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EFFECT OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES' FINANCIAL SERVICES ON DEMAND FOR CREDIT BY MEMBERS - A SURVEY OF DEPOSIT TAKING SACCOs IN NAIROBI

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Abstract

The aim of the study was investigating the effect of SACCO Financial Services on demand for credit by Members, a survey on deposit taking SACCOs in Nairobi. Kenyan Sacco sector is the largest in Africa and the seventh worldwide (Ademba,2010). With over Ksh 230 billion in assets and a savings portfolio estimated at Kshs 190 billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings. This indicates that SACCOs have increasingly become vital components of Kenya's economy and social development. However, despite the ever increasing role of SACCOs in providing affordable financial services to members and Kenyan economy as a whole, it is not clear as to the effect of SACCO Financial Services on demand for credit by members in Kenyan context. Existing literature provide mixed findings from developed countries as well as from Africa regions. This has created mixed empirical evidence and studies on the local scene. This research has discussed deposit taking SACCOs in Nairobi, Kenya with a primary focus on investigating the effect of SACCO Financial Services on demand for credit by members. The study was guided by four independent variables which included: lending services, and investment services. The target population of interest in this study comprised of 164 respondents from SACCOs in Nairobi. Secondary data sourced from existing data from SACCOs was used to analyze financial services and demand for credit. The study utilized a sample size of 60. The quantitative data was analyzed using descriptive statistics. In addition the study used multiple regression analysis to analyze the data. Overall the study findings shows that SACCO financial services on lending and Investment influence demand for credit by Members. SACCOs therefore need to focus on these financial services in order to influence and increase demand for credit advanced to members, which will in turn increase interest income to the societies. The regression analysis confirmed that lending and investment services positively affects demand for credit by Members. This implies that a single unit increase of lending or investment services leads to a corresponding increase in demand for credit by members. The recommendations from the survey is that the amount of loans given by SACCOs should be increased to motivate the members to partake more loans which will translate to SACCOs *generating more funds in terms of Interest income.The study also recommends that the SACCOs should adopt modern and effective strategies that encourage members to save their money.*

Keywords: Leading services, Investing services and demand for credit

1.1 Introduction

Cooperatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. Over the years, cooperative enterprises have successfully operated locally-owned people-centered businesses while also serving as catalysts for social organization and unity. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment. As the world today faces unstable financial systems, increased insecurity of food supply, growing inequality worldwide, rapid climate change and increased environmental degradation, it is increasingly compelling to consider the model of economic enterprise that cooperatives offer. The cooperative sector, especially in developing countries, also presents itself as an important element that can contribute to the realization of the Sustainable Development Goals (SDGs). (Acharya, 2009)

Cooperatives can contribute to the achievement of the SDGs because of their inherent characteristics. Because cooperatives are economic associations, they provide the opportunity for their members to raise their incomes. Because they are democratic with each member having one vote, they empower people to own their own solutions, and because they pool risks at the level of the enterprise and offer micro-insurance they increase security. In addition, there is increasing evidence indicating that cooperatives also contribute directly and indirectly to meeting several of the other SDGs, such as primary education for children, gender equality and reducing child mortality (Acharya, 2009).The cooperative enterprise also presents an important model as many of the poorest and disadvantaged face social exclusion, lack of access to opportunities and growing economic inequality. As the uneven effects of globalization have led to a rise in the unregulated informal economy, workers in the informal sectors have formed shared service cooperatives and associations to assist in their self-employment.

In rural areas, savings and credit cooperatives provide access to banking services which are lacking in many communities. Credit cooperatives also play an important role in the formation of small and micro businesses. They can affect the kind of financial 'deepening' that the World Bank envisages, as they consistently reach the poor in a sustainable way (Thapaliya, 2009). Ahimbisibwe (2007), reported the purpose of SACCOs as to promote the economic interest of their members but in particular to: promote thrift among its members by affording them an opportunity for accumulating savings and paying reasonable interest without risk on such savings, create a source of funds from which it can afford relief to its members in need by making loans to them for productive and provident purposes at fair and reasonable rates of interest and with easy terms of repayment, continuously educate members on how savings can be made on regular basis and the wise use of their savings, provide service to its members such as financial counseling so that the members can solve most of their financial problems, and the risk of management service to ensure the safety of members' savings and loans, and fight poverty financial services.

In India, co-operatives are unique as they were initiated and supported by common business needs and aspirations. They are basically welfare driven rather than profit-oriented and are legal institutions supported by the government. Despite all this, these cooperatives are dogged by problems such as inadequate capital, poor member participation, absence of common brands, inadequate managerial skills, corruption and frauds. This has engendered inefficiency and lack of competitiveness of these institutions (Siddaraju, 2012).

In Tanzania, SACCOs draw membership from the local community or a similar employer (Klinkhamer, 2009). Their members share a geographical area, a community, an employer or other affiliations (CGAP, 2005). The members are the sole beneficiaries, sole savers and sole decision-makers (Mwakajumilo, 2011). The SACCO funds emanate from members` saving deposits (Shrestha, 2009). SACCO members registered high increases of incomes, assets, food consumption, education expenditure, improved housing and decline of health expenditures compared to non-members (Sharma *et al.*, 2005). However, many co-operatives and SACCOs in Tanzania face problems of poor management, embezzlement, lack of working capital, poor business practice and high loan delinquency rates (Maghimbi 2010; Mwakajumulo 2011).

In Kenya SACCOS contribute 45% of the country's GDP and to date the sub sector has effectively mobilized over Kshs 200 billion deposits and assets totaling to Kshs210 billion (MCD &M 2010). These enormous resources should give SACCOs a basis to compete in a liberalized environment. Wanyama (2009) posits that the new economic environment that Africa experienced in the 1990s propelled Kenya to devise new policies and regulations in 1997 in order to liberalize co-operatives. SACCOs were generally controlled by the government before liberalization in 1997 (Oyoo, 2002). In the legislation the co-operative societies Act of 2004 guides the formation and management of co-operatives in Kenya. Nevertheless, the SACCOs in Kenya are confronted by myriads challenges that include poor record keeping, loan backlogs, high illiteracy level among the SACCO members, audit arrears, managerial deficiency, inadequate capital and heavy taxation. A study by WOCCU (2008) revealed that SACCOs are facing severe liquidity problems and majorities are unable to meet the demands of their clients for loans and withdrawal of savings. Ondieki *et al.*,(2011) contend that inadequate managerial skills and knowledge have adversely affected SACCOs in Kenya

1.2 Statement of the Problem

Kenyan Sacco sector is the largest in Africa and the seventh worldwide (Ademba, 2010). With over Kshs 230 billion in assets and a savings portfolio estimated at Kshs 190 billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings (Makori *et al*, 2013). It's crystal clear that SACCOs have increasingly become vital components of Kenya's economy and social development. According to Mudibo (2015), the objective of Savings and Credit Cooperative Societies is empowerment of its members through savings mobilization, disbursement of credit and ensuring Savings and Credit Cooperative Societies' long-term sustainability through prudent financial management.

Despite the initiatives taken by the Government and the tremendous growth of SACCOs in Kenya, small members of the SACCOs have continued to be disadvantaged. According to the Savings and Credit Cooperative Societies supervision report for 2015, loans disbursed to members accounted for only one quarters of the total assets. This situation has caused a greater concern on what factors have led to the limit of the growth and sustenance of welfare of members in the SACCO sector in Kenya (Richardson & Finnegan, 2014). The problem has remained unsolved; member's credit sustenance is still poor and advances to members are not growing as they were expected. Despite of having a number of SACCOs in the country, members who are SACCO's members face a challenge of lack of access to credit and this situation hampers their Growth and Sustenance. Richardson and Finnegan, (2014) assert that the lack of finance is the challenge facing SACCO members especially. Members cannot capture investment opportunities that arise within their environment because of poverty. Therefore, this study will investigate effect of SACCO Financial Services on demand for credit by members.

Various researchers in Kenya have explored the dynamics of SACCOs in light of sustainability, poverty alleviation; resource mobilization for investment and socio-economic growth and development among the poor. However, mixed studies have been undertaken on the effect of SACCO Financial Services on members in Kenyan context. Maingi (2014) evaluated factors affecting financial performance of SACCOs in Kenya, but the variables used were not exhaustive; Ondieki *et al.*, (2011) assessed the effects of external financing on financial performances of SACCOs in Kisii Central but did not consider internal financing which is an integral part of capital to be evaluated under this study; Nkuru (2015) who evaluated factors affecting growth of SACCOs within the Agricultural sector in Kenya, a case of Meru farmers SACCOs, was not able to determine the effect of technology on the performance of SACCOs. It is thus against this backdrop that this study sought to assess the effects of SACCO Financial Services on demand for credit by members. From the above studies it's quite evident that there are mixed studies that have focused on the effect of SACCO Financial Services on various aspects of Members in the Kenyan context. It is this knowledge gap that the researcher sought to bridge by conducting a specific study on the effect of SACCO Financial Services on demand for credit by Members.

1.3 Specific Objectives

1. To determine the effect of lending services by SACCOs on demand for credit by Members.
2. To assess the effect of investment services by SACCOs on demand for credit by Members

1.4 Research Questions

1. What is the effect of lending services by SACCOs on demand for credit by Members?
2. What is the effect of investment services by SACCOs on demand for credit by Members?

1.5 Scope of the Study

The study aims at exploring the effect of SACCO Financial Services on demand for credit by Members with a focus on deposit taking SACCOs in Nairobi County. The study utilizes a descriptive research design. Both qualitative and quantitative data will be obtained from the respondents using secondary data. The respondents will be Sacco's in Nairobi County. The study will be in Nairobi County being the capital city and commercial hub in Kenya where most SACCOs have their head offices.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 The Agency Theory

In an agency relationship, one party, called the agent, makes decisions and acts on behalf of another, called the principal. The agency theory attempts to summarize and solve problems arising from the relationship between the SACCOs owners and their agents. Agency relationships are common in financial management, due to the nature of the industry (S.S.Bhati, 2015).When one person manages another person's financial affairs, an agency relationship exists by default. A number of specific agency relationships can exist in the world of financial management. Corporate executives and company shareholders serve as a prime example. CFOs and other financial executives make decisions on behalf of the interests of shareholders, the principals in the relationship. The problem around which the agency theory revolves describes the main challenge of agency relationships: reconciling two distinct sets of personal goals. In an agency relationship, agents are required to work toward meeting SACCOs owner's goals, yet it is the agents' own goals that drive them to succeed on behalf of the SACCO owner's (Adera, 2015)

In order for an agency relationship to be mutually beneficial, both parties' goals must be addressed within a climate of compromise, but with the understanding that meeting the principal's goals is the primary function of the relationship. To this end, it is vital that information be shared freely and openly between the two parties so agents are always clear on their principals' priorities and principals are always aware of their agents' decisions and actions.

2.1.2 Growth of Wealth Theory

The Savings and Credit Co-operative Society (SACCOs) system encompasses a mutual membership organization involving pooling voluntary savings together from cooperators in form of shares. SACCOs are user-owned institutions with savings accumulated to act as SACCOs' wealth. The shareholders share a common bond based on a common area of interest or purpose, namely; their geographical area, employment, community or any other affiliation. The principal services of SACCOs include savings and credit but other services such as money transfers, payment services, insurance and member development are also offered (Maina, 2007). Indeed, in the words of Branch (2005), SACCO societies are playing a very key role on savings mobilization for the benefit of the members. The prime concern of a SACCO Society is to build the financial strength that would ensure continued service to members.

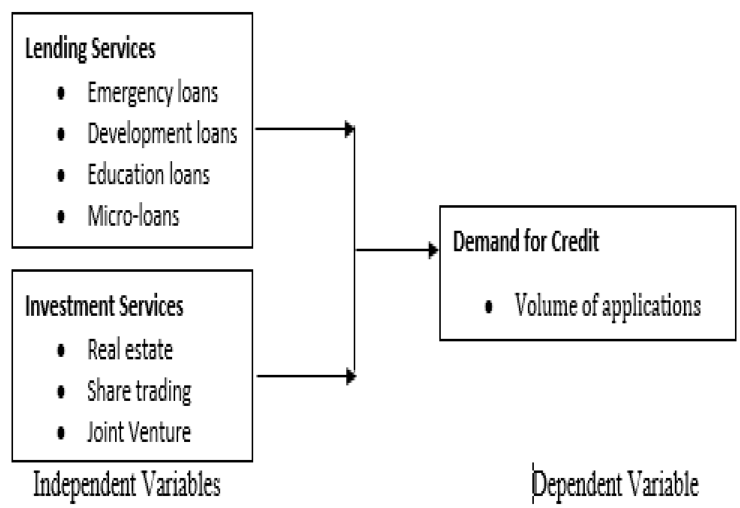

Figure 2.1 Conceptual Framework

2.2 Empirical Literature Review

2.2.1 Lending Services

A major barrier to rapid development of the SACCO members is the shortage for credit financing. The ability to finance working capital is vital for the growth of the members of the SACCO. Shortage of credit was cited as the primary reason for 25 percent of the Kenyan SACCO that terminated operations. Savings remains the most important source of finance throughout the business cycle. The survey conducted by Daniels, Mead and Musinga (2005) found that almost 95 percent of the interviewed SACCO members used savings as the primary source of working capital. Accessing credit has been identified as a key element for small scale enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. SACCO members are a risk because of poor guarantees and lack of information about their ability to repay loans (Youssoufou, 2002). Without finance, small scale SACCO members cannot acquire or absorb new technologies. Although the SACCO is the largest and most important source of credit for its members, by and large, it is believed that the SACCO sector is not well served. As a result, SACCO members rely more on non-SACCO services such as internal funds (savings, earnings or family network) and the informal sector (money lender) as they lack the collateral needed by the commercial banks loans (Salta, 2003).

It is now recognized that SACCOs make a significant contribution to the socio-economic and political infrastructure of SACCO members as well as the nations in transition from command to market economies (Matlay & Westhead, 2005). Furthermore, a healthy and growing SACCOs sector is perceived to be crucial for sustainable competitive advantage and economic development at local, regional and national levels (Porter, 2006). In Swaziland and Botswana, the SACCO members that borrowed from informal sources had higher chances of closing down than SACCO members that had never borrowed from any source. In Indonesia, when the financial sector was liberalized, many inefficient SACCOs that had been favored by government and getting credit at low interest rates simply collapsed (Youssoufou, 2002). However, good use of credit facilities from the SACCOs has assisted the growth of many firms. Ensuring adequate access to finance so that SACCO members can grow and achieve their full potential is central to achieving the objectives of the renewed Lisbon partnership for growth and jobs. Kauffmann (2005), suggests that securing suitable financing remains an obstacle for SACCO members, especially for the growth of innovative SACCOs, whose technology and business models are not understood by many more traditional financial institutions and start-up enterprises and very young SACCO members, which lack a track record and collateral against which to raise debt finance.

2.2.2 Investment Services

Investment is an essential function of a SACCO. That is to allow members to form a business by placing their capital at risk and to receive a return (profit) on that investment. Specifically, the investment function of a SACCO is selling shares to members in the appropriate amounts and at the appropriate times; using those shares to guarantee the savings and loans of the members, by providing the correct amount of liquidity in the SACCO, to manage risk of withdrawal or late repayment; retaining some profit from interest earned on the lending operation to pay dividend to the members on the basis of the shares owned; redistribute the profits to the members as dividend on the basis of shares owned (Adera, 2015).

The investments made by SACCOs can be in loan and/or securities. One of basic role of SACCOs is transforming financial assets that are less desirable for a large part of the members into other financial asset, which is preferred more by its members (Allen & Gale 2014).This transformation involves at least four economical functions: providing maturity intermediation, risk reduction via diversifications, reducing the costs of contracting

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and information processing and providing a payment mechanism.

The level of investment for SACCOs acts as a good predictor of long run rates of economic growth, capital accumulation and productivity improvement of its members. SACCO's perform the roles of resource mobilization and allocation, risk diversification and liquidity management to foster development of its members. In a complete information deterministic world also, SACCOs can have the important role of a temporary resource provider when there is a time lag between the firms' factor payments and receipts from sale proceeds (Edwards S. 2008).

3.0 RESEARCH METHODOLOGY

The research design used in this study was descriptive research design since it is intended to determine the relationship that exists between the variables. The study was conducted in Nairobi County amongst deposit taking SACCOs. The target population therefore comprises of 164 registered SACCOs by SASRA as at 30th June, 2016. The sampling frame was drawn from the SASRA records of registered SACCOs as at 30th June, 2016 because they are comprehensive and cover all SACCOs. The target SACCOs therefore comprises of 164.

This study utilized a sample size of 60. The use of 60 SACCOs in the study was justified as it was in line with the recommendations of Mugenda and Mugenda (2003), who indicated that a descriptive study should include at least 30% of the total population. Since the sample size of 60 represents 36.6% of the population it was deemed appropriate. Secondary data was used for the purpose of this study. Secondary data was collected from different sources including audited published financial statements of deposit taking SACCOs registered by SASRA which are readily available from libraries, society's premises and websites.In the event that they were not published, the researcher wrote to individual SACCOs requesting for the information.

Descriptive analysis such as mean, standard deviation and percentages was used to analyse data. Inferential statistics such as Pearson correlation and multiple regressions was used. The Multiple Regression Analysis was used to determine the nature of relationship between independent variables and the dependent variable. The researcher used linear regression analysis to analyze the data.

$Y= \beta_{03}+ \beta_1 X_1+ \beta_2 X_2+e$

Where Y is the dependent variable Member's demand for credit

X_1 –Lending Services =Loans/Total Assets

X_2 – Investment Services =Investment income/Total Assets

4.0 RESEARCH FINDING AND DISCUSSION

4.1 Descriptive Statistics

The study findings were described in mean and standard deviation as shown in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Min	Max	Mean	Median	Std Dev
Lending Services	0.553	0.984	0.808	0.825	0.123
Invest. Services	0.523	0.974	0.756	0.763	0.119
Demand	0.548	0.983	0.814	0.821	0.123

As illustrated in Table 4.1, the value of Lending services had a mean proportion of 80.83 % with a standard deviation of 12.34% and a median of 82.5%. The study further suggests that investment services had a mean of 75.6 % and a median of 76.3 % with a standard deviation of 11.99% which show a variance of 11.9% amongst the SACCOs surveyed. The study shows that Lending and Investment services are amongst the financial services that are actively undertaken by the SACCOs surveyed.

4.2.1 Correlation Analysis

The study used correlation matrix to establish if a relationship exists between individual predictor variables of financial services and demand for credit by members of the SACCOs.

Table 4.2: Correlation Analysis

Variable	Demand	LS	IS
Demand	**1**		
LS	**0.961009**	**1**	
IS	**0.949266**	**0.882935**	**1**

*** Correlation is significant at the 0.01 level (2-tailed).*

Table 4.2 reports the study correlation matrix. There was a very strong positive significant relationship between Lending services (LS) and demand for credit (Pearson correlation = 0.961009). Investment services (IS) had a significant positive significant relationship with demand for credit amongst the SACCO financial products (Pearson correlation = 0.949266). Therefore, it can be concluded that an increase in either of the variables of interest is associated with an increase in demand for credit.

4.3. Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables on the demand for credit by Members.The section below presents the results of the multiple regression analysis and Table 4.3 shows the model summary.

R-Squared is a commonly used statistic to evaluate model fit. The adjusted R^2, also called the coefficient of determinations, is the Percentage of the variance in the dependent variable explained uniquely or jointly by the independent variables. The Table shows that 97.3 % of the changes in the demand for credit by members could be attributed to the combined effect of the predictor variables i.e. Lending services, and investment services.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	STD error of the Estimate
1	0.987	0.973	0.971	2.12

Table 4.3 illustrates summary of the regression model which is meant to test the model goodness of fit. The results showed a correlation value (R) of 0.987 which depicts that there is a good linear dependence of the demand for credit by members and all the predictor variables. The adjusted R^2 was 97.1 % therefore that percentage (97.1 %) of the change in the demand for credit by members could be attributed to the effect of Lending and Investment services.

Table 4.4: Summary of One-Way ANOVA results

Model		Sum of Squares	Df	Mean Square	F	Sig
	Regression	8993.587	4	2248.397	500.2516	0.00
	Residual	247.1992	55	4.494532		
	Total	9240.786	59			

The Analysis of Variance Table 4.4 was conducted to ascertain whether a relationship exists between the dependent and Investment variable. The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how all the predictor variables influenced demand for credit by members of Sacco's.

Regression coefficients of the relationship between demand for credit and all the predictor variables, Table 4.4, was conducted and the P-values of 0.000 and 0.00373 which are $P<0.05$ implies that the demand for credit by members has a significant relationship with Lending and Investment services values respectively, therefore it indicates that the regression model for the control variable is significant hence it has some explanatory value. The t values of 11.8993, and 3.02869, which are $t > 2$ shows that the t statistics are significant at 95% confidence level.

It is necessary to note that all the financial products offered in SACCOs surveyed i.e. Lending, and Investment services, had positive significant relationship with demand for credit. This implies that an increase in provision of Lending, and Investment services in SACCOs will lead to increase in demand for credit and hence an increase in their performance.

Table 4.5: Regression coefficients of the relationship between demand for credit and the five predictive variables

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-6.44668	2.68928	-2.3971	0.01994	-11.8361	-1.05723
0.975	0.564142	0.04741	11.8993	0.00000	0.469131	0.659153
0.909	0.261272	0.08626	3.02869	0.00373	0.088392	0.434151

As per Table 4.5, the equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$) becomes:

$Y = -6.447 + 0.564X_1 + 0.261X_2 + \varepsilon$

Where Y is the dependent variable i.e. the demand for credit by members.

X1 – Lending services

X2 - Investment services

4.4 Discussions of the Findings.

The research findings corroborates that SACCO Financial Services have an effect on demand for credit by Members. Lending services, and investment services have been found to positively influence the demand for credit by members. In the full model constituting of predictors and the control variables, Lending services had the most statistically significant coefficient. Therefore, SACCOs should promote and market their Lending products among its members so as to foster their performance. This was followed by Investment services.

The regression equation above has established that taking all factors into account (lending services, and investment services) at zero, the demand for credit by Members will be -6.447 i.e. the intercept. The findings presented also show that taking all other independent variables at zero, a unit increase in the lending services would lead to a 0.564 increase in the scores of the demand for credit by Members and a unit increases in the scores of investment services would lead to a 0.261 increase in the scores of the demand for credit by Members. The study findings were similar to Onchangwa and Memba (2012) who explored the question "Do Sacco's have any effect on members' investment culture in Kenya? The study had adopted a descriptive research design, a population of 25,145 members of all the 8 registered Savings and Credit Cooperative Societies in Gucha district of Kenya. The findings of that study indicated that Sacco's influence the investment culture of their members as the data showed that members invested more after joining than before joining Sacco's at 69.85 percent. Further findings showed that good Sacco policy framework enhanced members' investment culture.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Overall the study shows that SACCO financial services such as lending and Investment services, influence demand for credit by Members. SACCOs therefore need to focus on these financial services in order to influence and increase demand for credit advanced to members, which will in turn increase interest income to the societies.

Lack of access to cheap and affordable loans for start-ups and individuals has been identified as a major constraint to economic growth and SACCOs can fill these gaps by offering affordable credit to its members. It is also necessary that these societies share financial knowledge by offering advisory services, especially to members who may have inadequate financial training. The study concluded that that lending services positively affects demand for credit by Members. This implies that a single unit increase of lending services score leads to a corresponding increase in demand for credit by Members. The results of the regression model show that there is a positive relationship between investment services and demand for credit by members. This implies that a single unit increase of investment services score results into a corresponding increase in demand for credit by Members.

5.2 Recommendations

The amount of loans given by SACCOs should be increased to motivate the members to partake more loans. The amount of loans given to members should be increased to propel SACCO's transition to medium and large scale businesses. The members should be allowed a grace period before the start of repaying of the loans. The longer grace period will enable borrowers to pay interest and principal using income generated from the borrowed money. This will accommodate more start-up SACCOs members to participate in lending.

The study recommends that SACCOs should focus in redesigning investment development programs as well as to develop strategies to enhance the ability of SACCOs to participate in the investment activities in order to improve their SACCO performance and socio-economic well-being of its members.

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