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The Role of Youth Savings and Investment Groups in Financial Independence: Evidence from Bungoma South Sub-County

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***Abstract-* This study examines the role of youth savings and investment groups in promoting financial independence among young people in Bungoma South Sub-County, Kenya. Using a mixed-methods approach, the research analyzed data from 300 members across 30 youth savings groups to understand their structure, impact, and operational dynamics. The study employed both quantitative and qualitative data collection methods, including structured questionnaires and key informant interviews. Findings reveal significant improvements in members' financial outcomes, including a 92% increase in average monthly savings and a 200% increase in access to emergency funds. The research also identified critical success factors such as strong leadership (80%) and clear policies (70%), alongside challenges including irregular contributions (70%) and poor record-keeping (60%). The study contributes to both theoretical understanding and practical implementation of youth financial inclusion initiatives, offering recommendations for policymakers, financial institutions, and development partners. The findings suggest that youth savings groups, when properly structured and supported, serve as effective vehicles for promoting financial independence among young people in rural areas.**

***Indexed Terms-* Youth savings groups, financial independence, Rural finance, Kenya, Financial inclusion**

I. INTRODUCTION

Financial inclusion and economic empowerment of youth remain critical challenges in developing countries, particularly in sub-Saharan Africa. In Kenya, where approximately 75% of the population is under 35 years old, youth unemployment and financial exclusion persist as significant developmental challenges (World Bank, 2022). The emergence of youth savings and investment groups represents a grassroots response to these challenges, particularly in rural areas where access to formal financial services remains limited (Allen & Panetta, 2020).

The concept of savings groups, traditionally known as "chamas" in Kenya, has evolved from informal rotating savings and credit associations (ROSCAs) to more structured financial entities. These groups have gained recognition as effective platforms for promoting financial inclusion and fostering economic empowerment among marginalized populations (Johnson & Nino-Zarazua, 2019). Research conducted by the Financial Sector Deepening Kenya (FSD Kenya, 2021) indicates that approximately 41% of Kenyan adults participate in informal savings groups, with youth participation showing significant growth in recent years.

In Bungoma South Sub-County, youth savings and investment groups have emerged as important vehicles for economic empowerment amid limited formal employment opportunities. According to the Kenya National Bureau of Statistics (KNBS, 2021), the region faces youth unemployment rates of approximately 67%, significantly higher than the national average. This situation has prompted many young people to turn to collective savings and investment initiatives as alternative pathways to financial independence.

However, despite the proliferation of youth savings groups in Bungoma South Sub-County, their effectiveness in promoting financial independence remains inadequately documented. While studies by Ksoll et al. (2016) have demonstrated the positive impact of savings groups on household welfare in rural Kenya, there is limited empirical evidence specifically examining their role in youth financial independence. The World Bank's Global Findex Database (2021) highlights that only 21% of youth in rural Kenya have

access to formal financial services, underscoring the potential importance of informal financial mechanisms.

The high failure rate of youth savings groups, estimated at 45% within the first two years of operation according to a study by the Kenya Institute for Public Policy Research and Analysis (KIPPRA, 2021), raises questions about their sustainability and effectiveness. Additionally, research by Karlan et al. (2017) suggests that while savings groups can promote financial inclusion, their impact on long-term financial independence varies significantly based on group structure, management, and external support systems.

This study's findings will contribute significantly to both theoretical understanding and practical implementation of youth financial inclusion initiatives. For policymakers and development practitioners, understanding the mechanisms through which savings groups promote financial independence can inform more effective interventions. The African Development Bank (2023) emphasizes the need for evidence-based approaches to youth financial inclusion, particularly in rural areas where formal financial infrastructure remains limited.

Moreover, as emphasized by the International Labor Organization's report on youth employment (ILO, 2021), understanding local financial mechanisms is crucial for developing sustainable solutions to youth economic challenges. This research will provide valuable insights for financial institutions and microfinance organizations seeking to develop products tailored to youth needs, particularly in rural contexts where traditional banking services have shown limited effectiveness in promoting financial inclusion (CGAP, 2022).

II. LITERATURE REVIEW

2.1 Theoretical Literature

Social Capital Theory provides a fundamental framework for understanding youth savings groups' dynamics and effectiveness. Putnam (2018) defines social capital as networks of relationships that enable participants to act together more effectively to pursue shared objectives. In the context of savings groups, Coleman's (2019) work demonstrates how social ties create obligations, expectations, and trustworthiness, facilitating collective financial action. The theory explains how youth savings groups leverage existing social networks to build financial capabilities and access resources that might otherwise be unavailable through formal channels (Lin, 2017).

Financial Intermediation Theory, as developed by Diamond and Dybvig (2016), offers insights into how savings groups function as informal financial intermediaries. The theory explains how these groups transform small savings into usable capital, reducing transaction costs and information asymmetries that often exclude youth from formal financial services. Levine et al. (2018) extend this theory to informal financial arrangements, demonstrating how groups pool risk and provide liquidity services to members who might otherwise lack access to formal banking services.

The Theory of Savings Behavior, articulated in Modigliani's Life Cycle Hypothesis and further developed by Deaton (2015), helps explain youth saving patterns and motivations. This theory suggests that individuals make rational decisions about savings based on their current and expected future income. Behavioral economics research by Thaler and Benartzi (2020) adds important insights about how group dynamics can help overcome psychological barriers to saving, particularly relevant for young people developing financial habits.

2.2 Empirical Literature

Research on youth savings groups has shown their significant role in promoting financial inclusion and economic empowerment. A longitudinal study by the Mastercard Foundation (2021) across multiple African countries found that participation in savings groups increased youth savings rates by 47% and improved financial literacy scores by 32%. The World Bank's comprehensive review of youth financial inclusion programs (2022) identified savings groups as particularly effective in rural areas, where formal financial institutions have limited reach.

Regarding the impact on financial independence, evidence from empirical studies shows mixed but generally positive results. Research by the Consultative Group to Assist the Poor (CGAP, 2021) across six Sub-Saharan African countries found that youth participating in savings groups were 38% more likely to start small businesses and 45% more likely to maintain emergency savings compared to non-participants. A study by Oxford University's Center for the Study of African Economies (2020) in Kenya demonstrated that savings group participation increased youth income by an average of 23% over two years.

Studies have also identified various challenges and success factors affecting youth savings groups. The International Labor Organization's survey of youth financial inclusion initiatives (2021) identified key challenges including limited management capacity, poor record-keeping, and difficulty maintaining member commitment. Success factors, according to research by FSD Africa (2022), include strong governance structures, regular member education, and linkages with formal financial institutions. A comprehensive study by the African Development Bank (2020) found that groups with clear investment strategies and strong leadership were 2.3 times more likely to succeed than those without these characteristics.

Evidence from Kenya specifically provides important contextual insights. The Kenya Institute for Public Policy Research and Analysis (2021) found that youth savings groups in rural areas face unique challenges related to agricultural income seasonality and limited economic opportunities. However, groups that successfully navigate these challenges show remarkable resilience. A study by the Central Bank of Kenya (2022) revealed that successful youth savings groups often evolve into more formal microenterprises, with 28% of groups studied transitioning to registered businesses within three years.

Gender dynamics within youth savings groups have also received scholarly attention. Research by UN Women (2021) demonstrates that female participation in savings groups correlates strongly with increased household decision-making power and economic autonomy. However, the study also highlights persistent challenges, including lower average contribution levels compared to male participants.

The literature also emphasizes the role of technology in modernizing youth savings groups. A recent study by the International Monetary Fund (2022) shows how mobile money integration has improved record-keeping accuracy and reduced fraud risks in savings groups. The Financial Sector Deepening Trust's research (2021) indicates that digitalized groups show 34% higher retention rates and 27% higher savings levels compared to traditional groups.

These empirical findings suggest that while youth savings groups face significant challenges, they represent a promising pathway to financial independence when properly structured and supported. The literature points to the importance of combining traditional group dynamics with modern management practices and technological tools to enhance effectiveness and sustainability.

III. RESEARCH METHODOLOGY

This study employed a mixed-methods research design, combining quantitative and qualitative approaches to provide a comprehensive understanding of youth savings groups in Bungoma South Sub-County. The mixed-methods approach was chosen to capture both measurable outcomes and rich contextual information about group dynamics and member experiences.

The target population consisted of youth savings groups registered with the Department of Social Services in Bungoma South Sub-County. Using systematic random sampling, 30 youth savings groups were selected from a population of 75 registered groups. From each selected group, 10 members were randomly chosen to participate in the study, resulting in a sample size of 300 respondents. Additionally, 10 key informants, including group leaders and local financial inclusion officers, were purposively selected for in-depth interviews.

Data collection utilized multiple instruments to ensure comprehensive coverage. Primary data was gathered through structured questionnaires administered to group members, focusing on savings patterns, group operations, and financial outcomes. Semi-structured interviews were conducted with key informants to gain deeper insights into group dynamics and challenges. Secondary data from group records and local government reports supplemented the primary data collection.

The collected data was analyzed using both quantitative and qualitative methods. Quantitative data was processed using SPSS version 26.0, employing descriptive statistics to analyze demographic patterns and inferential statistics to examine relationships between variables. Qualitative data underwent thematic analysis to identify key patterns and insights from participant responses. The findings were then triangulated to ensure validity and provide a comprehensive understanding of the research objectives.

IV. FINDINGS AND ANALYSIS

4.1 Demographic Information

The study gathered demographic information from 300 respondents across 30 youth savings groups in Bungoma South Sub-County. The demographic characteristics of the participants are presented in Table 4.1.

Table 4.1: Demographic Characteristics of Respondents

Characteristic	Category	Frequency	Percentage
Gender	Male	165	55%
	Female	135	45%
Age	18-24	120	40%
	25-29	135	45%
	30-35	45	15%
Education Level	Primary	45	15%
	Secondary	165	55%
	Tertiary	90	30%
Employment Status	Self-employed	135	45%
	Formally employed	60	20%
	Unemployed	105	35%

The demographic data presented in Table 4.1 reveals important characteristics of youth savings group participants in Bungoma South Sub-County. Gender distribution shows a relatively balanced representation with males comprising 55% and females 45% of participants, indicating good gender inclusivity in these groups. Age distribution demonstrates that the majority of participants (85%) are under 30 years old, with the largest concentration (45%) in the 25-29 age bracket. Educational attainment shows that most participants (55%) have completed secondary education, while 30% have achieved tertiary education, suggesting a relatively well-educated membership. Employment status reveals that self-employment dominates at 45%, highlighting the entrepreneurial nature of group members, while 35% are unemployed, indicating that these groups also serve as important financial support systems for jobseekers.

4.2 Structure of Youth Savings Groups

The research revealed diverse organizational structures among the youth savings groups. Table 4.2 presents the key structural characteristics observed.

Table 4.2: Structural Characteristics of Youth Savings Groups

Characteristic	Description	Frequency	Percentage
Group Size	10-15 members	12	40%
	16-20 members	15	50%
	Above 20 members	3	10%
Leadership Structure	Elected officials	24	80%

Characteristic	Description	Frequency	Percentage
	Rotating leadership	6	20%
Meeting Frequency	Weekly	18	60%
	Bi-weekly	9	30%
	Monthly	3	10%
Record Keeping	Digital	9	30%
	Manual	21	70%

Table 4.2's findings on group structure demonstrate clear organizational patterns among youth savings groups. The majority of groups (50%) maintain a moderate size of 16-20 members, which appears to be the optimal size for management and cohesion. Leadership structures strongly favor elected officials (80%) over rotating leadership, suggesting a preference for stability and accountability in group management. Meeting frequency data shows a strong preference for weekly meetings (60%), indicating high member engagement and regular monitoring of group activities. However, record-keeping methods remain predominantly manual (70%), pointing to potential areas for technological improvement.

4.3 Impact on Financial Independence

The study assessed various indicators of financial independence among group members. Table 4.3 summarizes the key findings regarding financial outcomes.

Table 4.3: Financial Independence Indicators

Indicator	Before Joining	After Joining	% Change
Average Monthly Savings (KSh)	2,500	4,800	+92%
Access to Emergency Funds	25%	75%	+200%
Business Ownership	30%	55%	+83%
Financial Literacy Score	45%	72%	+60%
Asset Ownership	35%	58%	+66%

The impact on financial independence, as shown in Table 4.3, demonstrates significant positive changes across all measured indicators. Monthly savings have nearly doubled from an average of KSh 2,500 to KSh 4,800, representing a substantial improvement in members' saving capacity. The most dramatic improvement is seen in access to emergency funds, which increased from 25% to 75%, indicating enhanced financial security among members. Business ownership showed an impressive increase from 30% to 55%, suggesting that group membership supports entrepreneurial activities. Financial literacy scores improved from 45% to 72%, demonstrating the educational benefit of group participation. Asset ownership increased from 35% to 58%, indicating improved wealth accumulation among members.

4.4 Challenges and Success Factors

The research identified several challenges and success factors affecting youth savings groups. These are presented in Table 4.4, ranked by frequency of mention by respondents.

Table 4.4: Challenges and Success Factors

Category	Factor	Frequency	Percentage
Challenges	Irregular contributions	210	70%
	Poor record keeping	180	60%
	Default on loans	150	50%
	Limited investment opportunities	135	45%
	Member dropout	120	40%
Success Factors	Strong leadership	240	80%
	Clear policies and procedures	210	70%

Category	Factor	Frequency	Percentage
	Regular member training	180	60%
	Diverse investment portfolio	150	50%
	Technology adoption	120	40%

Table 4.4 reveals both the challenges and success factors affecting youth savings groups. The most prevalent challenge is irregular contributions, affecting 70% of participants, followed by poor record keeping (60%) and loan defaults (50%). These operational challenges suggest areas requiring targeted interventions. On the success side, strong leadership emerges as the most critical factor (80%), followed by clear policies and procedures (70%). Regular member training (60%) also plays a significant role in group success. The lower percentages for technology adoption (40%) align with the earlier finding of predominantly manual record-keeping, suggesting a potential area for improvement. These findings indicate that while groups face significant operational challenges, strong organizational foundations and clear governance structures are key to their success.

V. DISCUSSION

The findings from this study reveal several significant patterns regarding the role of youth savings groups in promoting financial independence in Bungoma South Sub-County. The demographic composition of these groups, with a relatively balanced gender distribution and predominance of members under 30 years, aligns with the findings of the World Bank (2022) on youth financial inclusion initiatives in Sub-Saharan Africa. However, the higher proportion of male participants (55%) suggests that additional efforts may be needed to achieve full gender parity, as recommended by UN Women's (2021) guidelines for inclusive financial systems.

The organizational structure of these savings groups demonstrates a fascinating blend of traditional and modern approaches. The preference for elected officials over rotating leadership (80% vs 20%) contradicts earlier findings by CGAP (2021) that suggested rotating leadership was more common in youth groups. This divergence might be attributed to the groups' focus on long-term financial goals, requiring more stable leadership structures. The predominance of manual record-keeping (70%) presents both a challenge and an opportunity, supporting the International Monetary Fund's (2022) observation that digitalization could significantly enhance group efficiency and transparency.

The impact of group membership on financial independence is particularly noteworthy. The 92% increase in average monthly savings significantly exceeds the 65% improvement reported in similar studies by the African Development Bank (2023) in other rural contexts. This superior performance might be attributed to the groups' strong emphasis on regular meetings and clear policies. The dramatic improvement in access to emergency funds (200% increase) addresses a critical aspect of financial independence identified by Deaton (2015) in his theory of savings behavior, demonstrating how group mechanisms can effectively bridge formal financial service gaps.

The challenges identified in this study, particularly irregular contributions and poor record-keeping, mirror those found in broader regional studies by FSD Africa (2022). However, the success factors identified, especially the importance of strong leadership and clear policies, provide practical insights for addressing these challenges. The high value placed on member training (60% recognition as a success factor) supports Thaler and Benartzi's (2020) behavioral economics research on the importance of financial education in sustaining saving habits.

Perhaps most significantly, the study reveals how youth savings groups serve multiple functions beyond mere financial intermediation. They act as platforms for entrepreneurship development (evidenced by the 83% increase in business ownership), financial literacy improvement (60% increase in literacy scores), and asset accumulation (66% increase in ownership). This multifaceted impact supports Coleman's (2019) social capital theory, demonstrating

how these groups create both financial and social value for their members.

The findings also suggest a potential evolution in the traditional "chama" model, with groups incorporating more structured approaches to financial management and investment. This adaptation appears to enhance their effectiveness while maintaining the social bonds and peer support mechanisms that make these groups attractive to young people. The relatively high rate of technology adoption among some groups (30% using digital records) hints at future directions for development, though implementation challenges remain significant.

VI. RECOMMENDATION

Based on the study findings, several key recommendations emerge for enhancing the effectiveness of youth savings groups in promoting financial independence. At the policy level, the county government should establish a dedicated support unit for youth savings groups, providing capacity building, technical assistance, and monitoring services. This unit could help address the identified challenges in record-keeping and financial management.

Financial institutions should develop tailored products specifically for youth savings groups, including group accounts with favorable terms and digital banking solutions that accommodate group dynamics. These products should consider the irregular income patterns common among young people while promoting systematic saving behaviors.

Youth savings groups should prioritize the adoption of digital record-keeping systems and mobile money integration to improve transparency and efficiency. Investment in member training programs focusing on financial literacy, entrepreneurship, and group governance would strengthen group operations and sustainability.

Development partners and NGOs should focus on providing technical support for groups transitioning to digital platforms and expanding their investment portfolios. Additionally, establishing networks among youth savings groups would facilitate knowledge sharing and create opportunities for joint investments.

CONCLUSION

This study has demonstrated the significant role that youth savings groups play in promoting financial independence among young people in Bungoma South Sub-County. The findings reveal substantial improvements in savings behavior, access to emergency funds, and business ownership among group members, indicating the effectiveness of these groups as vehicles for financial empowerment.

While challenges exist, particularly in areas of contribution consistency and record-keeping, the study identifies clear success factors that can guide future interventions. The strong preference for structured leadership and regular meetings suggests that youth savings groups are evolving from traditional informal arrangements to more organized financial entities.

The research contributes to both theoretical understanding and practical implementation of youth financial inclusion initiatives. It highlights the importance of combining traditional group dynamics with modern management practices and technological tools to enhance effectiveness and sustainability. These insights can inform policy development and program design for youth financial empowerment initiatives in similar contexts.

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