Influence of financial literacy trainings on the perfomance of village savings and loan associations supported by ngo's in Kenya: a case study of VSLA's in kwale county

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Abstract

Studies in Kenya largely indicate that VSLA's have been adopted as a strategy to alleviate poverty in non-formal settlements like the slums in Mathare, Kibera, Korogocho and Kianduti villages or slums for more than 10 years now. Despite these gains there is very scanty information available on the financial literacy of the members of these groups and the impact it has on their performance. Establishment of Voluntary Savings and lending Associations has a had a great impact in ensuring there is economic empowerment of members and groups in the villages through donor fundings.It is from this background that this research intended to determine if there is an influence of financial literacy trainings on the financial performance of village Savings and Loan Associations (VSLA's) projects in supported by NGO's in Kenya, a case study of Kwale county. The study was done on the members of the VSLA's in Kwale County who are registered within the groups in that region. There was a total of 73 participants in the study undertaken. The hypothetical question was to establish if financial knowledge has an impact on the financial performance of the VSLA's supported by NGO's in Kenya. The study used stratified sampling method and questionnaires in collecting required information through interviews. The findings showed that there was a strong relationship between financial literacy and financial performance of VSLA's. this led to a conclusion that there is need to ensure the groups are empowered properly since most of the VSLA that have not been performing well have their members not well trained on financial literacy components such as budgeting, expenditure control and savings.

Introduction

Financial literacy training have in recent years become part of the financial policy reforms the world over (World Bank, 2012) there has also been a rapid growth in the financial systems over the 21st century, the speed and sophistication at which this trend is overtaking World over is becoming more complex.

According to (Mitchell, 2011) the economic and social sphere which guides people's decisions on financial matters has changed drastically this gives more sphere for financial literacy studies and research. Does the knowledge budgeting, expenditure controls, debt management and savings affect financial performance of VSLAs in Kwale County?

The connection between financial literacy and performance is anchored on several theories. First is goal setting theory. This theory is grounded on strong belief that if one sets goals consciously and dedicates to this intention there will be results.

In recent studies, goal setting theory has been integrated with the expectancy theory (Hollenbeck & Klein, 1987). On the same goal setting theory of motivation (Louce, 1986) and (Locke & Litman 1990) found that individual goals largely determine how well they perform specific tasks allocated to them.

Individuals or organizations must ref to financial goals to drive their motivation towards financial literacy. Second is expectancy theory, as early as during (Tolman & lewin,1938), this theory relates perception to behavior. A lot of research has been focused on understanding motivation and developing the concept.

In Kenya, there has been an upsurge of lending to different groups by government and non-government organizations. This has led to establishment of village savings and lending associations covering the financial scope of non-formal lending groups. According to (Abdi ,2007) on her study on factors that affect women access to credit, she concluded that of the women had financial management training then they could perform better and create more synergies.

Sospeter M. M. (2014) studied the influence of financial literacy training on financial performance of women self-help groups. The study used descriptive survey design in collecting data in a target population of 16 women self-help groups out of a total population of 240.

Based on the findings of the study, the study brought about how strong the groups trained in the study, financial literacy performed compound to those that were not trained, they were also guaranteeing each other loans, and majority of the groups were saving as a habit. However, there is a clear gap on the other groups that are not trained by the bank and understanding how they are progressing on.

It is imperative that more studies are done to explore the negative effects of groups that are not knowledge on financial literacy. Another Kenyan researcher Achuk A, (2012) studied impact of capacity building on sustainable VSLA's in sub district. The methodology used was quantitative and qualitative descriptive survey design, with a sample population of 26 groups out of a total population of 133 groups.

The research findings were that the VSLA's in Suba district were very organized. The extent of selection, planning and management as component of capacity building brought about in aspect of stability and growth that was positive. The study also examined the quality of trainer of trained impacted on sustainability of village savings and loan association and 69% indicated understand the modules they were trained on.

However, selection, planning and management should in their structured way consider different other economic activities like their others who do agricultural business do they should be trained considering that in the modules.

According to many researchers at the local level such as, Margaret (2013) in her study on financial literacy and financial management of the enterprises. The study used the descriptive stored and sampling of 3 individuals from every group in a population of 108 groups.

The findings came out that the government has been providing access to finance the youth through youth enterprise development fund but there is limited knowledge on financial literacy among the youths in question hence calling for more intensive program on financial literacy for the youth in order to get maximum benefits.

There is other factors affecting these groups other than financial literacy thus there is a gap in relation to the extent of study. Therefore, this study will help us understand the impact training and knowledge on financial literacy has on the performance of the VSLA's especially to the e groups that are supported by NGO's in Kenya specifically Kwale county.

Method

Participants

The study had a sample of 100 participants but managed to collect 73 questionnaires from respondents. The 73 are VSLA members who have registered with the groups and are actively participating. Those who have registered formally with the VSLA's and are not actively saving or participating in group activities were omitted. The members must be up to date according to the group records.

Materials

The study used questionnaires which were actively collected using interview methods in order to ensure that the accuracy of the data collected was profound. Using the SPSS Multicollinearity and Heteroscadicity of the instruments was tested to ensure that the variables were relevant for the study.

The study used the approach of collecting data from the field of study and analyzing it. The following were the areas of focus, the target population, research design, sampling procedure, reliability data analysis and test of significance. This study used descriptive research design with largely describes the characteristics of the population.

Descriptive research design is the most suitable method for collecting information on areas covering peoples attitude, habits, opinions or any other variety of social issues (Orodho,2008). The main advantage lying herein this design is the fact that the researcher saw able to harmonize both data and human experience.

As opposed to other types of research design, it enabled the researcher the ability to understand various aspects of study providing with it a bigger picture. The study targeted VSLA members in Kwale county 73 participants selected using stratified sample. Then researcher collected the questionnaire through interview process.

Next, questionnaires received from the respondents were checked for completeness with keen analysis. Coding and categorization was done and data entered into SPSS for windows

version 20 for analysis. This study used both descriptive and inferential tests in the analysis. Data was described and summarized using descriptive statistics such as frequencies and mean which are the best in describing the distribution of responses.

Inferential statistics from various aspects was used to infer population characteristics from the sample. Pearson's correlation coefficient was then used to establish relationship between variables. Next the study used T-test to determine whether the difference between the sample mean and the population mean was significant and reliability of the model.

The tests also considered calculating the R^2 for the individual scores considering their mean to test the significance. Due to factors such as time constraint and limited resources the study was done within a brief period compared to what had earlier been envisioned in the study preparations.

Findings

From **Error! Reference source not found.** the findings show that the model correlation coefficient was 0.482 which indicated that the model predicted over 48.2% of change in the independent variable. This relationship is considered significant since coefficient of the determinant of value is 0.07. The model is depicted as adequate due to Durbin-Warton static value of 2.00 which is within the acceptable range of 1-2. It goes in line with the hypothesis of the study that there would be a correlation.

Table 0.1 Model Summary[b]

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.647[a]	.482	.521	1.42891	.120	1.262	4	37	.07	2.000

a. Predictors: (Constant), Budgeting, Debt Management, Expenditure Control, Savings.

b. Dependent Variable: Financial Perfomance of VSLA's

ANOVA

The ANOVA model below in **Error! Reference source not found.** confirms that the regression model was adequate. The size of regression model is shown to be 62.2 that has been contributed by the residual mean of sum of squares. The F test ratio is 62.2 with a significant P- value of 0.000 representing the effective size of regression model. In overall the study found that there is a significant relationship between financial literacy and performance

of VSLA's therefore giving a significant impression that there is need to consider activities that would be of support to the knowledge being passed to the VSLA members.

Table 0.2 ANOVA

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.304	4	.2576	62.2	.0002[b]
	Residual	75.546	37	.2042		
	Total	85.849	41			

a. Dependent Variable: Financial Perfomance of VSLA's

b. Predictors: (Constant), Budgeting, Debt Management, Expenditure Control, Savings.

According to the results it is clear that budgeting knowledge has a strong effect on the financial performance of VSLAs. This has been seen by a depiction of a strong correlation coefficient. These findings are in line with (Kasipallai, Norhani & Noor 2003) that found that the more individuals understand dynamics of budgeting the easier it is to save and manage finances prudently in Hyderabad.

Findings also show that there is a strong positive correlation between the Debt management and the financial performance. The result findings show that most VSLA members have limited knowledge on expenditure controls with a correlation co-efficient of 0.094.

According to findings majority of respondents have taken loans and are repaying within a period of 7-12 months at 54.8%,followed by over 24 months at 20%.The correlation coefficient of 0.03 shows that even though significant but there is a weak relationship between debt management and financial performance.

Ombongi (2015) also established that poor debt management by members of a saving and lending group might led drastically to poor financial management practices within such groups. The findings have shown that there is a strong correlation between financial literacy and financial performance having a correlation coefficient of 0.008.

Those members who critically do budgeting had a mean of 4.24.This means that they are able to save some money that will at the end help in their savings. Some respondents agreed to be poor in expenditure control with a mean of 3.71 showing why most of the VSLA's suffer from members delaying in their savings habit.

This has led to poor financial performance in terms of loan repayment and savings. (Obago,2013) got similar findings that financial literacy had important implication on management of finance among the employees of commercial banks in Kenya, the more

knowledge one has on financial matters the less possibility of default on loan thereby improving loan performance.

According to Chan et al (2000), the study found out that the more knowledge individuals have the better the position they are in to make financial decisions that are sound. At a mean of 3.5 the members of VSLA's keep record of their financial activities which shows there is a good track of cash flow by the groups.

However, the findings show that saving is at its lowest with a mean of 2.26 showing that most members don't save religiously from their different sources of income. This means the less knowledge one has on financial literacy the higher the chances of affecting loan performance and saving culture.

These findings show quite a number of VSLA customers are aware of basic financial literacy skills however there is more that need to be done to improve on this knowledge. Financial literacy covers a big scope of variables therefore more studies can be done measuring different variables of financial study other than the ones studied in this paper. This can in-turn expand the scope of study and comparison for other researchers.

The other very key area of study that can come out of this study is the specific group of customers in different industries who contribute to the VSLA's. More study can be done to ensure that the researcher look into specific groups of customers, such as members with businesses in a specific sector, whereas using the same variables in this study. This will bring about a new perspective of study.

The findings of this study were in a way limited to the contextual scope as a result of the size of the sample that was used herein. Some of the aspects that ought to be identified to further the study is change of time and allocation of enough resources in order to do an in depth analysis of the same area of research. Surveys need to be carried out to generate more represent able analysis, some of the areas that can be used to further this study is refined research tools designed for further research conducted.

In conclusion the overall findings have shown that there is a general effect of financial literacy of members on financial performance of VSLA's. We can conclude that poor financial knowledge might lead to financial decision that are poor thus leading to loan defaults, poor savings culture, poor financial management practices or bad debts acquisition. These are clear factors that can affect performance of VSLAs'.

On the contrary findings have also shown that most of VSLA members don't save regularly despite the groups being savings oriented. This can be attributed to hard economic times or poor financial discipline amongst the customers even though they possess financial skills.

The results of this study will help in development of knowledge in the area of financial literacy and policies that will guide strengthening of groups involved in savings and lending activities.

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