility of saving mechanisms.

Accessibility to saving patterns comprises of physical proximity of the saving mechanisms and the terms and conditions governing the financial service it offers. Accessible patterns offer MSEs a regular opportunity to save and minimize man hours lost in traveling and in turn reduce costs of saving and therefore can be termed as effective. From the adopted patterns, ROSCAs
home savings and money guards are more accessible than the formal mechanisms which are located far away from the market and provide a regular opportunity for MSEs to save their income at minimal or at no cost. This can partly explain why most of MSEs adopt these informal mechanisms irrespective of the massive losses they incur. The impact of accessibility on savings is evident from the fact that some MSEs used the accessible mechanisms especially home to save and also as a conduct to less accessible modes. Though the informal patterns are accessible and therefore effective in capitals accumulation, the savings may not be reflected in the growth and development of enterprises due to the losses incurred in this sector.

4.6.3 Term of savings.

The term of savings relate to the duration between time of saving and withdrawing or using the savings. Liquid savings are said to be short-term while in-kind savings and locked-in savings are said to be medium or long term savings. Long term can be termed to be more effective in capital accumulation than the short-term forms since they guard against trivial withdrawals and expenditure from the adopted patterns. Home savings are the most liquid and are prone to trivial spending. Some of the MSEs said they were totally unable to save at home due to the high temptation to spend. Though ROSCAs get around the problem of trivial spending they have limited terms (short to medium), which depend on the number of members and frequency of contribution. This means that ROSCAs are not well equipped to
accumulate savings for a long time. From this study the shortest ROSCA cycle was two weeks and the longest was a year. Accessibility to banks has been found to a limiting factor to savings but can serve as an effective tool in capital accumulation once deposits have been made. Since they are not easily accessible, a saver might take a long time before withdrawing their savings. This means that bank savings have a longer term than both home and ROSCA savings. Of the MSEs who had bank accounts 80.9%, 12.8% and 6.3% had savings, current and joint accounts respectively. This indicates that bank savings range from short term in current accounts to unlimited term in savings and joint accounts. Since no fixed accounts were found to be operated by the MSEs, bank saving in this case are not limited to any duration. SACCO and insurance savings are locked savings and can only be accessed after some specified duration. Those MSEs who had SACCO and insurance policies had been saving for more than three years. The least term of saving in insurance was seven years. Though limited to specific duration, such durations are long and thus they provide opportunity for savings to grow. In-kind savings require time to be liquidated and therefore offer a longer term opportunity to accumulate their savings. Using this criterion as a measure of effectiveness of saving patterns in capital accumulation, banks, SACCOs, insurance and in-kind savings that offer a longer term of savings are more effective than home savings, money guards and ROSCAs that offer a short term of savings.
4.7 USES OF SAVINGS.

From this study, it has been found out that the MSEs have varying capacity to save. The level of savings as indicated by the amount they had saved at the time of study is relatively low. These savings are used to cater for the multiple needs involving emergencies, lifecycle needs and long term investment and opportunities facing the MSEs. The expenditure needs may be large compared to the level of savings leaving low volumes available for reinvestments. This may lead to stagnation and closure of the enterprises. Entrepreneurs in all sectors seem to have similar uses of their savings as shown in table 4.7.1 below. Majority of MSEs in each sector saved for long term investments and opportunities while fewer saved for emergencies.

Table 4.7.1 Uses of savings.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade</th>
<th>Service</th>
<th>Transport</th>
<th>Manufacturing</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life cycle needs</td>
<td>54.5</td>
<td>54.5</td>
<td>85.7</td>
<td>80.0</td>
<td>59.0</td>
</tr>
<tr>
<td>Emergencies</td>
<td>29.1</td>
<td>36.4</td>
<td>42.9</td>
<td>40.0</td>
<td>32.1</td>
</tr>
<tr>
<td>Long term investment</td>
<td>74.5</td>
<td>63.6</td>
<td>85.7</td>
<td>100.0</td>
<td>62.8</td>
</tr>
<tr>
<td>Total</td>
<td>*158.1</td>
<td>*152.5</td>
<td>*214.3</td>
<td>*220.0</td>
<td>*153.9</td>
</tr>
</tbody>
</table>

*more than 100.0 because entrepreneurs used their savings for various needs.
The higher percentage of saving for long term investment is because the MSEs hope such investments would act as extra sources of income in the future to cater for both lifecycle needs and emergencies as in box 5 on page 79. These multiple expenditure needs can partly explain why the MSEs adopted various savings mechanisms each designed for a particular need. The short term and liquid forms are designed to cater for emergencies and some lifecycle needs while medium and long term mechanisms are used to cater for lifecycle needs and long term investments. Of great importance to enterprise development is long term investment of saving for reinvestment, starting new enterprise and acquisition of assets. In all the sectors, majority of the entrepreneurs used their long term investment savings for reinvestment as shown in table 4.7.2 below.

Table 4.7.2 Long term investment and opportunities.

<table>
<thead>
<tr>
<th>Response</th>
<th>Trade%</th>
<th>Service%</th>
<th>Transport%</th>
<th>Manufacturing%</th>
<th>Mean%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-investment</td>
<td>90.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>92.3</td>
</tr>
<tr>
<td>Start new business</td>
<td>18.2</td>
<td>27.3</td>
<td>-</td>
<td>-</td>
<td>16.7</td>
</tr>
<tr>
<td>Acquisition of assets</td>
<td>81.8</td>
<td>72.7</td>
<td>71.4</td>
<td>60.0</td>
<td>78.2</td>
</tr>
</tbody>
</table>
This could be explained by the inherent natural desire by the MSEs to see their enterprises grow and survive for longer periods and to realize higher returns. As indicated earlier, though they reinvest their savings, the volumes committed are low which results to lower survival and growth of enterprises. Fewer MSEs in trade and service saved to start new enterprises while none in transport and manufacturing saved for the same. This can be attributed to the fact that the level of savings may be lower compared to the amount required for start-up capital. If such savings are committed to starting new enterprises, it might lead to decapitalisation of the current business threatening its survival. This could also be due to management concerns in which the entrepreneurs feel they cannot manage more than one enterprise effectively. To be able to meet the various needs facing them, the MSEs require financial savings mechanisms that are effective in capital accumulation in terms of security, accessibility and duration of savings. This brings to the fore the need for improvement of informal mechanisms or the introduction of formal savings mechanisms in the market. Some particular uses of savings can be picked from savings adopted by the MSEs. A lifecycle need of savings was for preparation of Christmas.
Figure 4- Uses of savings

Key

1-Life cycle needs  
2- Emergencies  
3-Long Term

Investment and opportunities

This was through an ASCA known as Mutu (flour) operated by vegetable dealers who contributed money to buy flour and other food stuffs for Christmas. Another use of savings was to access credit by a shop owner.

Box 5 Voices from field – use of savings.

A shop owner when asked why he only saved for a long term investment and opportunities said, the other lifecycle needs and emergencies will be catered for by the income from these investments “another MSE said saving for emergencies was a sign of bad omen. He cited religion for not saving for emergencies – Respondent.
By the time of study he was repaying a loan from a SACCO known as BIC in which he had been saving. In this study as in reviewed studies, the MSE saved for children education, to access credit, start and expand existing business. Other use of savings such as for marriage and religious purposes found in other studies doesn’t exist amongst the MSEs.
CHAPTER 5

CONCLUSION AND RECOMMENDATIONS.

This chapter gives the conclusion from the facts found out through this study and recommendations concerning the current status of MSEs in Nunguni market.

5.1 Conclusion.

The MSEs in Nunguni market had multiple sources of income. Prominent amongst them was income from business and from farming. Others were from salary, pension and rent. Farming as a source of income is not steady due to persistent drought spells in the district. Thus most reliable source of income to the majority of MSEs is from business. This is evident from the study since more than half of MSEs solely depended on income from business to cater for their needs.

As in literature review the MSEs to accumulate capital from business profit, they adopted multiple saving patterns both formal and informal. These were ROSCA, home saving, money guards, bank insurance, SACCO, in-king savings, an ASCA and buying of shares in companies. To adopt a particular pattern, the MSEs gave consideration to issues like security, accessibility, term of savings, liquidity and trust. Similar considerations in choosing saving patterns have been cited in reviewed literature. Majority of the MSEs contribute varying amounts on regular basis. Informal saving mechanisms
offered a regular opportunity to the MSEs to save their business profit. The MSEs had lost their savings in all saving patterns adopted. Money guards, ROSCA, insurance and banks registered lower losses than home and in-kind thus they were more effective in capital accumulation. Home, in-kind, money guards and ROSCAs were found to be more accessible than banks and insurance. Though accessible these patterns could only accumulate capital for a short time and therefore less effective for capital accumulation. In general informal patterns are less effective in capital accumulation than formal ones. This result support studies in literature review.

The MSEs had accumulated various amounts. Only two MSEs were found not to be able to save anything. Thus the MSEs have a significant capacity to save. This capacity to save was also demonstrated by the many ingenious ways they find to save their business income.

The MSEs used their savings to cater for the various needs facing them. These included emergencies, lifecycle needs and long term investments. Majority of MSEs saved their income so as to reinvest. Saving to reinvest supports other studies in literature review which cite savings as a source of expansion capital. Due to the other needs facing them, the amounts committed are low and therefore would have low positive impact to the growth and
development of enterprises.

5.2 Recommendations drawn from conclusions

The informal savings patterns are highly indicative of the real demand for saving services. They are able to reach many MSEs and satisfy their wide variety of needs because its diverse and highly adaptable. For these reasons there is need for improvement of the informal patterns and provision of formal mechanisms to supplement and increase the already available patterns. This will enable the MSEs to effectively convert the money available to them into lump sums by shifting from the current adoption of risky and short-term informal mechanisms.

Financing of credit by MFIs from deposits is not acceptable under the law as MFIs cannot take deposits from the public unless they are licensed as banks under the banking act. Its essential that the MSE sector that gives so much hope for the future development of private enterprises in Kenya be supported by sustainable financial system (MFIs). Saving mobilization among MSEs can have far reaching national economic implication for policy makers charged with economic development. Given the level of risks inherent in informal sector saving facilities, there is need to enact enhancing rather than restrictive legislation governing promoters and providers of financial services to MSEs. This would allow MFIs to provide better and wide range of financial
and offer MSEs savings opportunity.

The MSEs used some of their business income to reinvest and start new enterprises. This creates a need to study the impact of such reinvested savings to the growth and development of MSEs sector. It has also emerged that MSEs have the capacity to save and can provide a prime saving mobilization market. A study to empirically determine the viability and costs of such saving mobilization is required. The study covered a small sample of rural MSEs due to time and resources limitation. A more expansive study with a bigger sample is recommended. A replica study in other similar rural markets is also necessary.
REFERENCES


APPENDIX

QUESTIONNAIRE

SECTION 1

BUSINESS PROFILE

1) Who owns this business?
A) Male Sole Proprietor  B) Female Sole Proprietor
C) Male and Male Partners  D) Female and Female Partners
E) Male and Female Partners  F) Family
G) Co-Operative Group  H) Other State.

2) How many businesses do you operate?
A) 1  B) 2  C) 3 or more

3) How long have been in this business?
A) 0-3 years  B) 4-7 years
C) 8-25 years  D) Over 25 years

4) How many workers do you have in this business?
A) 0  B) 1-10  C) 11-49
5) What is the nature of your business premises?
   A) Own  B) Lease  
   C) Rent  D) Free Occupation  

6) What was your source of start up capital?
   A) Own Funds  C) Family/Friend Loan.  
   B) Bank Loan  D) Co-Operative Loan  
   E) Government loan  F) NGO  
   G) Trade credit  H) Other state__________

SECTION 11
INCOME

7) What are your sources of income?
   A) This business profit only  B) This business and other business profit.  
   C) From rent  D) From Salary  
   E) From Agriculture/Livestock Sale  F) Pension/Insurance  
   G) Other (state)________________

8) What is your average daily sales from this business.
   A) Kshs 0-100  B) Kshs 101-500  
   C) Kshs 501-1000  D) Kshs 1001-5,000
9) Of your daily sales, how much do you consume/spend daily

A) Kshs 0-100
B) Ksh 101-500
C) Kshs 501-1,000
D) Kshs 1001-5000
E) Kshs 500-10,000
F) Over Kshs 10,000

10) How much of daily sales do you save?

A) Kshs 0-100
B) Ksh 101-500
C) Kshs 501-1,000
D) Kshs 1001-5000
E) Kshs 500-10,000
F) Over Kshs 10,000

SECTION 111

SAVING PATTERNS.

11) How do you use or intend to use money from this business?

A) Re Invest In this Business
B) Investment in new business
C) Investment In agriculture
D) Cash Savings
E) Household/family needs
F) Purchase of Assets.

12) i) Do you buy domestic animals using this business money?

A) Yes
B) No
if yes,

ii) What type of animals

A) Cows    B) Poultry
C) Goats   D) Sheep
E) Other (state) ____________________________

iii) What is the estimate value of the animals that you have bought using the business money?

A) Kshs 0-1000    B) Kshs 1000-5000
C) Kshs 5000-10,000    D) Kshs 10,000-20,000
E) Kshs 5000-10,000    F) Kshs 10,000-209,000
G) Kshs 20,000-50,000    H) Over Kshs 50,000

IV) Have you lost any of the animals that you bought with income from this business due to sickness / drought / theft / injury?

A) Yes      B) No.

13) i) Do you use money from this business in crop production?

A) Yes      B) No

ii) How much have you used in the current previous season?

A) Kshs 0-1000    B) Kshs 1001-5000
iii) Do you produce enough for your family and sale?
A) Yes  B) No

iv) What is the approximate value of grains/cash crops that you have produced using business income that you currently store?
A) None  B) Kshs 0-1000
C) Ksh 1,000-5,000  D) Kshs 5,000-10,000
E) Kshs 10,000-20,000  F) Kshs 20,000-50,000
F) Over Kshs 50,000

v) Have you lost your crop that you used business income in production due to drought floods pests theft fire.
A) Yes  B) No

14) i) Do you buy gold/jewellery or other valuables with this business income?
A) Yes  B) No

ii) What is the approximate value of gold/jewellery or other valuables do you currently have?
A) Kshs 0-1,000  B) Ksh 1001-5,000
iii) Do you keep money from business safely at home/carry it in your pocket?
A) Yes B) No

If yes,

iv) How much key would you normally keep at home or carry in your pocket?
A) Kshs 0-1000 B) Ksh 1001-5000
C) Kshs 5,000-10,000 D) Kshs 10,000-20,000
E) Kshs 20,000-50,000 F) Over Kshs 50,000

iv) Has the money you keep at home or carry in your pocket been lost/stolen/burnt/spent trivially/given out to a friend in need?
A) Yes B) No

15) i) Do you keep this business money with a trusted friend/relative/parent/business friend?
A) Yes B) No

If yes,

ii) What amount does the friend/relative/business friend have now?
A) Kshs 0-1000    B) Ksh 1001-5,000
C) Kshs 5,000-10,000    D) Kshs 10,000-20,000
E) Kshs 20,000-50,000    F) Over Kshs 50,000

iii) Has the person you keep money with failed to pay you/paid you but not in full when you needed the money?
A) Yes    B) No

iv) How often do you give the person the money?
A) Daily    B) Two-Three Weeks
C) Weekly    D) Two-Three Months
E) Mothly    F) Once / Two-Three Months
G) Irregularly    H) Other state

16). Do you contribute money from this business to merry go round?
A) Yes    B) No

If yes

ii) How many merry go-rounds are you a member?
A) 1    B) 2    C) 3
D) 4    E) 5    F) Over 5

iii) How often do you contribute in each merry go round?
MGR1____ MGR2_____ MGR3_____ MGR4_____ MGR5_____ MGR6____
Key

A) Weekly  B) Two-Three /Week
C) Weekly  D) Two-Three Months
E) Monthly  F) Once / Two-Three Months
G) Irregularly  H) Other State

iv) How much do you contribute in each merry go round?

MGR 1 MGR2 MGR3 MGR4 MGR5 MGR6

A) Kshs 0-50  B) Kshs 51-100
C) Kshs 101-200  D) Kshs 210-500
E) Kshs 501-1,000  F) Over 1,000

v) How much do you expect to get at the end of the current cycle in each merry-go-round?

MGR 1 MGR2 MGR3 MGR4 MGR5 MGR6

A) Kshs 0-1000  B) Ksh 1001-5,000
C) Kshs 5,000-10,000  D) Kshs10,000-20,000
E) Kshs 20,000-50,000  F) Over Kshs 50,000

vi) Have you lost your money through a defaulting member or breakage of the merry go round?

MGR 1 MGR2 MGR3 MGR4 MGR5 MGR6
17 i) Do you buy shares in a co-operative society using the business money?

A) Yes

B) No

If yes

ii) How often do you contribute?

A) Daily

B) Two-Three Weeks

C) Weekly

D) Two-Three Months

E) Monthly

F) Once / Two-Three Months

G) Irregularly

H) Other State

III) How much do you contribute each time?

A) Kshs 0-50

B) Kshs 51-1001

C) Kshs 101-200

D) Kshs 201-500

E) Kshs 500-1000

F) Over Kshs 1000

IV) How much do you in form of shares?

A) Kshs 0-1000

B) Kshs 1001-5000

C) Kshs 5000-10,000

D) Kshs 10,000-20,000

E) Kshs 20,000-50,000

G) Over Kshs 50,000
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v) Have you lost your money through collapse/fraud in the co-operative society?
A) Yes   B) No

18 i) Do you hold an account with a bank in relation to this business?
a) Yes   b) No

If yes,

ii) How many account do you hold?
A) 1   B) 2   C) 3   D) 4   E) 5   F) More than 5

iii) Which bank and type of account?

Bank

A. Post Bank
B. Barclays
C. Co-Operative
D. Standard Chartered
E. National
F. Kenya Commercial Bank
G. Any Other State

Key: Type of account
A) Current   B) Savings
iv). How much have you been able to save in the bank?
A) Kshs 0-1000  B) Ksh 1001-5,000
C) Kshs 5,000-10,000  D) Kshs 10,000-20,000
E) Kshs 20,000-50,000  F) Over Kshs 50,000

v). How often do you deposit the money?
A) Daily  B) Two-Three Weeks
C) Weekly  D) Two-Three Months
E) Monthly  F) Once / Two-Three Months
G) Irregularly  H) Other State

vi). Have you lost money through collapse / fraud of the bank?
A) Yes  B) No

18.(i). Do you pay insurance premium using business money?
A) Yes  B) No

If yes,

ii). Which type of insurance?
A. Life insurance (Whole life endowment, education, term assurance)
B. Fire insurance (Residential commercial; sprayer linkage, consequential loss)
C. Motor vehicle (Third party, comprehensive, third party fire and theft)
D. Accident insurance (Personnel accident, burglary, fidelity Guarantee, public liabilities cash goods in transit, bad livestock insurance).

iii) How often do you contribute?
A) Daily  B) Two-Three Weeks
C) Weekly  D) Two-Three Months
E) Mothly  F) Once /Two-Three Months
G) Irregularly  H) Other State________________________

iv) How much have you been able to save with the insurance company?
A) Kshs 0-1000  B) Ksh 1001-5,000
C) Kshs 5,000-10,000  D) Kshs 10,000-20,000
E) Kshs 20,000-50,000  F) Over Kshs 50,000

v) Have you lost money due to collapse/defraud of the insurance company or its agents?
A) Yes  B) No

20. Which other ways do you keep this business money? (State)
SKETCH MAP TO NUNGUNI

- Nairobi
- To Machakos Town
- Mombasa Road
  - 84 km
- Salama Market
  - 18 km
- Nunguni Market
- To Mombasa

Not drawn to scale