EFFECTS OF UNSECURED COMMERCIAL BANK LOANS ON SERVICES OFFERED BY MOMBASA TEACHERS' SAVINGS AND CREDIT COOPERATIVE SOCIETY

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY.

AUGUST 2008
DECLARATION

This research project is my original work and has not been presented for examination in any other University.

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Declaration by Supervisor

This project has been submitted with my approval as University Supervisor.

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The Chairman, Accounting and Finance Department
DEDICATION

This project is dedicated to my wife Alice Muthoni Ndungu who supported me financially and continuously prayed for me. My son Antony Nganga Ndungu who sacrificed and persevered to miss me the time he needed me most. May the Almighty God bless them to retain the love they have for me.

Secondly to Earnest Njuguna My Pastor whose prayers and guidance helped me to overcome difficult and tempting times from the onset of my study to the end. His encouragement, advice and love have endured throughout my study period. May the ever living Almighty God shower him with his favours.

Finally to my mother Ferister Njoki Ng’ang’a who laid the foundation of my Education and her continuous prayers and moral support throughout my study period. May the Living God bless her and prolong her days on earth to enjoy the fruits of her labour.
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Special thanks to Teachers Service Commission (TSC) for having granted me study leave to pursue my Masters Degree.

I register my thanks to Kenyatta University for having given me an opportunity to pursue my studies; may it remain an institute of academic excellence.

Finally to my M.B.A. 2006 classmate especially Beatrice and Wafula whose company and encouragement kept the fire burning. My friend Mwai who struggled with me from the start of the journey to the end. I register my special regards to ICT Bureau staff at Kahawa Wendani where I typed and printed my work throughout my course.
ABSTRACT

The major function of a Saving and Credit Cooperative Society is to receive contributions from members and give loans to members at competitive rates of interest. For a long period Mombasa Teachers' Sacco has operated a closed-shop type of business enjoying almost monopoly power on its market niche of teachers without any competition from other financial institutions. This has made the Sacco to relax and forget to continuously advertise its product, diversify its services and improve their quality as well as innovate new products. Today, Mombasa teachers' Sacco has been caught unaware by commercial banks that have aggressively penetrated into its business circles by introducing the unsecured loans targeting members of public including members of Mombasa teachers Sacco.

Credit services offered by Mombasa Teachers' Sacco are Normal loans, Emergency loans, Top up and School fees loans. Saving services include, Back Office Saving account (B.O.S.A), Front Office Saving Account (F.O.S.A) and Withdrawable Saving Account (WSF).

The study was intended to investigate the effects of unsecured loans provided by commercial banks on credit and saving services of Mombasa teachers' Sacco. To capture the real picture, the study covered two eras that is before the introduction of unsecured bank loans and after the introduction. Many studies in this area had concentrated on efforts on the shortcomings of the cooperative laws in general and the lending policies in particular in the promotion, development and operations of the Saccos and their negative effect on the Sacco role and impact in the mobilization of savings. They had ignored the aspect of liberalization and globalization which has brought new changes which has made the financial sector more competitive.

The study was motivated by rivalry and competition in the Sacco sector which was causing ripples in the Sacco business that the electronic press and print media had described and put as, "Banks battle it out for potential customers with Sacco."

The main objective was to establish whether the unsecured loans had effects on the financial services provided by Mombasa teachers' Sacco with a view of coming up with recommendations that could help the Sacco to develop strategies and policies to enable it compete effectively with commercial banks.

Descriptive study design was used to carry out the study. The target population for the study was the staff of Mombasa teachers Sacco and registered members of the Sacco. Stratified sampling, purposive sampling and simple random sampling were used to select 10 Sacco staff and 160 members of Mombasa Sacco which comprised 12 percent of the target population.

To obtain information from respondent both open and closed questionnaire were used in order to meet the study's objectives, both primary and secondary data were collected. Piloting was done to ensure reliability and validity of the research instruments.
Data was collected, coded and analyzed using statistical package for social sciences (SPSS) version 10.0. Descriptive statistics was used to present the data in terms of frequency tables, graphs, pie charts, and percentages in order to meet the research objectives.

The study established that the effects of unsecured commercial bank loan on Mombasa teachers’ savings and credit services is reality and the Sacco has already suffered from the effects as evidenced by some of its members having moved to commercial banks hence affecting the Saccos annual income reflected by decline of membership and dividends.

The major factor contributing to the effects was the Saccos lack of strong capital base with sufficient funds to meet the increasing demand of loans from the members due to its weak cash flows attributed to low monthly savings as majority of Sacco members 64.3% are on the lower edge of saving, that is between ksh 1000-2000 bracket and few of them (5%) are able to save over ksh3000.

Lack of clear marketing strategy, which still follows traditional methods, was easily outshined by banks aggressive and door-to-door campaigns, which had enabled bank to easily penetrate and capture part of the Sacco market. Saccos have to react to changes in financial sector by competitively advertising its products to retain its market share.

Traditional products and lack of new products were easily targeted and overtaken by banks demand driven and tailor made products targeting Sacco members.

Poor image of the Sacco due to lack of professionalism and hospitality among management and Sacco staff has led to poor rating of the Sacco, members lack confidence with management, complain of poor treatment by Sacco staff and even some Sacco members opting to leave if given a chance to join the bank where services are professionally given with a lot of hospitality.

However the Sacco has adopted some strategies and policies such as partnership with Co-operative bank and was on its initial stages of computerizing its operation services. However there is need to urgently address the amendment of Sacco by-laws, and engage in market research to diversify its products. Need assessment is required to enable to identify and train the required professional staff needed by the Sacco to cope up with competition.
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<tr>
<td>B.O.S.A.</td>
<td>Bank Office Saving Account.</td>
</tr>
<tr>
<td>C.P.C.S.</td>
<td>Co-operation Production and Credit Scheme.</td>
</tr>
<tr>
<td>C.S.S.</td>
<td>Co-operative Saving Scheme.</td>
</tr>
<tr>
<td>F.O.S.A.</td>
<td>Front Office Savings Account.</td>
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<tr>
<td>Govt.</td>
<td>Government.</td>
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<tr>
<td>I.C.T</td>
<td>Information communication Technology</td>
</tr>
<tr>
<td>K.I.A.</td>
<td>Kenya Institute of Administration.</td>
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<tr>
<td>M.O.C.D.M.</td>
<td>Ministry of Co-operative Development and Marketing.</td>
</tr>
<tr>
<td>N.R.B.</td>
<td>Nairobi.</td>
</tr>
<tr>
<td>P.I.N.</td>
<td>Personal Identification Number.</td>
</tr>
<tr>
<td>S.A.C.C.O.S.</td>
<td>Saving and Credit Co-operative Society.</td>
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<tr>
<td>S.P.S.S.</td>
<td>Statistical package for social sciences.</td>
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T.N.A : Training need assessment

U.B.S. : Union Banking Scheme.

W.S.F. : Withdrawable saving Fund

W.O.C.C.U. : World Council of Credit Unions.
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DEFINITION OF OPERATIONAL TERMS

Co-operative: A legally registered, autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Economic liberalization: Is the move intended to abolish the restrictive practices and price commissions related to monopolies. The main aim is to strengthen conditions of free competition in sales of goods and services.

Emergency loans: Refers to loans given in cases of emergency and they include: hospital bill, school fees, and funnel expenses under 1998 cooperative bylaws.

Loan disposable: The highest amount of loan a member can qualify for based on his salary or income and the lending requirements of the financial institutions.

Loan factoring: Strategy adapted by commercial banks of buying off other loans the applicants owes to other institutions.

Policy: Refers to broad guidelines and pronouncements of development and related issues intended to deal with specific economic, political or social issues.

Sacco services: Refers to the services offered to by Sacco and the main ones includes saving and credit services.

Strategies: Denotes a specific cause of action that can be taken to achieve the organizational goals in the context of a competitive environment.
Terms and conditions of lending: These are the basic requirements a member is required to meet in order to qualify for a loan in the financial institutions.

Unsecured loans: Refers to personal loans granted by banks without guarantors.
CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The primary objective of the cooperatives as stated in the model promotion manual is to provide savings and credit facilities. It is out of mobilized savings that credit is extended to the members on lower interest rates than what is offered by commercial banks. By mobilizing such saving and providing loan facilities, saving and credit cooperative make a very significant contribution towards development and reduce borrowing from a broad (Mbingo, 1988).

Kenya has had a success story in respect to the development of the co-operative movement since independence due to support and resource given to them by Kenya government. The Session Paper No. 6 of 1997 on co-operatives in a liberalized economic environment stated that the cooperatives were to operate in liberalized economic environment (GoK, 1997). The Saccos were set free to manage and regulate themselves through their by-laws made by members on their annual general meetings (GoK, 1997).

The liberalization policy had grave consequences to the Saccos. This meant previous polices have to be changed so that the cooperatives could be more autonomous and member controlled. The government involvement and resources were substantially reduced and co-operative societies were to be exposed to the normal market forces of demand and supply and stiff competition without the state protection they enjoyed before. Sacco effectiveness was to be enhanced through better management to protect members’ interest and to make their savings available to entrepreneurs seeking for viable investments (Murungi, 2003).
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Due to economic liberalization, competition has then become a day-to-day phenomenal forcing savings and credit institutions and banks to conform to the changing economic environment they find themselves operating in. To step up the competition, they face the challenge to restructure and redesign their services and marketing strategies to become totally market oriented. For Saccos to effectively survive the competition and retain their market niche they have to be more innovative and their main drive should be customers, competition and change.

Kimutai (2007), Observed that commercial banks and pyramid schemes are threatening the survival of Saccos around the country. This is by depriving the societies of their market share by offering attractive packages.

Mukumi (2007) complained that Muranga Teachers Sacco was losing an average of 50 teachers every month to the big banks which are offering to clear loan the teacher owe to the society. This reflects how serious the situation is and unless Saccos move from being passive to proactive they are likely to whither and collapse.

Akumu (2005) pointed out how mutual funds have also become a challenge to the Sacco. Mutual funds promise customers that they can get returns of as high as 35.4% through them. Promises of such high returns may make Sacco members withdraw their shares from the Saccos to the mutual funds. Initially mutual funds were targeting corporate customers but due to liberalization they also target retail customers who include Sacco members.

The loan Applications Annual Report of Mwalimu Sacco for the years (2004 and 2005) showed applicants for normal loans were 20,784 and 12,646 respectively. These showed a decline of about 38%. The emergency loans were 20,464 and 19,375 respectively; there was a decline of
The decline illustrated that the members have found other sources of their financial needs away from the Sacco.

Mombasa Sacco has not been spared in that, from Annual Loan Application Report of Mombasa Sacco for the years 2005 and 2006, the School fees loans were 23.40 and 14.80 respectively which was a decline of 36.8% while Emergency loan were 17.2 and 14.9 respectively showing a decline of 13% and Normal loans were 47.0 and 32.0 respectively showing a decline of 32%. Though the decline in Emergency loans was not highly alarming, the big decline in both Normal and School fees loans reflected a worrying trend and symptoms of a problem in the Sacco services which the researcher has taken the initiativeness to investigate.

The owner and customer mind set developed by the Saccos have led to the assumption that the market is stable and captive and hence marketing is unnecessary expense (Mukumi, 2007). From the statistical data of the years 2005 and 2006 for School fees, Emergency loans and Normal loans reflected a significant decline especially in Normal and school fees loans which need to be further investigated and hence capture the attention of this study.

1.2 STATEMENT OF THE PROBLEM

Due to liberalization of the economy, Saccos have been enjoined in the competitive financial sector. Commercial Banks in response has reacted to the growth of the Saccos by aggressively targeting the Sacco members by introducing non-insecured loans and purchasing of existing loans the members owe to the Saccos societies.

The lending procedures used by the Saccos have been found by Commercial banks as an entry point. The Commercial Banks have taken advantage of this entry point and gone a head to design
attractive lending procedures that require only submission of loanee's identification card, letter of introduction from the employer, Kenya Revenue Authority personal identification number, a loan form duly signed, and current three months pay slips. Commercial banks provide unsecured loan ranging between Kshs 50,000 and Kshs 1.5 million with repayment period extending up to 60 months.

The problem of commercial bank started to be felt from 2004 and 2005 when some members of the Sacco started assessing credit facilities from commercial banks. During this years there were few members but the number continued to swell. By the year 2006 the issue was becoming a real problem. Commercial banks were granting loans to members and offering to clear off any Sacco loan with the members. Demand for loans from the Sacco decline greatly and as a result the Sacco was loosing income inform of interest on loans. By end of December 2006 the Sacco had over Kshs 20 millions of unutilized funds earmarked for loan granting.

If Saccos' management does not address this scenario urgently it may lead to decline of the Saccos and eventually closing down. As a result there will be loss of income for Sacco staff and a number of dependants to the members will suffer in various ways such as loss of subsistence, education, and wealth creation will also decline as many people depend on Saccos for start up capital and even top-up loans.

1.3 GENERAL OBJECTIVE OF THE STUDY:

The main objective of the study was to investigate whether or not the unsecured loans offered by commercial banks in Kenya had affects on saving and credit services of Sacco societies in Kenya.
1.4 SPECIFIC OBJECTIVES:

i.) To identify the effects of unsecured commercial bank loan on savings and credit Services offered by Mombasa teachers Sacco.

ii.) To assess how the unsecured loan has affected Mombasa Teachers Sacco.

iii.) To identify any policies and strategies that Mombasa teachers Sacco has put in place to counter the competition.

1.5.1 RESEARCH QUESTIONS

i.) What are the effects of unsecured commercial bank loan on credit and saving services offered by Mombasa teachers Sacco?

ii.) How has the loan by commercial banks affected credit and savings services offered by Mombasa Teachers Sacco?

iii.) What policies and strategies that Saccos can put in place to counter the competition?

1.5.2 ASSUMPTIONS OF THE STUDY

i.) Unsecured commercial bank loan have significantly affected Mombasa teachers Sacco credit and saving services.

ii.) The unsecured loans offered by Commercial Banks have not significantly affected Mombasa Teachers Sacco services.
1.7 JUSTIFICATION OF THE STUDY

The study was expected to generate knowledge by describing the state of affairs as they exist and enable the researcher to report the findings. Members' views and their recommendations helped the researcher to come up with recommendations, which might be adopted by the Sacco to improve its services.

However the study was not restricted to fact finding only but was expected to result in formulation of important principles of knowledge and solutions to the significant problems and benefit the following groups:

i.) Management of Mombasa Teachers’ Sacco to take the appropriate measures to improve the Sacco services by developing new strategies and products so as to be able to compete effectively with Commercial banks.

ii.) Ministry of Cooperative Development and Marketing especially the Commissioner of the Cooperatives to see how borrowing laws and interest rates of cooperatives can be revised to cope with current market rates.

iii.) The study will provide background information to other researchers who would like to investigate more about effects of competition on cooperative movements.

1.8 THE SCOPE OF THE STUDY

The study was conducted in Mombasa Districts to find out the views of both Sacco staff and members of Mombasa teachers Sacco towards the unsecured commercial bank loan. The respondents were picked from Sacco staff and registered members of the Sacco who comprised
of both members who had and those who do not have loans with respect to the objectives of the study.

1.9 LIMITATIONS

The study was confined to staff of Mombasa Teachers' Sacco and registered Sacco members only. Information collected in the study was on self-report nature especially among the members and may be prone to inaccuracy due to lack of information or discomfort with self disclosure for fear of victimization or giving important information to rival competitors or going against the organizations rules and ethics. However the researcher relied on annual reports and statistics data on loan applicants and membership to supplement information given. The researcher assured them the information would be treated with a lot of confidentiality it deserves and it would only be used strictly for research purposes.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter gives the background information to aid the researcher to have a wide understanding of the research area. It is divided into three major areas, the first area deals with general literature review, which includes historical development of cooperatives and role of the government in cooperative development. The second part deals with specific literature review which includes empirical studies in the area, major benefits of the cooperative and critical review of major issues. The third area deals with summary and gaps to be filled by the study and conceptual framework. Citation from various authors has extensively been involved to ensure a clear path to answering the research questions is established.

2.1 HISTORICAL DEVELOPMENT OF COOPERATIVES:

Cooperatives were introduced in Kenya in the 1930's and recognized and controlled by the government from 1931 when an ordinance to legalize their operations was first passed. Goranm (1973) observed that until 1950 the majority of African farmers were left outside the monetary economy since they did not enjoy anything from the existing facilities provided by the cooperatives society of 1931. The 1931 Ordinance provided the European farmers with powers to organize themselves into cooperative societies for the marketing of their products.

African first opportunity to form cooperatives societies was provided for by the 1946 Cooperatives Societies’ Ordinance. Under this Ordinance the office of the Registrar of
Cooperatives was created; however it was challenged by the European Union and civil servants, according to them the average African had not reached a stage in the history of development whereby he could reap the maximum good from the association. According to Welder, (1977), they argued that a successful cooperative movement required “an intelligent and enlightened” member who displayed full interest of the affairs and had an adequate understanding of the principles of the cooperatives.

In Kenya the cooperative movement has a rapid growth since independence due to immeasurable support that was given to them by the government. There are currently over 10,800 cooperative societies in Kenya with a membership of about 6 millions. Out of this 46% are Agricultural, 38% Financial based that is Saccos and 16% are others. 63% of the Kenyan population depends on the cooperative related activities for their livelihood with over 250,000 benefiting through direct employment. In Kenya there are two main types of saving and credit cooperatives. The first category is the rural Saccos which are distinguished by two main features, which are Cooperative Productions Credit Schemes (C.P.C.S.) and the Cooperative Saving Schemes (C.S.S.). Cooperative Saving Scheme gave birth to banking section called Union Banking Section (U.B.S.). Second category is the urban saving and credit societies, which form the main concern of my study, and they are meant for salary and wage earners. According to Ministry of Cooperative Development Report (July 1987) they are non-agricultural Saccos and they are unique in that out of their services and daily operations they can be classified as financial institutions.
Rapid growth of cooperative since independence was fuelled by heavy government support through direct assistance and subsidized services. Cooperative movement future brightened during the famous airlift of the Kenya Government officials and students by the Government in early 1960’s to the various overseas countries in the preparation for independence. The officers from the Ministry of Cooperative Development and Marketing were among the airlifted group and a part from mastering the skills in the management of the traditional agricultural cooperative, they also discovered a new field of cooperatives; that is cooperatives of saving and credit societies for salaried communities in urban areas. When they come back, the officers gave recommendations to the government and quoted that “cooperative and saving and credit societies would contribute a lot to the economy of this country and help uplift the standard of living of the workers” (KUSCCO, 1979).

Government efforts to promote saving and credit societies led to a conference on mobilization of local savings held at Kenya Institute of Administration (K.I.A) in 1965. After the conference, experts from the legal section of the Ministry of Cooperative Development and a few experienced cooperators from C.U.N.A. were assigned a task of formulating standardized model by-laws of savings and credit cooperatives. This gave birth to the savings and credit cooperatives societies in Kenya and the first two to be formed were:

2.2.1. Mwea Tabere - for rice growers in Kirinyaga District.

2.2.2. Vya - for community in Mombasa under a Parish.
Saccos that followed were formed on basis of residential or tribal bonds of union and most them collapsed.

In 1969 The Ministry of Cooperative Development drew a policy which spelt out that credit production schemes would be promoted in rural areas while Saccos would be for salary and wages earners and no new societies would be registered unless they had the assurance of functioning on payroll deductions from their employers. This resulted to Saccos that held members from all over the country.

The 1970 Sessional Paper No 8 on “Cooperative Development Policy of Kenya” emphasized the important role saving and credit cooperatives were to play in economic development of Kenya. The encouragement of thrift among the salaried community and the accumulation of savings and credit cooperatives can make a significant contribution towards providing local development capital and thereby reducing the need for borrowing from outside the country (GoK 1970).

The government stressed the view that, the cooperative movement is one of the well established institutional arrangements for conducting economic affairs of the nation and recognizes that cooperatives form an essential development tool to achieve the national objectives which include individual freedom, political equality, social justice, human dignity, freedom from hunger, diseases ignorance and exploitation, equal opportunities and the expansion of the economy with equitable sharing of its benefits (GoK 1987).

The government then redefined the role of its agencies in cooperative movement. It modified and renewed the existing policies and introduced new policies deemed appropriate in order to give the cooperative movement the direction and the momentum for growth and keeping the aspirations of its members and the economic realities of the country. By 1975, Saccos operated
in all Government Ministries and Parastatals. The biggest among them was the Harambee Sacco of the Office of the President, followed by Elimu Sacco in the Ministry of Education whose members were drawn from the Ministry of Education excluding teachers.

Because of the crucial role they play in social-economic development government attaches great importance to them. The institutions set by the government to facilitate their growth and development as well as enhance their operational efficiency and effectiveness evidence this. Such institutions include; Cooperative colleges of Kenya established in 1967 by the Ministry of Cooperative Development to educate and train the required personnel to provide the relevant manpower to the Sacco.

KUSCCO set up in 1973 as a national apex body for the Saccos to give specialized services such as Promotion, Accounting and Supply stationary, it was aimed to monitor and oversee most of the activities of the Sacco.

The Cooperative Bank of Kenya Ltd. set in 1968 as a bank for cooperatives, all cooperatives was supposed to have an account with the bank so that their financial transactions could be monitored to avoid liquidity problems.

Government through the Ministry of Cooperative Development and Marketing set guidelines meant to enable Saccos achieve their objectives of mobilizing savings and lending them back to members at favorable interest rates. These guidelines were meant to prevent liquidity problems and ensure fairness in loan granting as well as minimize loan defaulting. In general they were meant to assist Saccos manage their affairs for the optimum of their member’s benefits (Lumumba, 1998).
However the heavy government support though well in intended has produced negative results related to dependency and now require to be seriously addressed, and has also been challenged by some writers who include Goranm (1973) who argued that government intervention tends to stifle cooperative imitativeness, limiting the ability to changing circumstances, needs and investment opportunities. In some instances decisions have to be made shrewdly and quickly because of rapid changing economic conditions. Further direct government involvement in day-to-day management of the cooperative has highly compromised the universally accepted cooperative principles and values, which have hindered emergence of members, consisted and member managed societies as members rely on the government to safeguard their interest.

Through free technical and financial assistance as well development of management and financial systems, the societies have almost become wholly dependent on the government. This has hindered the consolidation of the society’s values as self-responsibility, democracy, equality, self reliance and self control.

2.3 EMPIRICAL LITERATURE REVIEW

Zikmund (1994) defined a Sacco as a depository institution organized to meet savings and loan needs of a particular group of people, according to him, Saccos originated in Europe in the 1880s and they are distinguished from Mutual saving banks by the common bond that exists among its members, namely their place of employment. However this is no longer a strong bond-binding members together as there is a period of change as a result of customers being more aware of their rights and increased competition. This is further fuelled by many varieties of services being available in the market, making the customers more discriminating and sophisticated in
continuously demanding new and better services. This has made Sacco members to explore for better opportunities in commercial banks.

Session paper number one of 1986 on Economic Management for Renewed Growth recommends undertakings of competition, which brought the competition law in 1988. This law brought elimination of Restrictive trade practices, Monopolies and Price control Act. The primary objective of this law was to encourage competition in the economy by prohibiting restrictive trade practices and advocating benefits of large economies of scale. This law has been a big blow to the Sacco as their market niche has been penetrated by commercial bank causing a lot of challenges and competition. The Saccos must take a proactive role and try to explore new ventures.

Mudibo (1977) Paper presented on Structural Adjustment Programmes and its effect on Sacco and argued that there are opportunities opened to the Sacco and they include:-

Deregulation of interest rate, which implies that Saccos can now charge realistic interest rates depending on the market rates and Sacco can also easily deal in Open market operation such as the high yielding Treasury Bills. From reviewed literature no study is available which has explored whether Saccos had taken any positive steps towards exploring this new opportunities

Dilworth (1992) recommended that competitiveness in the Sacco could be improved through development of logistic Internet network to support services to the members. Saccos must respond quickly to the members needs by improving their marketing strategies and evaluating the competitors in the field as well as seek open niches that would differentiate the Sacco to serve the target market segment. Commercial bank has taken an early lead by fully adapting information technology while the cooperatives are still lagging behind.
Bomment (1997) observed that unless the loan applied for is equal or less than members’ share it must be secured by guarantors who must be members of the society. In commercial banks guarantors are not required.

Mungai (2004) A Sacco is composed of individuals with some common interest or common place of employment. The main purpose of their formation is pooling of savings and making loans to the members. To qualify to be a member, one must acquire ownership share making a deposit in the Institution and only members are entitled to borrowing from the Sacco. Today commercial bank does not require you to be a member as long as you meet their requirement you qualify for a loan.

Kimutai (2007) observed that bureaucracy and long delays in processing of loans by the Saccos have led to members seeking for alternatives from financial institutions or from commercial banks, which readily offer loans without delay.

2.4 MAJOR BENEFITS OF THE SACCOS

The implementation of dynamic saving mobilization policy depends upon the existence of an adequate network of well co-ordinate saving mobilization institutions adopted to the needs of the community in which they are suited and at the level of income of potential savers, particularly type of rural households and small enterprises which do not always find in the range available to them financial instruments that enable to invest in ways most suited to their financial situations. As a matter of philosophy, principle, procedure and practice, only Sacco has put in place suitable access to credit due to their convenience, accessibility and simple fast procedures in credit granting. To this extent, saving and credit cooperatives have been identified as an effective institutional frame work for mobilization of personal savings (Dilworth, 1992).
The 1987 Sessional Paper on Indigenization of the Economy through Cooperative emphasized that cooperatives have played an important role in national development in that;

Cooperative has acted as a unifying factor for people with common interest. They bring together people who participate collectively in a common endeavor. Their ability to unite most importantly fosters the spirit of democracy.

Cooperatives have provided investment opportunities to ordinary citizens. Through cooperatives an ordinary farmer or laborer can now own shares in a building, factory or industry. This significantly gives the citizen a sense of belonging and participation in the economy.

Through the savings and credit societies, the low-income earner is given an opportunity to save and borrow on softer terms than those offered by other financial institutions. Members have been able to purchase land, commercial and private vehicles, houses and start business with loans from their societies.

According to Mungai (2004), cooperatives are regarded as important instrument of economic, social and cultural development as well as human advancement especially in developing countries.

Itiili (1984) noted that their major benefits and contribution is noted in their ability to improve the economic, social and cultural situation of persons of limited financial resources and encourage their spirit of initiative as well as increase personal and national capital resources by encouraging thrift and sound use of credits by eliminating usury. Their contribution to the economy led to increased measures of democratic control of economic activity and equitable
distribution of surplus resources as well as increase national income; export revenues and employment by proper utilization of resources.

They have helped in improving social conditions and supplementing social services in such fields as housing, health and education (catered for emergency loans and housing schemes). Their important role in helping to raise the level of general and technical knowledge of their members through training and educational days can not be ignored.

2.5 SUMMARY AND GAPS TO BE FILLED BY THE STUDY

The above literature reviewed has identified the following knowledge gaps.

Many studies in this area concentrated on effects and shortcoming of cooperative laws in general and the lending policies in particular in the promotion, development and operations of the Sacco and their negative effects on the Sacco role and impact in the mobilization of savings. They have ignored the aspect of liberalization and globalization, which has brought new changes that lead the financial sector being more competitive.

No systematic analysis has been made on the current impact of the relatively strong economic growth as compared in 1990 which has generated excess liquidity to commercial bank making them venture into Sacco niches to invest. On the other hand such impact has not been analyzed on the Sacco sector to check if they are also exploring new opportunities to invest so as to counteract competition.

A study carried out about factors contributing to Sacco members going for commercial bank loans only identified the factors but did not asses the effects of this loans on the saving and credit services offered by Saccos. From the reviewed literature, no investigation has been done to check
whether Saccos have developed new strategies and products to gain competitive edge and remain in the market.

However for the purposes of this study, the researcher focused on the effects of the unsecured commercial bank loan on credit and saving services offered by Mombasa teachers Sacco.

2.6 CONCEPTUAL FRAMEWORK

There are two independent variables considered in the study namely; disposable loan and terms and conditions of lending. The relationship between the independent and dependent variable can be conceptualized as below.

Schematic diagram showing the relationship between independent variable and dependent variable

<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLES</th>
<th>DEPENDENT VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposable loan</td>
<td>Sacco services</td>
</tr>
<tr>
<td>Terms and conditions of lending</td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2008
Disposable loan means amount available for loans.

Terms and conditions of lending refers to interest rates, repayment period and guarantors,

Sacco services are normal loans, emergency loans, school fees loans, topup, Front Office Saving Account (FOSA), Back Office Savings Account (BOSA), Withdrawable Saving Account (WSF)
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter focuses on the researcher’s scope of methodological procedures to be employed in the study. These include; research design, study locality target population, sample size and sampling procedure, data collection instruments, pilot study and data analysis techniques.

3.1 RESEARCH DESIGN

The study adopted a descriptive study design. The descriptive study method was appropriate because it explores and describes the relationship between variables in their natural setting without manipulating them. The descriptive study aims at obtaining information that can be analyzed, patterns extracted and comparison made for the purpose of clarification and provision of basis for making decisions.

Descriptive study design has been defined as systematic gathering of information from respondent for the purpose of understanding or predicting some aspects of behavior of the population of interest. Both qualitative and quantitative data are obtained for comparison purposes.

3.2 STUDY LOCALITY

The study was carried out in Mombasa District. The area had been chosen because there was no documented evidence to show that any such study has ever been conducted at the branch level.
Most studies and newspaper articles reviewed reflected that most studies concerning Saccos have been carried out in rural areas mostly characterized by cash crop farming. Commercial banks were initially attracted to such areas due to cash flows generated from farming. With the decline of those activities the banks have been forced to target teachers who are members of the Saccos causing rivalry and stiff competition with the Saccos. Mombasa is an exceptional area as such cash crop farming activities did not exist and the fact that it is an urban centre with several commercial banks, giving a contemporary urban setting that is desirable for the study. The area is also accessible due to its well-developed infrastructures.

3.3 TARGET POPULATION

The target population was 1408 members and comprised of staff of Mombasa teachers Sacco, and registered members of the Sacco. Based on the Sacco annual report of 2006, the Sacco had 22 staff. According to Sacco Education report by 31 December 2006, the Sacco had 1386 registered members.

A population of 22 Sacco staff and 1386 registered Sacco members gave a target population of 1408 which was used in this study.

3.4 SAMPLE SIZE AND SAMPLING PROCEDURE

According to Mugenda and Mugenda (1999), a representative sample should be at least 10% of the population. Stratified random sampling was used. The population was stratified into three stratas that was, Sacco staff, members with unsecured Commercial loans and members without unsecured Commercial Bank loans.
For Sacco staff simple random sampling and purposive sampling was used to select ten members. Purposive sampling was used to help specifically pick on loans officer, senior bookkeeper, system analyst, and the accountant. This formed at least 45% of Sacco staff population.

As for the Sacco members, a combination of both simple random sampling and purposive sampling were used to select 160 members of the Sacco constituting both members with unsecured bank loans and those who did not have. This gave about 11% of the population of the Sacco members.

Leedy (1989) states that a purposive sampling procedure is one which individuals or samples thought to be most important and relevant to the issue are targeted for the research. In the study three members from each institution were purposively selected on the basis that they had taken the unsecured commercial bank loan.

A combination of 160 Sacco members and 10 staff from the Sacco gave a sample size of 170 which was 12% of the whole population. This meant that a total number of 170 questionnaires were designed and distributed.

3.5 DATA COLLECTION INSTRUMENTS

Both primary and secondary data were be used in this study. According to Ochola (2007) primary data is the one collected directly by the researcher for the purpose of his research while secondary data is information that has been collected by others for their specified use that a researcher intends to use. It’s important because it saves considerable time and effort in solving the research problem at hand. The questionnaire was used to collect primary data.
The research instrument used in this study was self-administered questionnaires involving both structured and unstructured question items. The structured items enabled the researcher to tabulate and analyze data with ease, while the unstructured items facilitated in-depth responses and opinions beyond the researcher’s scope of under-stability.

Self-administered questionnaire was a suitable method in a descriptive study since it avoided subjectivity due to absence of interviewer’s influence. It also allowed respondents sufficient time on items that required consultation before responding (Bless and Achola, 1987). The questionnaires were serialized to differentiate those to be filled by different categories of respondents.

3.6 VALIDITY AND RELIABILITY OF THE RESEARCH INSTRUMENTS.

3.6.1 Validity

The validity of a test is measure of how well a test measures what it’s supposed to measure. (Kombo and Trump: 2006). To ensure the validity of instruments, the researcher consulted the supervisor. The supervisor examined the content of the instrument and indicated the degree to which the instrument could gather the intended information. Peer review was also used to enhance face and content validity. Suggestion made by the supervisor and peers were used to improve the instruments.

3.6.2 Reliability:

Reliability was determined through pilot testing of the questionnaires through members of Mwalimu Sacco using test-re-test method. This was to ensure that the instruments measured what the researcher intended to measure.
According to Mugenda & Mugenda (2003), the test-re-test method of assessing reliability of data involves administering the same instruments twice to the same group of subjects. There is usually a time lapse (one to four weeks) between the first test and the second test. Scores from both tests are correlated and the correlation coefficient obtained is referred to as “the coefficient of reliability and stability. If the coefficient is high the instrument is said to yield data that have high retest reliability.

The instruments were administered to the same group twice with a lapse of one week between the first and second test. Scores from both tests were correlated and the reliability coefficient obtained. Reliability coefficient between the two sets of scores in each question were coded and analyzed with the aid of statistical packages for social sciences (SPSS) version 10.0. A reliability coefficient of 0.68 was obtained from the staff questionnaire while a coefficient of 0.62 was obtained from the Sacco members’ questionnaire.

Berthoud (2000) indicates that a reliability index of a minimum 0.6 is satisfactory. Thus the instruments were revised and then used in actual study sample since their reliability coefficients were above 0.6.

3.7 DATA COLLECTION PROCEDURES

Permission and authority to conduct the research was sought first from the Ministry of Education at National and Provincial level. The researcher then visited Mombasa Teachers, Savings and credit society and solicited for support from the management to ease the process of data collection. Head teachers or deputies in the institutions with Sacco members were used to coordinate distribution and collection of the questionnaires. In all institutions the researcher
introduced himself and briefed the Sacco members what he was doing before the questionnaires were distributed.

3.8 EXPECTED OUTCOME

The expected outcome was that the unsecured commercial bank loan had significantly affected the credit and saving services of Mombasa teachers Sacco hence affecting the Saccos competitiveness in the financial sector.

The way forward then for the Sacco future survival is crucial to be planned for by adapting measures recommended after analyzing the factors considered at the end of the project.

3.9 DATA ANALYSIS TECHNIQUES

To analyze is to search and identify meaningful patterns in data. Kerlinger (2000) points out that, analysis means, categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The data collected in the research was edited, coded, classified on the basis of similarity and then tabulated. Being a descriptive study, descriptive statistics such frequency distributions, percentages, frequency tables and pie charts, were used to summarize and relate variables which were attained from the administered questionnaires.

Kombo and Tromp (2006), asserts that the core function of the coding process is to create codes and scales from the responses, which can then be summarized and analyzed in various ways. A coding scheme is an unambiguous set of prescriptions of how or possible answers are being treated and what (if any) numerical codes are to be assigned to a particular response.
To permit quantitative analysis, data was converted into numerical codes representing attributes or measurement of variables. Code categories in questionnaires or other measuring instruments were exhaustive and mutually exclusive. Only one code was assigned to each response category (Mugenda and Mugenda 2003).

To facilitate qualitative analysis, data was first organized into categories, which were distinct from each other. The researcher then established the relationship between these categories. Generating categories was done using codes and each code represented particular phenomenon. The researcher then evaluated and analyzed the data to determine the adequacy of the information, credibility, usefulness, consistency and validation (Mugenda and Mugenda, 2003). The generation of categories and subsequent analysis was made easier by the introduction of the qualitative data analysis computer programmes, which can locate and merge codes making it easier for the researcher to identify categories and specific patterns.

Descriptive statistics technique had been chosen because it made it possible to show the distribution or the count of individual’s scores in the population for a specific variable. Columns on frequency gave the proportion of a subgroup of the total population.

The Statistical Package of Social Sciences (SPSS) version 10.0 was used to process and analyze the data in order to determine the relationship between the variables.
CHAPTER FOUR

4.0 PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter presents findings gathered from the field by the use of the procedures discussed in chapter three.

The aim of the study was to investigate the effects of unsecured commercial bank loans on the saving and credit services offered by Mombasa Teachers Savings and Credit Society. The study was carried out in Mombasa district.

The principle-guiding factor to data analysis and presentation in this chapter was the research questions as listed below.

i) What are the effects of unsecured commercial bank loan on savings and credit services offered by Mombasa Savings and credit services offered by Mombasa teachers Sacco?

ii) How has the unsecured loan by commercial banks affected credit and savings offered by Mombasa Sacco?

iii) What policies and strategies that Mombasa teachers Sacco can put in place to counter the competition?

Only the items that were directly related to the research questions and study objectives were selected for analysis purposes.
4.2 An Overview of the data collected:

A total of 170 questionnaires were issued to the respondent, of which 160 were for Sacco members while 10 of them were for Sacco staff. Respondents were selected as explained in the methodology section. Responses of the questionnaires of the two categories are tabulated below.

Table 4.1 Responses of questionnaires

<table>
<thead>
<tr>
<th>Type of respondent</th>
<th>Questionnaires distributed</th>
<th>Questionnaires returned</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sacco staff</td>
<td>10</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Sacco Members</td>
<td>160</td>
<td>140</td>
<td>88%</td>
</tr>
<tr>
<td>Total</td>
<td>170</td>
<td>148</td>
<td>87%</td>
</tr>
</tbody>
</table>

Source: Research Field data June 2008 Mombasa.

Response rate represented 87 percent of the questionnaire issued. This percentage was adequate for the researcher to carry out an analysis and draw a conclusion that was good representation of the respondents' feelings.

4.3 Demographic Information

The research targeted the views, opinion and suggestions of both the Mombasa Teachers' Sacco staff and members regarding the effects of unsecured Commercial bank loan on savings and credit services offered by their Sacco. The researcher's main idea was to triangulate the findings
and members' views to come up with recommendations, which could be adopted by the Saccos
to make its way forward.

Demographic information of both Sacco staff and Sacco members are summarized and presented in a tabular form. Items analyzed include, gender, marital status, age, level of education, profession/role and year services or Sacco membership.

Table 4.2: Demographic Information of Sacco Staff.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>3</td>
<td>37.5%</td>
</tr>
<tr>
<td>Female</td>
<td>5</td>
<td>62.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Diploma</td>
<td>3</td>
<td>37.5%</td>
</tr>
<tr>
<td>Professional skills</td>
<td>3</td>
<td>37.5%</td>
</tr>
<tr>
<td>Secondary</td>
<td>2</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years of service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td>6 – 10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11 – 15</td>
<td>2</td>
<td>25%</td>
</tr>
<tr>
<td>16 and above</td>
<td>2</td>
<td>25%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Role in the sacco</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td>Technical staff</td>
<td>4</td>
<td>50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sacco membership</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age of the respondents</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 – 25</td>
<td>1</td>
<td>12.5</td>
</tr>
<tr>
<td>26.30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>31 – 35</td>
<td>2</td>
<td>25%</td>
</tr>
<tr>
<td>36 – 40</td>
<td>2</td>
<td>25%</td>
</tr>
<tr>
<td>40 &amp; above</td>
<td>3</td>
<td>37.5%</td>
</tr>
</tbody>
</table>

Source: Researcher Field Data June 2008 Mombasa.

From the table 4.2 above 5, (62.5%) of the respondent were female while 3, (37.5%) were male in terms of gender. All the males were diploma holders and their input was in the management level. Female ranged from professional skills to those with secondary education and their input was in technical staff.
All the respondents who were interviewed apart from being Sacco staff were also members of the Saccos and 50 percent of them were in management while the rest 50 percent were technical staff.

The average age of the respondents is 38 years, which lies in the bracket of 36 – 46 years. However, the distribution in terms of age revealed that the majorities were in the bracket of 40 years and above taking 37.5 percent while between 31-35 and 36-40 years took 25 percent each. Only one was on the age of 20-25 and none in 26-30 years brackets. This reflects that the rate of employment in the Sacco was very low with only one member in the bracket of 20-25 years while there was none in the bracket of 26 – 30 years. This could be due to the effect of unsecured loans, which were making the Sacco to not to rapidly expand and demand more manpower. There is also the element of a high turnover of the employee as the Sacco is old and most of the employee had not served more than 5 years.

Figure 4.1 Education qualifications of Sacco staff

![Pie chart showing education qualifications of Sacco staff]

- 37.5% Secondary
- 37.5% Diploma
- 25% Professional skills
From the Figure 4.1 above it was observed that staff with diploma level and those with professional skills dominated the Sacco each taking 3, (37.5%). Those with secondary education only took a small percentage of 25 percent. There was none with university qualification. There is no comparison with Mwalimu Sacco where 67 percent of top management are graduates. Mwalimu Sacco has been performing well due to its highly qualified personnel while performance in Mombasa Sacco has not been very good. Lack of highly qualified could have contributed to the Sacco not performing very well and could be associated with members lacking confidence with management to propel the Sacco to better performance.

There is a great challenge for Mombasa Sacco to put a lot of emphasis on the importance of developing staff and also the value of relevant qualification for the job requirements. The Sacco should encourage development of professionalism in the Sacco and employing people who are qualified for the job or continuous training through need assessment can do this.

The end result of lack of highly qualified manpower and non-training strategy is poor work performance and development of a cadre of untrained committees, staff and members who have low levels of cooperative knowledge and other technical qualification. This is evidence by a high turnover in the Sacco as the Sacco is old and only four staff (50%) have hardly worked for five years. This could be the reason why field staffs are reluctant to go to the field. With majority of members saying they have never seen them. Lack of proper training could have also contributed to the complain of members due to poor treatment by credit officers who lacked the required hospitality when dealing with members.
The entry of the commercial bank into the Sacco’s business should awaken the Sacco to review and provide good working terms and conditions of service to the employees; it should aim at becoming a stable employer with qualified and hospitable work force.

Table 4.3: Sacco members table

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>65</td>
<td>46.4%</td>
</tr>
<tr>
<td>Female</td>
<td>75</td>
<td>53.6%</td>
</tr>
<tr>
<td>Age:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 - 25</td>
<td>2</td>
<td>1.4</td>
</tr>
<tr>
<td>26 - 30</td>
<td>8</td>
<td>5.7%</td>
</tr>
<tr>
<td>31 - 35</td>
<td>27</td>
<td>19.3%</td>
</tr>
<tr>
<td>36 - 40</td>
<td>44</td>
<td>31.4%</td>
</tr>
<tr>
<td>40 &amp; above</td>
<td>59</td>
<td>42.1%</td>
</tr>
<tr>
<td>Marital status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>44</td>
<td>31.9%</td>
</tr>
<tr>
<td>Married</td>
<td>96</td>
<td>68.1%</td>
</tr>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>24</td>
<td>17.1%</td>
</tr>
<tr>
<td>Diploma</td>
<td>34</td>
<td>24.3%</td>
</tr>
<tr>
<td>Secondary</td>
<td>59</td>
<td>42.1%</td>
</tr>
<tr>
<td>Others</td>
<td>23</td>
<td>16.4%</td>
</tr>
<tr>
<td>Profession</td>
<td>140</td>
<td>100%</td>
</tr>
<tr>
<td>Years of sacco membership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 - 5</td>
<td>8</td>
<td>5%</td>
</tr>
<tr>
<td>6 - 10</td>
<td>22</td>
<td>15.7%</td>
</tr>
<tr>
<td>11 - 15</td>
<td>42</td>
<td>30%</td>
</tr>
<tr>
<td>16 and above</td>
<td>68</td>
<td>48.6%</td>
</tr>
</tbody>
</table>

Source: Researcher Field Data June 2008 Mombasa.

From the table 4.3 it was observed that 75,( 53.6% ) of the respondents were female and 65,( 46.4% ) were male. There is no great disparity between genders and hence a balanced view was achieved. However female members seemed to be more attached to the Sacco than male meaning less female members withdraw from the Sacco to join the bank than male members.
From the gender analysis it reflects that female are more serious savers than male as their number was higher 75, (53.6%) than male who were 65, (46.4%).

In terms of age, the average age of the members is 38 years, which lies in the bracket of 36 – 40 years, and majority of the Sacco members are between 36 and 40 years representing 31.4 percent while those in 40 years and above were 42.1 percent. This is in line with their Sacco membership where majority are between 16 years and above (48.6%), meaning they have been in the Sacco for long.

The desire and dreams of their Sacco differ with age as noted from their responses and recommendations. Those who are older in the Sacco they have their own views about the Sacco. They rate the Sacco highly, have confidence with management and would not wish to leave the Sacco unless the situation worsens beyond control. Those who are young have no confidence with management, rate their Sacco very low and are willing to leave very fast if given an option.

The rate of enrolment to the Sacco appears very low, example between 0 – 5 years are only 8, (5%) which implies that the employment freezing by the TSC on teachers may have some impact on enrolment or teachers have found other places that are offering better services than the Sacco.

Table 4.4: Marital status

<table>
<thead>
<tr>
<th>Saving per month</th>
<th>Married</th>
<th>%</th>
<th>Single</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>500-1000</td>
<td>16</td>
<td>11.4</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>1001-2000</td>
<td>72</td>
<td>51</td>
<td>18</td>
<td>13.3</td>
</tr>
<tr>
<td>2001-3000</td>
<td>6</td>
<td>4.3</td>
<td>19</td>
<td>13.5</td>
</tr>
<tr>
<td>Over 3001</td>
<td>2</td>
<td>1.4</td>
<td>5</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>96</strong></td>
<td><strong>68.1</strong></td>
<td><strong>44</strong></td>
<td><strong>31.9</strong></td>
</tr>
</tbody>
</table>
Majority of the respondents are married a factor that has influenced the saving pertaining as shown in the table above. Those who are single can afford to save more on average Kshs. 3,000 per month. The married are able to save an average of Kshs. 2,000 per month based on prorata loan policy. Due to higher rate of dependency and higher cost of living, they may not be in position to save more than the basic minimum requirement, hence weakening the capital base of the Sacco.

In terms of Education majority have secondary education 42.1 percent while those with diploma education are 24.3 percent. Those with university education are 17.1 percent. Another group comprising 16.4 percent are holders of various certificates for instance KJSE, KPE, as well as technical training certificates however they had undergone in service training in teaching. The level of education has effect on their contribution to the Sacco.

Those of higher education are relatively higher savers, as their earning is more. This is evidenced by the fact that only a few of the members 7, (5%) are able to save over Kshs. 3000 and above. Majority, about 90, (64.3%) are on the lower age of saving of between Kshs. 1,000 – 2,000-bracket. This has contributed to the Sacco weak capital base due to low monthly savings and high demand for loans. From the above it is evident that the Sacco derives majority of its members from Primary schools teachers and few teachers in post primary schools.

**Fig 4.2 Gender of Sacco members**

![Gender of Sacco members chart]

- Female: 46.40%
- Male: 53.60%
From figure 4.2 above it was observed that 53.6 percent of the respondents were female and 46.4 percent were male. There is no great disparity between genders and hence a balance gender view was achieved. However female members seemed to be more attached to the Sacco than male indicating less female withdraw from the Sacco to join the bank than male or females are more serious in savings than males.

4.4 Effects of unsecured Commercial bank loan on Credit & Savings services of the Mombasa Sacco.

Data was collected to help answer the first research question which states: what are the effects of unsecured commercial bank loan on credit and savings services offered by Mombasa Teachers Sacco?

To answer the question the study sought responses from the Sacco staff and Sacco members as shown in table 4.4 below.

Table 4.5: Sacco Staff Responses on Awareness of unsecured Commercial bank loans

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of unsecured commercial bank loan among Sacco staff</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Response of staff on whether it has effects on Sacco services</td>
<td>8</td>
<td>100%</td>
</tr>
</tbody>
</table>
From table 4.4 it is observed that 100 percent of the Sacco staff who responded to the questionnaires are aware of existence of unsecured commercial bank loan and all of them pointed out those loans have negatively affected the services of the Sacco, as reflected by a decline in the amount of loans borrowed as well as reduction of Sacco's profit. Reduction of profits could be associated with increased expenditure in efforts of trying to salvage and retain their lost members and business. The increase expenditure is basically on marketing, research and development.

They further pointed out what were the major effects of unsecured loans as shown in table 4.5 below.

**Table 4.6: Effects of unsecured Commercial bank loan on Credit & Savings services of the Mombasa Sacco**

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction on member loan repayment power</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Sacco loan bought by Bank</td>
<td>5</td>
<td>62.5%</td>
</tr>
<tr>
<td>Reduction on Sacco product applied for</td>
<td>3</td>
<td>37.5%</td>
</tr>
<tr>
<td>Members withdrawal from the Sacco</td>
<td>7</td>
<td>87.5%</td>
</tr>
<tr>
<td>Reduction of Sacco income</td>
<td>7</td>
<td>87.5%</td>
</tr>
<tr>
<td>Reduction of Membership</td>
<td>7</td>
<td>87.5%</td>
</tr>
<tr>
<td>Increase in loan default</td>
<td>5</td>
<td>62.5%</td>
</tr>
</tbody>
</table>
4.4.1 Reduction on Members Loan repayment power

From the table 4.5 above, it's observed that 75 percent of the Sacco staff respondents confirmed that unsecured commercial bank loans have reduced the members' ability to qualify for loans in the Sacco and has also contributed to their inability to pay their Sacco loans. This was attributed to members' income being committed in paying bank loans. This is supported by the evidence that the rate of loan default from 2004 to current has been increasing as reflected on table 4.8.

4.4.2 Saccos' loan bought by the Bank

From responses of Sacco staff, 62.5 percent of them observed that Sacco loans have been bought by Commercial bank. The staff confessed that they have received cheques drawn by Commercial bank to clear off loans the members owe to the Sacco.

4.4.3 Reduction on Sacco products applied for.

Sacco staffs observed that most of the products offered by the Sacco have recently reduced with introduction of unsecured commercial bank loans. Out of the staff respondents, 37.5 percent of them pointed out that the most affected products were normal loans, School fees and emergency loans. This is evidenced by table 4.8 which shows the reduction trend of this product from 2004 when unsecured bank loans were introduced.

According to loan application Annual Report of Mwalimu Sacco for the years (2004 and 2005) showed applicants for normal loans were 20784 and 12646 respectively. This showed a decline of 38%. The emergency loans were 20464 and 19375 respectively showing a decline of 5%. This confirms the effects of unsecured Bank loan have not only affected Mombasa Sacco but other Saccos like Mwalimu Sacco has also been affected.
This implies that there is urgent need for the Saccos to create awareness and knowledge to the members and the general public on the available Sacco product services to increase the level of their consumption utilization. They should go a step further like banks, to employ commission agents and marketing managers to market their products and incorporate electronic and press media to advertise their products.

4.4.4 Withdrawal of Sacco Membership

There is a direct relationship between loans and membership in the Sacco, in that you must be a member for a given minimum period to qualify for a loan in the Sacco. On the other hand, you don’t need to be a member of commercial bank to qualify for a loan.

Since the introduction of unsecured commercial bank loan the Sacco membership have reduced gradually though not at an alarming rate as evidenced on table 4.8. This is because Sacco members can withdraw their membership from the Sacco and get loans from Commercial banks. This is further supported by 87.5 percent of the Sacco staff respondents who have observed that since 2004 when Commercial bank loans were introduced Sacco membership has either stagnated or reduced. Sacco staff respondents attributed the small reduction of membership to aggressive marketing and eventually penetration of Commercial banks into the Sacco niches. Commercial banks eventually have succeeded in luring some members to leave the Sacco and join them. This is due to lack of level playing ground in the financial business due to existence of bureaucracy in the Sacco fraternity caused by the Co-operative legislation.

Mukumi (2007) complained that Murang’a Teachers Sacco was losing an average of 50 teachers every month to the big bank which are offering to clear loans the teachers owe to the Saccos.
This confirms that it's not only Mombasa Sacco which has been targeted but others Saccos have also been victims.

4.4.5 Reduction of Sacco Income

Since the introduction of unsecured Commercial bank loans 87.5 percent of Sacco Staff respondents have observed a decline of Sacco income. This is supported by evidence on table 4.8 which has analyzed the trend of Sacco dividend from 2000 at 2006.

However the Sacco staff pointed out the major areas of the Sacco weaknesses which the banks have capitalized and succeeded in penetrating the Sacco market.

<table>
<thead>
<tr>
<th>Major areas</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of sufficient funds to meet member demand for loan.</td>
<td>7</td>
<td>87.5%</td>
</tr>
<tr>
<td>Lack of diversified product which are members demand driven (tailor made)</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Repayment period</td>
<td>7</td>
<td>87.5%</td>
</tr>
<tr>
<td>Buying of loans</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>Poor marketing strategies</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Lending terms and conditions</td>
<td>6</td>
<td>75%</td>
</tr>
</tbody>
</table>
4.4.6 Lack of sufficient fund to meet members demand for loans.

From 8 members of the Sacco staff respondents 6, (87.5%) of them pointed out that due to limited source of Sacco funds, they are not able to meet the high demands of loans by members, hence forcing some members to look for alternative source of fund. Commercial bank which has got high liquidity has exploited this weakness to lure and capture members of the Sacco.

Mungai (2006) pointed out that most of Sacco products are backed up by availability of funds or otherwise remain in papers or take too long to assess them. From the monthly analysis of the Sacco, the cash inflows that form the bulky of the funds needed to advance loans to the members is less than the required cash outflows (loans). The reason for this is that cash packages consists of small savings by the members while they require twice or thrice of the amount saved monthly to service loan applications.

Significance of this information is that the Saccos’ need to aggressively mobilize more funds both internally and externally. They should try to put in place strategies such as increasing share contribution, borrowing from financial institutions at lower interest rates and refinancing members loans at a higher but affordable rates.

4.4.7 Lack of diversified product

Most of the Sacco products are the traditional or the normal products which they have been offering. These include normal loans, school fees and emergency loans. Commercial banks are continuously undertaking research and marketing and have come up with diversified demand driven products which are tailored to meet the customer demands. Some of these products include unsecured personal loans, business loans and salary advance. Out of 8 Sacco staff 6,
(75%) of them observed that lack of a variety of demand driven products has made them loose their members to the bank where they are readily available.

The forces of competition should induce the Sacco fraternity including the Co-operative bank to seek for greater networking and sharing of ideas on development of financial products and services that go along with in benefiting the general membership of the Sacco.

4.4.8 Repayment period

The banks have extended their loan repayment period up to a maximum of 60 months while the Sacco are still sticking to 48 months repayment period enables a member to get a higher amount of loan and pay in small installment which are convenient to the member. From the Sacco staff respondents, 6, (87.5%) of them agreed that the Sacco repayment period has made some of their members to run away to the bank and that in future the Sacco need to review this period policy.

4.4.9 Buying of loan (loan factoring)

Due to their sufficient financial ability commercial banks have been able to lure some members of the Sacco and given them loans to clear off the debts they owe to the Sacco.

This is one of the policy the banks purposely tailored to penetrate and capture the Sacco niche and 100 percent of the Sacco staff respondents accept this is one of the worst effect of Commercial bank loans on their Saving and credit services.

Mukumi (2007) noted that the big banks are offering to clear loans the teachers owe the societies, making the Sacco venerable to exodus of teachers to Commercial banks to enjoy the new products.
4.4.10 Poor marketing strategies

Saccos have not developed a clear marketing strategy and their marketing system is still wanting. Sacco consider their market as captive and take for granted that this market is stable and the Clientele is the owner, customer and for sure is ready to patronize the Sacco business. This thinking makes Sacco not to find marketing as a core activity but unnecessary expense. This concept is wrong and misleading Sacco in business of financial services industry where competition for customers is cut throat. Out of 8 Sacco staff respondents, 6 of them (75 %) accepts that strong and expertise marketing strategies of commercial bank which are door to door have successfully captured their market.

Commercial banks have a higher level of advertisements through all media facilities (among others radios, press, posters and exhibitions). The Sacco should borrow a leaf from Commercial banks if they want to compete effectively.

Kimutai (2002) observed that Commercial banks are threatening the survival of the Sacco around the country. This is by depriving the societies of their market share by offering attractive packages.

4.4.11 Lending terms and conditions

Commercial banks are dynamic and continuously reviewing their lending terms and conditions with changing times and customer demand have been able to out number the Sacco whose lending terms and conditions are rigid. This is supported by 75 percent of the Sacco staff respondents who pointed out that it’s the high time the Sacco reviewed and relaxed some of their lending conditions.
The terms and conditions introduced by the Commercial banks for borrowing are very flexible and easier to fulfill. Customers are requested by Commercial banks to provide National identity cards, three months payslip, letter of introduction from the employer and an application form duly completed. On the other hand Saccos are governed by the co-operative legislation and in particular Loan policy of the Sacco. The conditions in the loan policy are not easy to fulfill like those of commercial banks. Therefore the regulation mechanism in the Sacco fraternity is not conducive for competition and does not facilitate the Saccos to respond quickly to the market forces.

Figure 4.3 diagrammatically represents areas capitalized by the bank to capture the Sacco market.

**Figure 4.3: Major areas Affected by unsecured commercial bank loans.**
The biggest effect is felt on buying of loans. The Sacco need to urgently address the above areas with view of reviewing them to cope up with competition.

Table 4.8 Responses of Sacco members on effect of unsecured commercial bank loan.

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of loan granted</td>
<td>63</td>
<td>75%</td>
</tr>
<tr>
<td>Amount of savings</td>
<td>90</td>
<td>64.3%</td>
</tr>
<tr>
<td>Reason why the go Commercial bank</td>
<td>103</td>
<td>73.6%</td>
</tr>
<tr>
<td>Rate of Sacco as ineffective</td>
<td>108</td>
<td>77%</td>
</tr>
<tr>
<td>Poor treatment of credit officers</td>
<td>105</td>
<td>75%</td>
</tr>
</tbody>
</table>

4.4.12 Amount of loan granted

Members of the Sacco, 45 percent of them pointed out that the Sacco is not able to meet their demand for loans, and this is further evidence by frequent appeal by members to the Sacco on the amount of loan granted. In their views the banks had the capacity to honour their demand and that is why they have resulted to go to Commercial banks.

4.4.13 Amount of savings

Majority of Sacco members 90, (64.3%) are on the lower edge of saving, that is between (ksh 1000 and 2000) bracket and few of them 8, (5%) are able to save over ksh 3000. The reason given by them is that most of their paying powers have been reduced by commitments of paying loans acquired from commercial banks. The cost of living have changed, prices of items have gone up and this could have contributed to the low rate of saving.
4.4.14 Reasons for going to commercial banks.

Most of the Sacco members (73.6%) pointed out that their major reasons for going to commercial bank was the bank financial ability to grant them the amount they required and processing was also fast compared to the Sacco. They also argued that the pro-rata policy which reduced the amount of loan disposable and the slow processing of loans by Sacco has been a great hindrance which has made them to seek financial services from commercial banks which are more efficient.

However those who preferred the Sacco thirty seven (26.4%) gave the low rate of interest as the reason to continue borrowing from them but felt that the limiting of the amount borrowed as a result of so many factors is chasing them away from the Sacco. A big percentage of one hundred and eight (77%) are not happy with services provided by the Sacco mostly concerning little amount of loan granted. One hundred and five (75%) of the members felt that their treatment by Sacco credit officers was wanting and they felt they required better treatment and respect like ones they got from the banks.

4.5 How has the unsecured Commercial bank loan affected the saving and credit services of Mombasa Teachers Sacco?

Data was collected to help answer the second research questions which states: How has the unsecured commercial bank loan affected the saving and credit services of Mombasa Sacco? Responses of both Sacco staff and Sacco members are presented as table 4.8 below.
Table 4.9: How unsecured loan has affected Sacco Savings and Credit services.

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perimeter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>1400</td>
<td>1426</td>
<td>1441</td>
<td>1516</td>
<td>1488</td>
<td>1389</td>
<td>1386</td>
</tr>
<tr>
<td>Deposit &amp; share capital</td>
<td>99141557</td>
<td>114202640</td>
<td>130276151</td>
<td>149914537</td>
<td>151965001</td>
<td>155036312</td>
<td>160136112</td>
</tr>
<tr>
<td>Normal loan</td>
<td>55595254</td>
<td>70490126</td>
<td>77449095</td>
<td>52515540</td>
<td>48517766</td>
<td>47026322</td>
<td>31977899</td>
</tr>
<tr>
<td>Emergency loan</td>
<td>1104901</td>
<td>13494903</td>
<td>16031618</td>
<td>19852540</td>
<td>18162901</td>
<td>17192031</td>
<td>14957067</td>
</tr>
<tr>
<td>School fees</td>
<td>16791320</td>
<td>19643878</td>
<td>24985176</td>
<td>27484632</td>
<td>25408480</td>
<td>23403201</td>
<td>14767420</td>
</tr>
<tr>
<td>Loan default</td>
<td>76265</td>
<td>22173</td>
<td>24548</td>
<td>194738</td>
<td>393836</td>
<td>449134</td>
<td>549319</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>7.5%</td>
<td>5.6%</td>
<td>3.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Loan outstanding</td>
<td>76874802</td>
<td>9602098</td>
<td>108152444</td>
<td>100626795</td>
<td>138227722</td>
<td>135112211</td>
<td>130223132</td>
</tr>
</tbody>
</table>

Source: Loan Officer Mombasa Sacco. 2008

From the information given in the table 4.8 it reflects how unsecured Commercial bank loan has affected the saving and credit services offered by the Mombasa Teachers' Sacco.

Table 4.8 above is further illustrated by use of figures to get the true picture of the information presented which have clearly shown the trend many products of the Sacco have taken before and after introduction of unsecured commercial bank loans. The trend analysis reflects how the Sacco services have been affected by capturing the two eras that is before and after introduction of unsecured commercial bank loans.
Figure 4.4 trends of normal, emergence and school fees loans.

From figure 4.4 above it reflects that from 2000 to 2003 the trend of normal loan, emergency loan and school fees has gradually increased overtime, but as from 2004, the trend has been reversed with gradual decrease in these products. This is attributed to the effects of unsecured commercial bank loans which has attracted some of Sacco members.
Figure 4.5 reflects that share capital from 2000 to 2004 had increased steadily but as from 2004 to 2006 has been increasing but at a decreasing rate. This could attributed to members reduced contribution and low Sacco income due to some members withdrawing from the Sacco or committing their income in loan repayment of commercial banks.

Outstanding loans at the end of year since 2000 to 2003 has been gradually increasing but as from 2004 to 2006 has gradually declining meaning as most member cleared their loans they never bothered to go for more loans from the Sacco but instead decided either to go to Commercial banks or other institution.

Kimutai (2007) observed that bureaucracy and long delay in processing of loans by Sacco have led to the members for alternatives from financial institutions or commercial banks which were ready to offer loans without delay.
From the figure 4.6 it shows from 2000 – 2003 the Sacco membership had increased gradually but as from 2000 – 2006 the Sacco membership started declining with a big effect in 2005 immediately after the introduction of unsecured loan in 2004.

Mukumi (2007) complained that Murang’a Teachers Sacco was loosing an average of 50 teachers every month to the big banks which were offering to clear the loans the teachers owed to the Sacco. Mombasa Sacco has also been affected as evidenced by figure 4.6 and this confirms other Saccos have also been victims.

Figure 4.7 Trend of loan default
Loan default rate from 2000 to 2003 has drastically reduced, but as from 2004 it started increasing rapidly meaning most members having taken unsecured loans were unable to honour their Sacco loan payment.

**Figure 4.8 Trends of dividends**

![Graph showing trends of dividends from 2000 to 2006](image)

From figure 4.8 shows the dividend rates from 2000 – 2002 had gradually increased but as from 2003 – 2006 the trend changed with decrease especially from 2004 when unsecured commercial bank loans were introduced.

Kuscco report (2007) noted that commercial banks effects on Sacco services have been reflected in reduction of Sacco income as a result of most Sacco members taking loans with commercial banks hence denying the Sacco the income they used to charge on loan interest which was a core source of income to the Sacco.
Table 4.10: Sacco member responses on how unsecured loan have affected Sacco services.

<table>
<thead>
<tr>
<th>Item</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rating of the Sacco services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not effective</td>
<td>108</td>
<td>77%</td>
</tr>
<tr>
<td>Effective</td>
<td>32</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Source of loan for members</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mombasa Sacco</td>
<td>71</td>
<td>51%</td>
</tr>
<tr>
<td>Commercial bank</td>
<td>56</td>
<td>40%</td>
</tr>
<tr>
<td>Other institutions</td>
<td>13</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Option to leave the Sacco</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leave very fast</td>
<td>53</td>
<td>38%</td>
</tr>
<tr>
<td>Not willing to leave</td>
<td>61</td>
<td>43.5%</td>
</tr>
<tr>
<td>Not sure</td>
<td>26</td>
<td>18.5%</td>
</tr>
<tr>
<td><strong>Confidence with Sacco management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have confidence</td>
<td>68</td>
<td>48.6%</td>
</tr>
<tr>
<td>Have no confidence</td>
<td>72</td>
<td>51.4%</td>
</tr>
<tr>
<td><strong>Treatment by credit officers contribute to members leaving the Sacco.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>54</td>
<td>38.6%</td>
</tr>
<tr>
<td>Agree</td>
<td>51</td>
<td>36.4%</td>
</tr>
<tr>
<td>Not agree</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td>Not sure</td>
<td>21</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Credit officer visiting the institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frequently</td>
<td>6</td>
<td>4.3%</td>
</tr>
<tr>
<td>Sometimes</td>
<td>12</td>
<td>8.6%</td>
</tr>
<tr>
<td>Rarely</td>
<td>31</td>
<td>22.1%</td>
</tr>
<tr>
<td>Not seen them</td>
<td>91</td>
<td>65%</td>
</tr>
</tbody>
</table>

From the table 4.9, it reflects that out of 140 Sacco members' respondents, one hundred and eight (77%) rated their Sacco not being effective while thirty two (23%) rated it as being effective. In terms of confidence with Sacco Management seventy two (51.4%) did not have confidence with the management while sixty eight (48.6%) had confidence with management.
Given the option to leave the Sacco fifty three (38%) were willing to leave very fast while sixty one (43.5%) were not willing to leave while twenty six (18.5%) were not decided. For effective cooperative governance, the role of members, committees and employees should be clearly defined. The management must be transparent and should have nothing to hide. They must disclose to both the stakeholders and general public sufficient and relevant information to enable them make informed decisions in any transactions that they may have with the Sacco so as to retain their confidence.
On treatment by credit officers, the responses by Sacco members fifty four (38.6%) strongly agreed that it has contributed to members turnover, while fifty one (36.4%) agreed and fourteen (10%) did not agree while the rest twenty one (15%) were not sure. This signifies that there is urgent need of workshops and seminars to the staff who are the implementers of various policies so as to avoid complain from Sacco members, and even prevent them from running to Commercial banks.

The branch officials rarely perform the duty they are expected to do. They do not visit the school as required by the By-laws to deliver the information. Respondents gave the following responses about their visit to the institutions.
Respondents felt that the branch officers had let the Co-operative down and hence should wake up and work as reflected by responses from members, with ninety one (65%) having not seen them, thirty one (22.1%) saying rarely, twelve (8.6%) saying sometimes while only six (4.3%) claims to have frequently seen them in their institutions. Branch officers have a duty to ensure that any necessary information reaches the members at the right time. Right of information is fundamental to all members.

However, based on performance of branch officers Mombasa Teachers Sacco has to come up with other advertising mechanisms and not rely wholly on branch officials for delivery of information.
Source of loan actually reflect how seriously unsecured loan by commercial bank have affected saving and credit services of the Sacco. Unlike before when members only depended on Sacco for their loans, the trend have changed with only 51 percent total remaining in the Sacco while 40 percent have given in to Commercial bank and the rest 9 percent have gone to other financial institutions. Reasons given for going to commercial banks include easy access and few requirements in securing a loan.

Sacco’s by-laws are very crucial in guiding the borrowing procedures in the organization. However most of the Sacco by-laws and policies have become very unpopular with members who are calling the Sacco either to relax or amend them.

**Table 4.11: Response of Sacco members to Sacco by-laws**

<table>
<thead>
<tr>
<th>Policy</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro-rata policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Be maintained</td>
<td>37</td>
<td>26.4%</td>
</tr>
<tr>
<td>Do away with it</td>
<td>103</td>
<td>73.6%</td>
</tr>
<tr>
<td>Guarantee policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Necessary</td>
<td>67</td>
<td>48%</td>
</tr>
<tr>
<td>Not necessary</td>
<td>73</td>
<td>52%</td>
</tr>
<tr>
<td>½ deduction policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Necessary</td>
<td>84</td>
<td>60%</td>
</tr>
<tr>
<td>Not necessary</td>
<td>56</td>
<td>40%</td>
</tr>
<tr>
<td>Loan processing procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast</td>
<td>13</td>
<td>9.3%</td>
</tr>
<tr>
<td>Slow</td>
<td>127</td>
<td>90.7%</td>
</tr>
</tbody>
</table>
From the table 4.10 above, the responses indicate that the Pro-rata policy where the Sacco requires that the amount of share contribution to reflect the amount borrowed was too restrictive and unpopular with one hundred and three (73.6%) of the respondent saying it should be done away with while only thirty seven (26.4%) advocates for it to be maintained.

The usual ½ loan policy excluding ½ of rental house allowance and medical allowance was too restrictive to members. The respondent fifty six (40%) felt that this by-law should be revised. The idea is to include more percentage of those allowances to increase the borrowing power. However eighty four (60%) of the members said the policy was necessary.

On loan processing and approval procedures one hundred and twenty seven (90.7%) of the respondent said it was very slow and that is why they had opted to banks which were fast and efficient. Only thirteen (9.3%) of the respondent supported it that it was fast.

Responses of members on how unpopular pro-rata policy, Guarantee system and ½ reduction policy are can be graphically represented as below.

Fig 4.13: Unpopularity of policies bar graph.
The most unpopular one was pro-rata policy as indicated in figure 4.10 above. This portrays lack of level playing grounds in the financial business between commercial banks and the Saccos due to the existence of Sacco by-laws caused by the co-operative legislation which the banks seems to have either ignored or deliberately done away with to capture Sacco members. However on loan processing procedures the responses were as illustrated in figure 4.11 below.

**Figure 4.14 Loan processing procedures**

![Pie chart showing loan processing procedures with 90.7% slow and 9.3% fast.](image)

On loan processing and approval procedures one hundred and twenty seven (90.7 %) of the respondent said it was very slow and that is why they had opted to banks which were fast and efficient. Only thirteen (9.3%) of the respondent supported it that it was fast.

Kimutai (2007) observed that bureaucracy and long delays in processing of loans by the Saccos have led to members seeking alternatives from financial institutions or commercial banks where loans are offered without delay.

The Sacco need to urgently computerize its services and reduce bureaucracy involved in loan processing procedures to be able to complete effectively with Commercial banks. This is evidenced by 90.7% of loan applicant who say the processing is very slow.
4.6: What policies and strategies has the Sacco put in place to counter competition?

Data was collected to help discuss the third research questions which states: What are the policies and strategies put in place by the Sacco to counter competition?

The main competitor of Mombasa Sacco is the Commercial bank and the main competitive areas are in the granting of big loans by Commercial banks to its members. The Sacco finds itself handicapped due to the limited capital availability and high demand for money by the many members. The other competitive areas are in the loan requirements, repayment period and the rate at which Commercial banks are able to process and provide loans. Currently it will only require 48 hours to get a loan from a bank while it takes Sacco more than two weeks.

In response to the above the Sacco has put the following policies and strategies to counter the competition.

| Table 4.12 Policies and strategies put forward by Sacco to counter competition |
|---------------------------------|-----------------|----------------|
| Policy strategies               | Frequency       | Percentage     |
| Partnership with cooperative bank | 8               | 100%           |
| Rate of interest granted to the Saccos |          |                |
| 12%                             | 2               | 25%            |
| Above 12%                       | 6               | 75%            |
| Opening FOSA                    | 6               | 75%            |
| Accommodate non-teachers        | 4               | 50%            |
| Embrace information technology  | 4               | 50%            |
| Member education through seminars |               |                |
| (1) yearly                      | 6               | 75%            |
| (2) Semi annually               | 2               | 25%            |
| Diversification of product      | 2               | 25%            |
4.6.1 Partnership with co-operative bank

A key strategic move to offer top-up loans to members was negotiated with Co-operative banks, at extremely favourable interest rates and was geared to arrest members’ further involvement with Commercial banks and financial institutions. The forged partnership with Co-operative bank was to enable the Sacco to meet the increasing demand for bigger loans from the members. The only difference between its loan’s and that granted through co-operatives is the interest rate is a bit high, 13.5 percent compared with that of the Sacco of 12 percent hence making it less popular.

4.6.2 Opening of FOSA

The Sacco has opened FOSA Front Office Savings Account. FOSA to offer services of banking to the members. The Sacco Staff respondents six, (75%) points out that this is a good strategy used to counter competition as most of their members have already opened their accounts and their salary are processed through FOSA account.

It’s further argued that this is another avenue for targeting non-Sacco members who can open Savings accounts with them, and hence increase sources of income. The Sacco staff respondents four, (50%) points out that FOSA has already started getting attention for non-members who have already opened savings account.

4.6.3 Diversification of their products.

The Sacco has strived to introduce new products and about two (25%) of the Sacco staff advocated that the Sacco is doing its best to diversify its product to meet members demand. The case in hand of a new product is newly introduced premium loan which have no pro-rata and
minimum share requirement to counter the competition from the Commercial banks. Members can now borrow the maximum provided one will be left with a net monthly pay of Kshs. 5000.

4.6.4 Embracing of Information technology

To enhance efficiency and improvement of service delivery the Sacco have initiated to invest on information, communication and technology (ICT). It’s still in its initial stages and four (50%) of Sacco staff respondents view it as a way forward to counter competition. However, since the project is somewhat complex the pace of investment and adoption is rather slow and mostly is targeting to integrate BOSA and FOSA to allow information flow between the two offices.

4.6.5 Member Education, training & services

In order to be competitive and those efforts to bear fruits, the management should sponsor employees for further training and improve the relationship between employees and management. This policy is in place but majority of the members 75 percent say the activity takes place yearly while 25 percent says it takes place semi-annually.

Mungai (2006) pointed out that, during this time of competitive business Sacco’s workforce and its knowledge base is a great asset to the movement and needs to be improved so as to cope with the new technology.

Finally it was noted that the Sacco has successfully been able to move to its own building and this was expected to reduce the renting cost they have been incurring. It was also expected to give it a competitive edge over their competitors who could be renting their business premises.
CHAPTER FIVE

5.0 SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This is the final chapter of this project paper and its summarizes the findings of the study in relation to the objectives outlined in Chapter one. Besides that, the chapter discusses recommendations of the study, draws a conclusion and makes suggestions for further research.

To satisfy the main objective of the study the researcher used self administered questionnaires as the research instruments and data was collected from both Sacco staff and members of Mombasa Teachers Sacco in Mombasa District.

5.2 Summary of the findings

The study established that the effects of unsecured commercial bank loan on savings and credit services offered by Mombasa Teachers Sacco were a reality as evidenced by a decline in membership and income.

According to the responses of the Sacco staff who responded to the questionnaires, 100 percent of them were aware of the existence of unsecured commercial bank loan and at the same time agreed that these loans have affected Mombasa Teachers saving and credit services. It was revealed that some members have withdrawn from the Sacco to join commercial bank and that those who remained in the Sacco, 75 percent, their loan repayment power was reduced as a result of taking loans with commercial bank as their income was committed in paying those loans.
Lack of sufficient funds by the Sacco to meet increasing members demand for loans was noted. This is evidenced by the fact that majority of the Sacco members (64.3%) are on the lower edge of saving, that is between Kshs. 1,000 and 2,000 bracket and only a few of them (5%) are able to save over Kshs. 3,000. This has contributed to Saccos’ weak cash flows due to its low monthly savings and high demand for loans. Limited sources of finances have inhibited Mombasa teachers’ Sacco from raising sufficient and adequate funds to strengthen its capital base and service the needs of its members.

It was further noted that Saccos have not developed a clear marketing strategy as it considered its market as captive and stable. This thinking was misleading and made the Sacco not to consider marketing as a core activity but unnecessary expense.

In terms of service delivery it was wanting and needed a lot of improvement as most of them were still manual systems involving a lot of paper work causing a lot of delay and waiting at the counter. However it was noted that the Sacco was on its initial phases of introducing computerization in its business operations. Members’ responses as gathered by use questionnaire complained of arrogant staff members when it comes to serving them. This means that public relation was wanting in the delivery system and this could have contributed to members’ exodus to commercial bank where services delivery was attractive and time saving.

The Sacco image has been seen not very good as 77 percent of the members rated it not effective compared to 23 percent who rated it effective. On the other hand 38 percent of the members said if given an option they would leave the Sacco very fast.

Commercial banks have introduced new demand driven product like unsecured personal loans, business loans and loans factoring. The Sacco had not introduced new products and the existing
ones of Normal loans. Emergency loans and School fees required re-engineering and repositioning in the market with new favorable terms and conditions of lending to retain their market share. This has exposed the Sacco to a stiff competition from commercial bank whose products were demand driven and tailor made to capture and retain the Sacco members.

Sacco by-laws and policies have also become unpopular among the members who viewed them as a stumbling block in getting their desired products. Commercial banks had capitalized on these by-laws and policies to get a competitive edge in the Sacco market as evidence by a bank slogan, ‘you don’t need to save to get a loan’. Sacco’s slogan contrarily to the bank states, ‘you need to save wisely, borrow regularly and pay promptly’. The efforts of the Sacco to encourage members to save have been watered down by the bank slogan.

However there are chances of Sacco future survival if it can come up with strategies and policies which can turn it round to be able to compete with banks. This supported by the fact that not many members have withdrawn from the Sacco but they only opted to borrow loans with commercial and retained their Sacco membership.

5.3 Conclusion

The study findings summarized above reveals that Mombasa Teachers’ Sacco was found by the commercial bank unprepared for the competition. As a result the Saccos has suffered a blow from the competition as some members have found other avenues of meeting their obligation and hence affected the Sacco annual income as evidenced by decline of membership and dividends as illustrated by figure 4.6 and 4.8 respectively.
The Sacco lacks sufficient capital funds needed to advance loans to members. This is because the bank inflows consist of small savings by the members while they require twice or thrice of the amount saved.

Commercial banks have aggressively campaigned to capture the Sacco market but the study revealed that only a small fraction of the members have withdrawn from the Sacco but the majority opted to remain as Sacco members but went for unsecured commercial bank loans. This is evidenced by loan default rate as most of the members' income was committed in paying unsecured bank loans and hence not being able to honour their outstanding loans with the Sacco.

The findings have also revealed that the Sacco is not only faced by external threat of competition from commercial bank but it also has some internal problems such as poor relationship between the employees and the management staff which seems to have affected the overall efficiency of the organization. Further the findings have enabled the researcher to identify the current issues with Mombasa Sacco which needs to be addressed such as what measures the Sacco should adapt to meet the customers expectation, how to diversify its products and how it can ensure its employees and members continue to have skills and motivation necessary in changing utility environment so as to remain at the top in delivery of service.

Marketing system in the Sacco was found to be still wanting as it still followed traditional methods such as member education day which is done yearly and recruitment by other members. This kind of marketing is just restricted to the already existing members with minimal room of reaching other potential non-members.

In terms of service delivery, it was below average as indicated by long waiting queues and delay in service, as most of its service deliveries were manual. Though the Sacco was on its initial
phases of introducing information and communication technology, it required to hasten the process to cope up with its competitors like Commercial banks who were Information and Communication technology compliant.

Branch officials were reluctant and did not visit the field regularly and hence respondents felt that they were denying them necessary information. Branch officials have a duty to make sure that any necessary information reaches the members at the right place and at the right time. Good customer care and treatment is a fundamental right to all members.

Most of the Sacco By-laws have affected the Sacco services especially credit making them unfavourable compared with banks.

The expected outcome of the research study that the unsecured commercial bank loans has significantly affected the credit and saving services of Mombasa Teachers Sacco was confirmed by the study. Therefore the study points out the direction the competition has taken and challenges the Sacco to take the appropriate measures to counter the competition and retain its market.

5.4 Recommendations

In the view of the findings and conclusion of the study, the researcher makes the following recommendations that are aimed at improving the Sacco services and counter the effects of intensive competition from commercial banks.

The government through the ministry of co-operative Development and marketing should abolish some by-laws that try to separate some services to be unique for the banks only. A case in hand of such by-laws is the controversial Sacco societies bill 2008 which seeks to prohibit
Sacco societies from engaging in foreign exchange operations, wholesale and retail trade underwriting and placing of securities. This bill proposes to give banks an edge over Saccos and severely narrow the investment choices that the management of the Saccos make and force them to concentrate more on the small self help loans that they have proven expertise in.

The Sacco should update its services to cope up with changing technology by introducing Automated Teller machine (ATM), introducing of Website and establishment of Micro Finance and Credit department. The Sacco should also consider introduction of unsecured loans (personal loan), review its interest rates and enhance its Cooperate Governance to be able to compete effectively with commercial banks.

The Sacco should become pro-active and innovate many saving products in the FOSA and ensure the loaning process is a weekly activity by ensuring inter-lending between the FOSA and Bank Office (BOSA) hence the cash flow is always assured. This calls for a high level of banking knowledge to manage the two departments without causing any financial hitch.

The Sacco should also borrow a leaf from credit unions in U.S.A. and introduce new products such as Holidays and Vocational Club account, where members will save for holiday purposes only and Money Market account where the Sacco can buy and sell members’ shares with his or her consent. They should also venture in Individual Retirement Account (IRA) where members are encouraged to save for their own retirement while young.

Research and development must be emphasized for the Sacco to become competitive. It is DO or Die paradigm” and must aim at creating new products and services, repositioning old products in the market and re-engineering traditional products. They must critically analyze and understand the life cycle of their products.
Sacco should carry out the Training Needs Assessment (TNA) and avoid “impromptu” seminars and workshops which are not perceived on need basis. Impromptu workshops, seminars and training programmes could have contributed to the Sacco not fulfilling their training needs. This could have contributed to poor performance especially in public relation and development of a cadre of untrained staff and members who have low levels of Co-operative knowledge and other technical qualification.

Marketing should be seen as a very fundamental to their business. They should maintain their products presence all the time as commercial bank does by ensuring market is done by professional marketers and salesmen, and if they cannot train and maintain their own they can out source on contract basis. They should also come up with performance contract where all employees must abide to. It should be used as the benchmark whether to remain an employee of the Sacco or not.

From the monthly analysis the Sacco cash inflow (savings) that forms the bulk of the funds needed to advance loans to members is less than the required cash outflow (loans). The Sacco need to aggressively mobilize more funds both internally and externally. They should come up with strategies such as increasing share contribution, strengthening their partnership with co-operative bank and outsourcing funds from other financial institutions at lower interest rates, and refinancing members’ loan at higher but affordable interest rates all aimed in promotion of income generation.

Finally the Sacco should consider amendment of some by-laws to relax some lending conditions and terms as well as reduce bureaucracy of loan granting process especially emergencies and school fees loans.
5.5 Areas of further Research.

The researcher recommends research on the following areas.

1) A study on the effect of Sacco and co-operative bank partnership to curb the teachers from sourcing funds from other sources without giving a chance to Mombasa Teachers’ Sacco.

2) A study on the effect of Sacco’s by-laws on Sacco strategies to cope up with competition.

3) A study on effect of KUSCCO role in enhancing stability and success of the Sacco against the competition from commercial banks.
REFERENCES


Nation Ltd Nairobi.


APPENDIX I: MANAGEMENT AND SACCO STAFF QUESTIONNAIRE

QUESTIONNAIRE A

I am a graduate student at Kenyatta University and currently carrying out research study on the effects of unsecured commercial bank loan on the saving and credit services offered by Mombasa teachers Sacco in Mombasa District.

You have been selected to take part in the study. You are kindly requested to respond to all questions with honesty. All information given will be treated with confidentiality. Please do not write your name.

SECTION I: PERSONAL INFORMATION

1. a) Gender

   Male □ Female □

b) Age

   20 – 25 □ 26 – 30 □ 31 – 35 □

   36 – 40 □ 40 and above □

2. Marital status

   Single □ Married □

3. What is your level of education?

   i. University □

   ii. Diploma □

   iii. Secondary □

   iv. Others (specify) ---------------------------------------------------------------
4. a) Which is your role in the Sacco?
   
   (i) Management/committee? ☐
   
   (ii) Technical staff? ☐
   
   (iii) Support staff? ☐

b) Years of service in the Sacco

   0 - 5 ☐ 6 - 10 ☐ 11 - 15 ☐

   16 and above ☐

SECTION II: DISPOSABLE LOAN

1. a) Are you involved in processing and approval of services offered by the Sacco?

   Yes ☐ No ☐

   (b) What are the requirements for a member to qualify for a loan? 

2. (a) Do all members who apply for the loan get?

   Yes ☐ No ☐

   (b) If no to the above question what could be the reason?

   (i) Most of them don’t qualify ☐

   (ii) The Sacco does not have sufficient funds to meet all of them ☐
3. Are your members satisfied with the amount of loan granted to them?

   Yes [ ]   No [ ]

4. (a) Do some members appeal against the amount granted?

   Yes [ ]   No [ ]   Not sure [ ]

   (b) If yes to the above question, how has the Sacco reacted to the appeals?

5. (a) What is the single highest amount of loan have the Sacco processed for a member?

   50,000 – 100,000 [ ]   200,000 – 400,000 [ ]

   500,000 – 900,000 [ ]   1,000,000 and above [ ]

   (b) With introduction of secured Commercial secured loan what has been the trend of the Sacco membership?

   Highly increased [ ]   Remained stagnant [ ]   drastically reduced [ ]
6. Are you aware of the unsecured loans offered by the Commercial banks?

   Yes  [ ]    No  [ ]

7. Have this unsecured loan affected the members loan application in any way?

   Yes  [ ]    No  [ ]

8. If yes to the above question what has been the effect?

   [Blank]

9. Has the Sacco borrowed financial assistance from Cooperative bank or other financial institutions to meet the members demand for loans?

   Yes  [ ]    No  [ ]

10. If yes to the above questions specify at what rate of interest the Sacco was granted financial assistance.

    Below 12%  [ ]    12%  [ ]    Above 12%  [ ]

11. (a) Have all those members who qualified for the loan applied?

    Yes  [ ]    No  [ ]    Not sure  [ ]

(b) If No to the above question, do you make any follow up to encourage them to get loans?

    Never  [ ]    Yes  [ ]    Occasionally  [ ]    Rarely  [ ]

12. Since the introduction of unsecured Commercial bank loan how has been the trend of the Sacco income?

    Highly increased  [ ]    Stagnated  [ ]    Drastically reduced  [ ]
13. How has been the trend of the Sacco over the period 2000 to current in the following parameters? (Specifically for loans officer).

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Year 2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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</thead>
<tbody>
<tr>
<td>Membership</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Deposit and share capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Normal loan advanced</td>
<td></td>
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<tr>
<td>Emergency loan advanced</td>
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<tr>
<td>School fees loan</td>
<td></td>
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<tr>
<td>Loan default rate</td>
<td></td>
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<tr>
<td>Loan outstanding</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
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</tbody>
</table>

(b) What do you attribute the above trends to?

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SECTION III: TERMS AND CONDITIONS OF LENDING

14. How do you find the Saccos' By-law that a member shall not suffer more than 2/3 deduction from his basic salary. This condition is

Highly restrictive [ ]  Restrictive [ ]  Not restrictive [ ]

15. How do you compare Saccos pro-rata policy with Commercial banks loans requirements?

Should be used for loan repayment but not share contribution [ ]

Should be done away with completely [ ]

Should be maintained [ ]

I am not sure [ ]

16. (a) Commercial banks does not require you to be a member to qualify for a loan, do you think this policy has affected your lending services.

Yes [ ]  No [ ]

(b) If yes to the above question how has the Sacco reacted to this policy to counter competition?
17. Has your Sacco adopted any of the following reforms?

- Persuasive market
- ATM services
- SMS services
- Off-shore borrowing

18. What are the future strategic plans the Sacco is undertaking to remain competitive?

i.)

ii.)

iii)

19. (a) Banks have extended their loan repayment period up to a maximum of 60 months how does this compare with your terms?

Favorable □   unfavorable □

(b) If yes to the above question what initiatives has the Sacco taken to extend its repayment period to counter the competition.

20. Banks have been reducing minimum saving account balance now and then what is the Sacco's position on WSF Account balance?
21. (a). The interest rate charged by the banks on loans is higher than that of the Sacco, has the Sacco taken any step to review and increase its interest rates?

Yes ☐ No ☐

(b) If yes/no to the above give reasons

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---------------------------------------------------------------------------------------------------------------

22. Which advertising methods do you use to attract members to your co-operative?

(i) Newspaper advertisement ☐

(ii) Television ☐

(iii) Brochure/prospectors ☐

(iv) Community support programme ☐

(v) Identity media e.g. T-shirt, caps etc. ☐

(vi) Any other specify.---------------------------------------------------------------

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23. Which factors do you consider when selecting promotion tools used?

(i) Cost ☐

(ii) Availability ☐

(iii) Area coverage ☐

(iv) Any other specify---------------------------------------------------------------
24. Which are the major areas of competition between you and Commercial banks?—

25. What have you done to counter the competition?

(i)

(ii)

(iii)

(iv)

(v)

SECTION IV: GENERAL INFORMATION.

26. There has been a rapid advancement in information technology, how has the Sacco embraced it in its services?

(i) 100% (ii) 75% (iii) 50% (iv) None

27. How often do you hold seminars to educate your member on your existing and new product?

Never (i) Yearly (ii)

Semi-annually
28. What advice would you like to give Sacco members on?
   
   (i) Investment? 
   
   (ii) Loan borrowing

29. What general advice/recommendation would you give to your Sacco to improve its performance in future?

Thank you.
I am a graduate student at Kenyatta University and currently carrying out research study on the effects of unsecured commercial bank loan on the saving and credit services offered by Mombasa teachers Sacco in Mombasa District.

You have been selected to take part in the study. You are kindly requested to respond to all questions with honesty. All information given will be treated with confidentiality. Please tick (✓) in the box as appropriate and do not write your name.

SECTION I: PERSONAL INFORMATION

1. a) Gender  
   Male □  Female □

   b) Age  
   20 – 25 □  26 – 30 □  31 – 35 □

   36 – 40 □  40 and above □

2. Education level

   University degree □

   Diploma □

   Secondary □

   Other: specify  -------------------------------------------------------------

3. What is your profession?  -------------------------------------------------------------
4. Years of Sacco membership

0 – 5 [ ] 6 – 10 [ ] 11 – 15 [ ]
16 and above [ ]

SECTION II: AMOUNT OF LOAN DISPOSABLE

3. a) Have you ever taken a loan from the Sacco?
   Yes [ ] No [ ]
   (b) If yes to the above question what is the highest amount of loan did you apply?
   Below Kshs. 100,000 [ ] Kshs 100,000 – 200,000 [ ]
   Kshs 300,000 – 500,000 [ ] Above Kshs 500,000 [ ]

7. (a) Was the total amount of the loan applied for granted?
   Yes [ ] No [ ]
   (b) If no to the above question what made them to give you less than you applied?
   Did not qualify [ ] Pro-rata basis policy [ ]
   Discrimination [ ] I’m not sure [ ]

8. (a) If the amount of loan applied was not granted by the Sacco, do you think the bank would have granted?
   Yes [ ] No [ ]
   (b) If yes to the above question why do you think the Bank would have been able?
9) The maximum amount of loan gratuities to a member shall not exceed four times a Member’s share. This condition is

(i) Adequate [ ] (iii) Inadequate [ ]
(ii) Effective [ ] (iv) Not effective [ ]

10(a) Mombasa Teacher’s Sacco maximum emergency loan is Ksh 50,000 this amount is Adequate [ ] Not adequate [ ]

(b) Give reason for the answer given above

11(a) Which is the amount of savings that you make every month in your account?

Ksh.

(i) 500-1,000 [ ]
(ii) 1,001-2,000 [ ]
(iii) 2,001-3,000 [ ]
(iv) Over 3,000 [ ]

(b) Is your monthly savings your own subscription or a basic loan requirement by the Sacco?

(i) My own subscription [ ]
(ii) Basic loan requirement [ ]

12. Do you have a loan currently? [ ] Yes [ ] No [ ]
13. If yes in the above question from which institution?

(i) Mombasa Sacco

(ii) Commercial Bank

(iii) Other financial institution

14. What made you borrow from the institution you have mentioned?

(i) Easy access

(ii) Provide better terms

(iii) Have shorter period of getting loan

(iv) Few requirements

SECTION III: TERMS AND CONDITIONS OF LENDING

15. For a member to qualify for a loan, he/she must have been a member for a minimum of six months. This period is

Long □ Short □ Necessary □ not necessary □

16. Six months requirement for a member to qualify for a loan is

Highly appropriate □ Appropriate □ not appropriate □

17. The procedures and requirements for loan application in the Saccos are.

(i) Necessary □ (iv) not necessary □

(ii) Restrictive □ (v) not restrictive □

18. The processing of loan approval is

(i) Fast □ (v) Slow □
19. The guarantee system used for securing loan which is more than the member’s share is

<table>
<thead>
<tr>
<th>Very good</th>
<th>Very bad</th>
<th>Necessary</th>
<th>Not necessary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

20. It is a Sacco by-law that a member shall not suffer more than 2/3 deduction from basic salary in repayment.

This condition is

<table>
<thead>
<tr>
<th>Very necessary</th>
<th>Necessary</th>
<th>Not necessary</th>
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</table>

21. The interest rate charged on co-operative loan of 1% per month on reducing balance is

<table>
<thead>
<tr>
<th>High</th>
<th>Moderate</th>
<th>Low</th>
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22. Give reason of the answer given above.


23. Maximum Sacco loan repayment period is 48 months, this period is;

<table>
<thead>
<tr>
<th>Long</th>
<th>short</th>
<th>Necessary</th>
<th>not necessary</th>
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SECTION IV: GENERAL INFORMATION

24. Are you happy being a member of your Sacco and do you get sufficient services?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
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<tbody>
<tr>
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</tbody>
</table>

25. How do you rate your Sacco?

<table>
<thead>
<tr>
<th>Highly effective</th>
<th>Not effective</th>
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<tbody>
<tr>
<td>5 4 3 2</td>
<td>1</td>
</tr>
</tbody>
</table>
26. Are you satisfied with the performance of Mombasa Sacco management team?

Yes [ ] No [ ]

27. If yes/no why

28. For effective service delivery in this era of competition what would you do to advice the management to do to remain competitive?

29. How often do branch officers visit your own institution for information?

(i) Frequency [ ] (iii) Rarely [ ]

(ii) Some times [ ] (iv) Have not seen them [ ]

30. (a) Treatment by the credit officer in the Sacco has a lot of influence in members' turn over

(i) Strongly agree [ ] (ii) Do not agree [ ]

(iii) Agree [ ] (iv) Not sure [ ]

(b) If you are given an option to leave your Sacco for another or a bank, what would be your reaction?

Leave very fast [ ] I will not leave [ ] I'm not sure [ ]

31. What general recommendation/advice can you give your Sacco?

Thank you.
Dear Sir/Madam,

Ref: Permission to conduct research.

I am a MBA student at Kenyatta University undertaking a research project as a partial fulfillment of the MBA degree. I am researching on “Effects of unsecured Commercial Bank Loans on savings and credit services offered by Mombasa Teachers’ Cooperative society.”

Your participation will assist me in completing my studies.

I assure you that the questionnaires are not coded in any way and the responses will be kept absolutely confidential. It’s very important that you answer the questions in the questionnaire honestly and completely. Your responses will not be disclosed to anyone.

Any report from the study will only show statistical summaries and not individual responses.

Your cooperation will be highly appreciated.

Yours faithfully,

Ng’ang’a P. N.
### APPENDIX IV: PLAN OF ACTIVITIES

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>TIME:</th>
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<tbody>
<tr>
<td>PROPOSAL WRITING</td>
<td>1 MONTH</td>
</tr>
<tr>
<td>PILOT STUDY</td>
<td>1 WEEK</td>
</tr>
<tr>
<td>DATA COLLECTION</td>
<td>3 WEEKS</td>
</tr>
<tr>
<td>DATA ANALYSIS</td>
<td>2 WEEKS</td>
</tr>
<tr>
<td>COMPLYING</td>
<td>1 WEEK</td>
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<tr>
<td>SUBMISSION</td>
<td>DATE DUE</td>
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## Schedule of Activities

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<th>ACTIVITIES</th>
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<th>MONTH II</th>
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<th></th>
<th>MONTH III</th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>WEEKS</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>Proposal writing</td>
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<tr>
<td>Pilot study</td>
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<td>Data collection</td>
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<td>Data analysis</td>
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<tr>
<td>Report submission</td>
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## APPENDIX V: BUDGET

<table>
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<tbody>
<tr>
<td>(i) Typing 30 pages (a) Ksh. 30</td>
<td>900</td>
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<td>(ii) Photocopy 4 copies (a) Ksh. 60</td>
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<tr>
<td>(iii) Spiral binding 4 copies (a) Ksh. 100</td>
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<tr>
<td>(iv) Transport &amp; miscellaneous etc</td>
<td>1,000</td>
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<tr>
<td><strong>Sub total</strong></td>
<td><strong>2,540</strong></td>
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</table>

| B. Pilot study | | |
|----------------|----------------|
| (i) 20 copies of questionnaire (a) Ksh. 15 | 300 | |
| (ii) Transport & miscellaneous expenses | 1,200 | |
| **Sub total** | **1,500** | |

| C. Data collection | | |
|-------------------|----------------|
| (i) 120 copies of questionnaire (a) Ksh. 15 | 1,950 | |
| (ii) Traveling & accommodation | 4,000 | |
| **Sub total** | **5,950** | |

| D. Data analysis | | |
|------------------|----------------|
| (i) Data analyzing & Processing | 2,500 | |
| (ii) Stationary | 1,500 | |
| (iii) Traveling and accommodation | 4,000 | |
| **Sub total** | **8,000** | |

| E. Production of fixed document | | |
|---------------------------------|----------------|
| (i) Printing and typing page 70 @ Ksh. 30 | 2,100 | |
| (ii) Photocopy 6 copies c 140 | 840 | |
| (iii) Binding 7 copies c 200 | 1,400 | |
| (iv) Transport miscellaneous | 1,200 | |
| **Sub total** | **5,540** | |
| **GRAND TOTAL** | **23,530** | |