IMPACT OF CO-OPERATIVE SOCIETIES FRONT OFFICE BANKING SERVICES (FOSA), ON THE CO-OPERATIVE SOCIETIES.

A CASE OF MWALIMU SACCO – NAIROBI

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION – (FINANCE), OF KENYATTA UNIVERSITY.

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Ng’ang’a, Benson M.
Impact of co-operative
DECLARATION

THIS IS TO CERTIFY THAT THIS PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY NOR FOR ANY OTHER AWARD.

STUDENT: BENSON N. NG'ANG'A
OLH/M/0001/02

SIGNATURE: [Signature] DATE: 30/8/2005

THIS PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH MY AUTHORITY AS THE UNIVERSITY SUPERVISOR.

SUPERVISOR: MR. SHADRACH BETT

SIGNATURE: [Signature] DATE: 30/8/2005

CHAIRMAN BUSINESS ADMINISTRATION DEPARTMENT.
DR. GEORGE GONGERA.

SIGNATURE: [Signature] DATE: [Signature]
Dedication

To my wife Nancy and son Neville.
ACKNOWLEDGEMENTS

I wish to thank my supervisors Mr. Shadrack Bett and Mr. D.K. Ngaba for their ready help and advice in the writing of this project.

Thanks also to my wife Nancy who let me use her masters thesis to gain an insight in project writing.
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Definition of Terms

1. Bank – An organization or place that produces a financial service and operating within the banking act.

2. Competition – Degree to which a company under free and fair market conditions, produce goods and services that meet the test of the market.

3. Debt – A sum of money owed to somebody.

4. Deposit – To put money into a bank.

5. Finance – The money used or needed to support an activity or project.

6. Growth – An increase in economic activity.

7. Guarantors – A person or an organization that promises something with certainty as a security.

8. Impact – A strong impression or effect on something.


10. Niche – Offering a unique product or service in a restricted market.

11. Physical Security – Actual tangible thing of value that can be used to make sure that one will pay back borrowed money or keep a promise.

12. SACCO – Savings and credit co-operative society.

ABSTRACT

The purpose of this study is to investigate the relatively new concept of provision of banking services by co-operative societies.

The operation of this services and their impact on the co-operative societies, its members and the financial sector at large had not been documented.

This is an exploratory research seeking to explore and bring to better understanding this product in the financial sector. Being a Certified Public Secretary of Kenya, the starting point was: -

1. To establish the legislation under which this services are registered if any so as to establish their scope and limitations.

2. The relationship between the co-operative societies offering this services and the Co-operative Bank of Kenya limited was established.

3. The research also seeked to establish the eligibility of customers, and looked into the growth of deposits and membership in the period they have been in existence.

4. Lastly the research established the growth potential within the niche market and determined their long-term viability using existing financial and mathematical ratios.

The data collected was mainly secondary data from the organizations records. It was organized and analyzed inline with the study's objectives.
1.1 BACKGROUND TO THE STUDY

1.1 a. Historical

- The Kenyan modern co-operative movement has been in existence since 1931. It is therefore correct to state that the movement has lived under two management systems, namely, Government Controlled (1931 – 1997) and a Liberalized System (1997 to present).

- The first Sacco Society in Kenya was registered in 1969. The growth of Saccos has been astronomical. By 1972, there were 101 Sacco Societies; in 1972 – 82, 927 Saccos were registered; in 1983 – 93; 2,616 and between 1994 – 2000 3,538 were on register.

- Mwalimu Sacco Society was registered on 24th October 1974 with a membership of 11. At the end of 1999 it had a membership of 46,387 and in 2004, 44,384.

- The liberalized Era, which was formalized by the New Co-operative Act, 1998 granted greater Democracy and autonomy in the movement. It moved central decision-making authority
from Commissioner of Co-operatives to the members. Interest
Rates were liberalized, Choice of Auditors was liberalized, and
the option to call either AGM or ADM was left to members to
decide. The Kenyan Co-operative movement adopted a 4-tier
system – Primary, Secondary, Countrywide and Apex. Today,
the Kenyan Co-operative movement has a net asset of over
Kshs. 100 billion, which is equivalent to assets of biggest bank
in the country (Barclays Bank of Kenya).

1.1b Withdrawable savings fund.

In spite of the recent introduction of Front office banking services by
coop-erative societies, it has grown considerably and has provided
additional services to the benefit of its members.

However, no major study had been done to analyse any emerging
challenges and its impact on both the members and the society at
large. It is against this background that it was the purpose of this
study to investigate the impact of these services on the co-operative
societies, its members and the co-operative sector at large.

High fees have characterized the Kenyan financial sector for
services rendered, high interest rates for credit and until very
recently, unwillingness to lend to small income earners by
mainstream commercial banks. The low-income earners mostly in the public sector and small-scale farmers and traders relied on their co-operative societies to finance their projects.

The cooperative saving and credit societies (SACCOS) grew within their niche markets in response to the neglect of their members by the mainstream commercial banks. Mwalimu Savings and Credit Society is one such society that targets post-primary teachers nationwide. It has a membership of above 40,000, lending in excess of 3 billion shillings annually to its members. It offers normal development loans, emergency loans and school fees loans.

When the financial sector was liberalized, different products were developed and marketed by non-banking financial institutions. The front office service, which also goes by the name Withdrawable Savings Fund (W.S.F.), is one such product. The Mwalimu Co-operative managed front office banking services has opened up branches upcountry for the convenience of its members who are spread across the country. The front office banking section officers the following services: -

1. Processing members’ salaries
2. Providing salary advances to its members
3. Providing short term advances
4. Accepting deposits and providing withdrawal facilities
5. Standing orders

It is worthy to note that the co-operative societies pay dividends to its members annually and any additional income from its activities benefits members directly.

There seems to be a relationship between the cooperative societies offering front office services and the Co-operative Bank Of Kenya. This was evidenced recently when the Co-operative Bank of Kenya was offering loans to Mwalimu Co-operative Society members through the Society's front office banking section.

1.2 STATEMENT OF THE PROBLEM

Many companies develop and market many products for the benefit of its members. The considerable growth of front office banking services within a relatively short time shows its growing popularity. The problem of this study is to bring to better understanding the operations of front office banking services also called Withdrawable Savings Fund and its impact on the co-
operative societies, its members and the co-operative sector at large. The
question of ownership is also of interest to this study.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study include the following:

General Objectives

To find out the impact of the front office banking service on the performance of Mwalimu Savings and Credit Co-operative Society.

Specific Objectives

1. To establish if the front office banking services has led to growth of the financial position of the Co-operative.
2. To establish if the front office banking service has led to effective competition in the financial sector.
3. To find out if the front office banking service has led to increase in membership of the Mwalimu Co-operative Society.
4. To establish if the front office banking service has led to the need for a change in legislation pertaining to co-operative societies and the banking industry.
5. To determine the impact of the front office banking service on cash advances and accessibility to credit.
1.4 RESEARCH QUESTIONS

1. Has the front office banking service led to growth of the financial position of Mwalimu Co-operative Society?
2. Has the establishment of front office banking service led to effective competition in the financial sector?
3. Has the establishment of front office banking services led to increase in Mwalimu Co-operative membership?
4. Is there a need to change legislation pertaining to banking industry to accommodate the front office banking services?
5. Has the front office banking services led to easier access to credit and advances?

1.5 IMPORTANCE OF THE STUDY

The research aims at documenting the legal powers and the impact of the front office banking services offered by co-operative societies. The knowledge of these facts is important to:

1. To stakeholders who would wish to know the legislation that govern the operations of front office banking service before making financial commitments. The stakeholders include creditors, debtors, banks, MFI and the general society that will be affected by the activities of the co-operative societies.
CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter will look at the role the financial sector and specifically the banking industry plays in an economy. The modern day economic activities involve financial transactions hence their management plays a key role in the economic development of a country. The single most important factor that has been blamed for the lack of economic growth in Kenya is the high cost of doing business in Kenya, especially due to the high cost of credit.

2.2 THE CONCEPTUAL FRAMEWORK

(INPUT)

(Independent variable)

Establishment of the front office banking services

Has led to

(RESULTS)

Financial growth

Increase in membership

Effective competition

Easier access to credit

Need to address legal issues

(Independent variable)

Source: Author 2005
2.3. MAIN REVIEW.

Due to the importance of financial sector in an economy, there are some main issues that have been brought into focus by the introduction of front office banking services.

2.3.1 FRONT OFFICE BANKING SERVICE

2.3.1.1 Services

Economists have divided all industrial and economic activities into three main groups: Primary, secondary and tertiary. Primary activities include agriculture, fishing and forestry. Secondary activities covers manufacturing and constructions and tertiary activities refer to the services and distribution. In pre-industrial era primary activities were the mainstay of the economy. The industrial revolution marked the beginning of increasing importance of secondary activities. The period after the World War II began the development of "service economy".

The service industry is a very technical and sophisticated one comprising computer and Software development, business consultancy, telecommunication, banking and insurance.
The pattern of economic development is not universally applicable to all countries. In many African countries the agricultural sector is still the dominant one. However we can observe the growing importance of the manufacturing and service sectors. These sectors are growing not only in volume but also in sophistication and complexity.

(Daniels Bell) in his book "The coming of the post industrial society" called the period of dominance by the service sector as the post-industrial society. According to him "If the industrial society is defined by the quantity of goods as marking a standard of living, the post industrial society is defined by the quality of life as measured by the services and amenities which are now deemed desirable and possible for everyone".

The term service is rather general in concept. Some of the definitions offered are: Kotler, Philip (1987) " A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product".

W.J. Stanton views services, as "services are those separately identifiable, essentially intangible activities which provide want-satisfaction, and that are not necessarily tied to the sale of a product or another service To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of title to those tangible goods".
Services have a number of unique characteristics that makes them different from products. These include:

a) Intangibility.
b) Inseparability.
c) Heterogeneity.
d) Perishability.
e) Ownership.

There are only a few truly pure tangible products or pure intangible ones. The distinguishing feature of a service is that its intangible aspect is dominant.
**Conceptualization of the service product.**

Level 1: Consumer benefit concept. Concerned with what benefit are customers seeking.

Translating into...

Level 2: Service concept. Concerned with what general benefit will the service offer?

Translating into...

Level 3: Service offer. Concerned with greater detailed shaping of the service concept. Decision on:
- Service elements (tangible and intangible).
- Service form (in what way and how).
- Service levels (quality and quantity).

Translating into...

Level 4: Service delivery system. Creation and delivery of service using guidelines built into the service offer. Concerned with people, processes, and facilities etc.

Figure II: Source Cowell, Donald “the marketing of services” Heinemann. London (1985).
When you go to a bank to withdraw money from your account, you either use a cheque or a withdrawal slip in which you fill all the particulars and hand it over to the clerk, who after verifying the details gives you the money.

The cheque or withdrawal slip and the clerk constitute the delivery system.

2.3.1.2 Banks and money.

The money market, which is a market for short-term financial assets that are close substitutes for money facilitates the exchange of money for new financial claims in the primary markets as also for financial claims, already issued, in the secondary market. It provides a mechanism for meeting the liquidity needs of the lenders and the short-term requirements of borrowers with the minimum of delay.

The money market in Kenya consists of the formal money market and the informal money market. The Central Bank of Kenya, commercial Banks and financial institutions are the main participants in the formal money market at present. The informal money market includes a variety of co-operative and credit societies (Saccos).
The Central Bank uses the money market to effectuate certain phases of government monetary policy, such as adjustments to the money supply. It does this through the central Bank, which establish government objectives with respect to the money supply, interest rates and credit availability.

The entrance of co-operative societies into the banking sector shows a shift from informal money market to the formal money market. The co-operative societies Front office banking services processes members salaries, accepts deposits and offers withdrawal and credit facilities. These services now compete with the services offered by the traditional mainstream commercial Banks.

The advantage it has over commercial banks is their flexibility that enables them to give short-term finance in the form of salary advances to the members on the basis of expected salary inflow at the end of the month. Also the duration of processing advance requests is very short, where a member can walk into the banking hall, go through the delivery system and go home with the money the same day. This is very convenient especially during an emergency. Since members are technically the owners, there is an owner-client relationship that enabled the service to be tailored in such way as to make it as customer friendly as possible.
2.3.2. Financial growth

The managers of firms typically act as agents of the owners (stockholders) the owners give the managers the authority to manage the firm for the owners benefit. The agency problem created by this relationship extends not only to the relationship between owners (members) and managers, but also to the relationship between owners (members) and lenders.

When a lender provides funds, the interest rate charged is based on the lender's assessment of the risk involved. The owner-client relationship creates a unique situation where the financial well being of an individual's member (borrower) is tied to the growth of the lender.

According to Oxford directory growth is defined as “progressive development, an increase, expansion”. The co-operative societies front office banking services has led to expansion of their financial activities. An institution can grow by adopting one or a combination of the following strategies.
Growth strategies

a) Vertical integration
b) Horizontal integration
c) Mergers and acquisition.
d) Diversification.

Clearly the co-operative societies have adopted diversification as a growth strategy and if there is a relationship between them and co-operative Bank of Kenya then Horizontal integration will come in.

Due to increase in revenues of co-operative societies due to increased activity brought about by the banking section, their financial position improves and as the deposits grows, their performance also improves. This happens as it gains more members and a larger market share of the retail banking business.

Since the co-operative societies are owned by the members who are also the depositors and borrowers, improvement of the societies financial fortunes ultimately impacts positively on the financial position of individual members.
Financial goals are the qualitative expression of a company’s mission and strategy. For supporting its growth target, a company needs to ensure adequate supply of funds. The front office banking services provides this much needed additional funds to the co-operative societies to facilitate their growth.

According to (Pandey 1999) "sustainable growth rate (SGR) is the maximum annual percentage increase in sales (lending) that can be achieved based on target operating, dept. and divided – payout ratios. If actual growth exceeds the SGR something must give and frequently it is the dept ratio”.

According to (Van Horne 1998) if A/S = Total assets-to-sales ratio

\[ \frac{NP}{S} = \text{Net profit margins (net profit divided for Sales)} \]

\[ b = \text{Retention ratio} \quad (1 - b \text{ is the dividend payout ratio}) \]

\[ \frac{D}{Eq} = \text{Dept to equity ratio} \]

\[ So = \text{most recent annual sales (beginning sales)} \]

\[ \Delta s = \text{Absolute change in sales from the most recent annual sales} \]
Then

\[ \Delta S = SGR = b \left( \frac{NP}{S} \right) \left( 1 + \frac{D/Eq}{1} \right) \]

So

\[ (\Delta S) = b \left[ \left( \frac{NP}{S} \right) \left( 1 + \frac{D/Eq}{1} \right) \right] \]

The size of deposits in a financial institution determines its ability to lend and hence get interest income. Most financial institutions obtain most of their revenue from interest on loans advanced to its customers like any other business sector. Economies of scale are also desirable in financial firms.

Donald Cowell in the "The Marketing of Services" Heinemann London (1985) uses the following price terminologies for services offered by financial institutions.

- Fee for legal services.
- Commission for brokerage services.
- Interest for use of money.
2.3.3. Increase for competition.

The degree of control over prices, which the sellers may exercise, varies widely with the competitive situation in which they operate. Operators under condition of pure (perfect) competition do not have any control over the prices they receive. A monopolist, on the other hand, may fix prices according to his discretion. Operators under imperfect competition may have some pricing discretion.

According to "Michael porter" there are factors that affect competition.

The 5 factor theory of "Michael porter"

- Bargaining power of suppliers.
- Bargaining power of buyers.
- Threat of substitute products.
- Barriers to new entrants.
- Number of competitors.

With entry of many players in an industry, increase in competition is inevitable to the benefit of all the stakeholders.
Under perfect competition

i. There are a large number of buyer and sellers.

ii. Each purchasing or selling such a small quantity that their withdrawal from the market will not affect total demand or supply.

iii. The product sold are homogenous in nature.

Despite there being many players in the Kenyan banking industry, only a small number control the lion share of the market with only 5 (five) banks controlling 80% of the deposits. This scenario makes this kind of competition not a perfect kind. There are over 30 banks in Kenya.

The Kenyan scenario looks more like oligopolistic with the 5 main banks each having an appreciable share of the market. There is a strong tendency towards close collaboration in policy determination.

Entrance of new players going for niche markets will bring an end to this trend as each sector with a co-operative society takes away their members from this big commercial banks. This will lead to effective competition that will ultimately bring efficiency to financial management in the economy.
Since there is a trend towards effective competition the amount of time required to process a credit transaction has reduced across the industry and so has the interest rates charged on borrowed funds. There is more choice on source of funds and as they compete for customers they develop friendly services with positive consequences on the customers and the economy at large.

The management of the co-operative societies should not expect commercial banks to take this assault on their turf lying down. They will definitely offer stiff competition to them and the co-operative societies must always remain alert and be innovative if they are to effectively compete with these financially strong commercial banks.

2.3.4 Increase in membership.

The service or services, which is offered, must be targeted to a specific market segment. The target market segment must have a definite need for the services.

The co-operative movement in Kenya is organized in trades or sub-sectors, with co-operative societies formed to cater for that specific sub-sector. The members are drawn exclusively from that sub-sector or trade. There are co-operative savings and credit societies (saccos) for teachers (regionally and nationally), tea farmers, coffee farmers, milk farmers e.t.c. The size of these Saccos depends on the relative size of the trade or sub-sector. Hence growth of membership is limited to a specific niche.
Market segment refer to sub-class on the market reflecting sub-classes of wants. "Buyers in the same market segment seek products for broadly for the same function. But different buyers have different evaluative criteria about what constitutes the right choice for performing the function" Yankelovich Daniel (1964).

It is important to remember that segment are not mutually exclusive customer groups what we are actually grouping is "anticipated orders" from buyers, not buyers themselves.

Market segmentation can be based on:

- Demographic
- Social class
- Family life cycle
- Psychographics basis

Either or a combination of the above is used in segmenting the co-operative movement in Kenya. The common denominator is that the target membership has common Activities, Interests and Opinions (AIO).
However not all targeted members of a market niche are members of a co-operative society nor are all those who are members of the co-operative savings and credit society have bank account with their banking section. So there is still potential for growth of these services within their niche markets.

2.3.5. Legal consequences.

The composition and character of an organization is influenced by the environment in which it operates. At the level of the firm, the environment consist of social, economic, political, cultural and legal factors. Those factors impinge in all operations of the firm. There are specific rules and regulations that govern the product category.

It is wholly the responsibility of the manager to ensure that the constitution and operation of the firm are within the legal framework as specified by the government. This legal framework is industry specific and in this case relates to banking industry.

The entry of co-operative societies into the banking sector creates legal issues that need to be addressed. Due to the importance of the banking sector in the economy, it is highly regulated. The government through the central bank of Kenya monitors and regulates entry and activities of the industry. It is important in this study to establish if the front
office banking services of the co-operative savings and credit societies are regulated under the banking act and if not under which legislation they are transacting banking business.

The power of the management to enter into an agency contracts with a commercial bank i.e. Co-operative bank of Kenya needs to be looked into. There might be need to change the current legislation to accommodate the front office banking service of SACCOS. This is important in case of a dispute, that may raise issues about the legality of the activities of the Saccos. this might lead to financial losses. To protect themselves from such an eventuality they should act totally within the legal framework of the industry.

2.3.6 Accessibility

2.3.6.1. To credit

Credit is a sum loaned by a bank to be repaid with interest at specified interval and rate. Dept financing is used when the amount required is not immediately available but there are anticipated future cash inflows.

Most customers (members) of the co-operative savings and credit societies are not high-income earners hence their projects can be classified as small scale.
Bank finance is a constant cause for complaint by small borrowers in regard to:

- Unwillingness of the banks to lend.
- High charges and poor services by the banks.

Research indicates that commercial banks differ considerably in the extent to which they participate in term financing. Some banks do not give long term loans and actually most banks do not consider loans extending to more than 10 years for most small and medium size enterprises.

The acronym CAMPARI has been used by bankers as a framework for making lending decisions by commercial banks particularly to small businesses. (Burns, 2001) it stands for:

- Character
- Ability
- Management
- Purpose
- Amount
- Repayment
- Insurance
The front office services of the co-operative societies have come in to fill this gap and offer both short-term and medium-term financing. Since this service targets members of a specific segment who are already members of the co-operative society then their credit worthiness is already known to the management. Since the debt is guaranteed by other members using their deposits the possibility of total loss is greatly minimized leading to less exposure to bad – debts.

The low risk, lowers the need for high interest rate hence making the loans cheaper than from their competitors. This makes it affordable.

The members only require guarantors to secure a loan instead of a physical security. This makes it more accessible to all members.

2.3.6.2 Geographically.

The inseparability characteristic of services poses a distribution constraint since they are only able to serve a limited localized market. The fixed location of banking halls, which necessitates the customer, to go to the service location rather than vice-versa affects its accessibility.
Another distribution strategy variable is how to provide the service to maximum number of customers in the most cost-effective manner.

Many major commercial banks are reducing the number of up-country branches. This is leaving gaps in the up-country towns that are deemed by them as uneconomical as they chase the big fishes. The co-operative savings and credit societies, most of which are based in those up-country towns are opening more banking halls to fill this gap. This will be very convenient to members, as banking services become more geographically accessible.

2.4. CRITICAL REVIEW OF THE MAIN ISSUES.

For a stable economy, confidence in the financial institutions especially banks is paramount. Hence this study intends to bring to light the issues of ownership of the front office banking services and any memorandum of understanding that might have been executed by the management. Also the legal framework in which they are conducting business will be looked into.
Since the study will not cover all aspects of an organization, it might not give an all-encompassing picture on the condition of Mwalimu Sacco front office banking service. Other factors such as professionalism of the staff, quality of management among others, influence a firm's ability to acquire and maintain competitive advantage.

The technological level of front office services as compared to those of mainstream commercial banks will influence their ability to attract and retain customers. At the moment they do not have automated teller machines (ATM'S) and branchless banking. All this issues need to be addressed if future attractiveness of this service is to be fully ascertained.

2.5. SUMMARY.

Today's highly complex and technologically advanced business environment requires that to survive and remain competitive the organization has to strategically position itself in the market by offering innovative products. The front office banking service by co-operative societies is one such product that has lead to increase in the size of business of co-operative societies and it has an impact on the society, its members and the banking industry at large. This study will endeavor to reveal this impact and attempt to predict the future trends.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study adopts a descriptive case study design. It involves a visit to the population of interest and the industry's trade association to determine the impact of the co-operative savings and credit societies' front office banking services. The legislation and procedures that govern their operations will also be looked into.

Since some of the information required for the purpose of this study already exists, albeit not in a manner organized for the purpose of this study, the researcher sorted out the relevant material, compiled it in line with the research objectives.

3.2 Target Population

The target population is all Sacco's offering front office banking services in Kenya.

3.3 Sample Size

The research follows the case study approach; the case is the Mwalimu Sacco managed, Withdrawable Savings Funds (W.S.F.), which is the banking section of the Mwaimu Co-operative Savings and Credit Society.
(SACCO), otherwise known as front office banking service at Tom Mboya Street Nairobi. The offices of KBA was also be visited.

3.4 Sampling Strategy

To enable an exhaustive research that answers the research questions on the sacco, members, management and the financial sector at large a case study was adopted.

The case study approach is appropriate for this study since apart from collecting primary data, actual secondary information was collected exhaustively to answer specific research questions.

For secondary data collection, this particular sample has been selected on the basis that it is among the biggest and best managed Sacco. It has a relatively large market size, which is distributed over a wide geographical area. Hence this particular Sacco offers the best way to answer the research questions and later be used to generalize (within the limits of generalization) the activities of other similar institutions.

For primary data, sampling was done by stratified random sampling. This method of sampling increases quality of information for a given stratum.
Staffing at Mwalimu Sacco

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</tr>
<tr>
<td>2 &amp; 1</td>
<td>28</td>
<td>Subordinate</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>195</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table below is the composition of sample distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staff</td>
<td>24</td>
<td>20.6</td>
<td>5</td>
</tr>
<tr>
<td>Operations staff</td>
<td>92</td>
<td>79.4</td>
<td>19</td>
</tr>
</tbody>
</table>

*Table 1. Sample distribution*

3.5 Data Collection Procedure

The data collected was both primary and secondary. The primary data was collected by a closed-ended questionnaire supplied to both the operating
and management staff. For the operating staff, it was distributed randomly within the strata. For management staff questionnaire was distributed as follows:

One to the deputy general manager in charge of the banking section, one to any of the management committee member and the other three to any of the other managers.

For the secondary data, financial reports were used and information extracted by means of filling schedules.

3.6 Data Analysis

The quantitative data was analyzed using mathematical progressions and the various financial ratios that test for trends in growth, profitability, turnover and capital-assets variables. Since data was of nominal variables yielding descriptive statistics, then univariate analytical methods such as percentages and mode were used. These ratios will be used to test the study's questions by comparing the year-after-year trends before and after the introduction of banking section.

The primary data is analyzed to yield descriptive statistics such as demographic composition of the staff, speed of processing transactions and the experience of the staff in the banking section. This is also analyzed using the univariate analytical methods.
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The researcher collected actual numbers and financial figures from the records of Mwalimu Sacco - Nairobi they are represented below:

4.2 Quantitative analysis

4.2.1. Financial position

Has the front office banking services led to growth of the financial position of Mwalimu Sacco?

The percentage annual increase in net assets was calculated on the actual figures obtained. The figures were obtained from the year 1995 to 2004 with the threshold being the year 1999 when the front office banking section was opened.

Table 4.1. Net Assets of Mwalimu Sacco

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets in Kshs. &quot;000&quot;</td>
<td>43,636</td>
<td>72,011</td>
<td>993,000</td>
<td>2,094,568</td>
<td>2,605,220</td>
</tr>
<tr>
<td>Percentage Change (%)</td>
<td>-</td>
<td>65%</td>
<td>1,279%</td>
<td>111%</td>
<td>24.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets in Kshs. &quot;000&quot;</td>
<td>3,021,515</td>
<td>3,475,174</td>
<td>4,111,054</td>
<td>4,896,540</td>
<td>5,818,398</td>
</tr>
<tr>
<td>Percentage Change (%)</td>
<td>16%</td>
<td>15%</td>
<td>18.3%</td>
<td>19.1%</td>
<td>18.8%</td>
</tr>
</tbody>
</table>

Source: Author 2005
The 4 years preceding the introduction of the front office banking section experienced a massive growth in the Mwalimu Sacco Net Assets. Between 1995 to 1998 there was a growth from 42 million to over 2 billion representing an increase of 4,700%.

After the introduction of this product in 1999 the subsequent 4 years saw the net assets increase from 2.6 billion in 1999 to 4.1 billion in 2002 representing an increase of 57.8%.

Since 1999 the growth rate has stabilized to an annual growth rate of between 15-19%. The highest annual growth rate was recorded in 1997 while the lowest was in 2001.

4.2.2 Competition

Has the establishment of front office banking service led to effective competition in the financial sector?

To answer this question the actual number of account holders in the front office banking section (and deposit at the front office alone) was collected. They are as follows: -
Table 4.2 Number of Account Holders of Mwalimu Sacco – WSF

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of account Holders</td>
<td>1,270</td>
<td>2,659</td>
<td>4,885</td>
<td>5,906</td>
<td>9,595</td>
<td>18,255</td>
</tr>
<tr>
<td>Percentage</td>
<td>-</td>
<td>109%</td>
<td>83.7%</td>
<td>20.9%</td>
<td>62.5%</td>
<td>90.3%</td>
</tr>
<tr>
<td>Change (%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Author 2005

The first year recorded a modest number of accounts opened but more than doubled in the second year. The annual growth rate decreased to a low of 20.9 in 2002 and then rejuvenated and the rate has been increasing steadily. From it’s inception, in 6 years the number has grown by 1,337.4%.

Table 4.3 W.S.F Deposits

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets in “000,000”</td>
<td>16</td>
<td>34</td>
<td>63.2</td>
<td>119.3</td>
<td>266</td>
<td>638</td>
</tr>
<tr>
<td>Percentage Change (%)</td>
<td>-</td>
<td>112.5</td>
<td>85.9</td>
<td>89</td>
<td>123</td>
<td>140</td>
</tr>
</tbody>
</table>

Source: Author 2005
After the initial second year high growth rate the annual rate slackened similar to the rate of growth of account holder but rejuvenated in 2003 and has been increasing. From a modest value of Kshs 16 million in 6 years it has now a deposit of Kshs 638 million representing an increase of 3,887.5%.

4.2.3 Membership

Has the establishment of the front office banking service led to increase in Mwalimu Sacco Membership?

The actual number of members was obtained and the year-by-year growth rate calculated. They are tabulated as:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Members</td>
<td>38,800</td>
<td>41,808</td>
<td>43,945</td>
<td>46,387</td>
<td>46,918</td>
<td>41,705</td>
<td>42,957</td>
<td>44,136</td>
<td>44,384</td>
</tr>
<tr>
<td>Percentage Change (%)</td>
<td>-</td>
<td>7.75</td>
<td>5.1</td>
<td>5.6</td>
<td>1.1</td>
<td>-11.1</td>
<td>3.0</td>
<td>2.7</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source Author 2005
Before 1999 the annual growth rate of members of Mwalimu Sacco was between 7.75 – 5.1%. However the growth rate slackened later with the year 2001 experiencing a decline (negative growth).

4.2.4 Legislation

Is there a need to change legislation pertaining to banking industry to accommodate the front office banking services?

Mwalimu Sacco W.S.F was formed in line with the session paper No. 4 of 1987, which stated that if a society has fulfilled its main objectives of mobilizing savings and loans to members and has management competence could be allowed to open savings account where the members can be able to save and withdraw their deposits.

The new co-operative Act No. 12 of 1997 moved central decision-making authority from commissioner of co-operatives to the members. Consequently, the mandate to start the W.S.F was granted by delegates during the Annual Delegates Meeting (ADM) of May 1997.

The new co-operative societies Act No. 12 of 1997, under section 3 sub-section (3), created the office of the registrar of co-operative societies with the main function of guiding co-operatives through the enforcement of the
co-operative societies Act, the rules and the by-laws in a liberalized economic environment.

The banking section is not registered under the banking act or any other act.

4.2.5 Accessibility to credit

Has the front office banking services led to easier access to credit and advances?

The co-operative society banking section does not offer long-term loans. This is obtained directly from the co-operative society. The banking section offers salary advances to its members, which is similar to overdraft facility offered by commercial banks.

For account holders who are advanced an emergency loan by the co-operative society, the transaction is processed within the same day as it is handled in-house.
5.1 Introduction
In this chapter we will discuss the main issues raised by the research questions and the results obtained. This includes financial position, membership, the banking section, management, competition and accessibility to credit.

5.2 Answers to research questions
The following can be deduced from the quantitative and qualitative analysis of data obtained.

5.2.1 Financial Position
Before 1997 Mwalimu Sacco was a small co-operative society. It then embarked on a massive recruitment drive that saw its net assets grow by 1,279% in that year. The value has consistently grown to its current level of over Kshs. 5.8 billion.

However, since the introduction of the banking section the growth rate has been consistent though at a lower rate than before its introduction. From the values obtained it is clear that the opening of the banking section did not influence the financial position. Hence it can be said that the front office banking section has not led to growth of the financial position of Mwalimu Sacco.
5.2.2 Membership

The growth of membership over the years has been modest though consistent. However, in the year 2001 there was a negative growth rate. This was due to rationalization of the membership register that saw the removal of dormant members from the register.

The membership of Mwalimu Sacco is mainly drawn from post-primary teachers and employees of the Teachers service commission secretariat. Since the total number of the target market is just slightly above 50,000, then there is very little room for growth since the market is nearly exhausted.

It emerged that due to the limited market size, the aim of opening the front office banking section was to offer a more attractive package of services to retain the existing members rather than to attract new members per se. Hence it can be concluded that the opening of the front office banking section has not led to increase of membership of Mwalimu Sacco.

5.2.3 The Banking Section

The banking section accepts deposits from the members of the co-operative society only. It is only a product of the Sacco and infact the use of the word banking is a misnomer since it does not operate under the banking act nor is it registered anywhere as a different entity.
Being a product of the co-operative societies its correct name is

Withdrawable Savings Fund (W.S.F)

The deposits at the Savings fund have been growing at an impressive level of over 85% annually. With a deposit base of Kshs. 638 million, It is now comparable to a small financial / banking institution. The number of depositors has been growing also at an impressive level and it is expected that this number will continue to grow as more up-country branches are opened (There are only 2 branches at Nairobi and Kisumu currently) and more technology is introduced with installation of Automated Teller Machines (ATM's)

The savings fund offers only short-term salary advances and helps processing of loan application on behalf of the Sacco for its depositors. Other services it offers include processing salaries, accepting over the counter deposits and withdrawals.

5.2.4 Management

Being a product of the co-operative society, it is under the same management as the Sacco, with one Deputy General Manager (DGM) being responsible for the day-to-day management of the Withdrawable Savings Fund. The management is governed by the by-laws of co-operative societies.
To facilitate smooth operation of this product, the Co-operative Bank of Kenya is contracted to offer it advisory and consultancy services. It has developed an operational manual that the management of the Withdrawable Savings Fund uses as a guideline. In fact at the moment the co-operative bank is scheduled to review the operational manual to enhance its effectiveness.

The savings fund has its own qualified and experienced line managers and operating staff.

Under the guidance of a big commercial bank like the Co-operative Bank of Kenya, the Withdrawable Savings Fund gains access to experience and resources of the bank. Hence the management is unlikely to make unsound decisions based on inexperience.

5.2.5 Competition

As discussed earlier, the number and amount of deposits has been growing at an impressive level. If all the co-operative societies in the country are taken together they have a net asset of over Kshs. 100 billion which is equivalent to the country's biggest bank i.e. Barclays Bank of Kenya.

With this massive resource base, the co-operative movement can offer serious competition to other financial institutions, especially since their products are tailored to be niche specific. This would make them more
attractive and competitive. Hence it can be concluded that the establishment has led to effective competition in the financial sector.

5.2.6 Legal Issues

As currently constituted and managed, there is no immediate need to change the legislations. However, as they grow there might arise a need to protect members deposits since the majority of the savers are small income earners and hence the most vulnerable. This might bring a clash between the ministries of co-operatives and that of finance under which the banks falls.

There is a curious indemnity clause in account opening form of Withdrawable Savings Fund which states that “I agree that this account shall be operated solely at the discretion of the fund and I hereby agree to indemnify the fund at my cost against any loss incurred or claims arising out of the account being closed by the fund without notice because of unsatisfactory performance”.

5.2.7 Accessibility to Credit

Since commercial banks do not offer salary advances, then with the advent of the Withdrawable Savings Fund there is easier accessibility to credit and especially short-term credit. The time of processing such a transaction has reduced to within a day.
5.3 Conclusion
The advent of co-operative societies' product of Withdrawable Savings Fund has added a new attraction to the co-operative movement. The members now enjoy a wider product range and easier accessibility to credit. There is also an increase in competition in the financial sector with the resulting benefits to all sectors that rely on the financial services.

From the results it can be concluded that this product has not significantly influenced the financial position and the number of members in Mwalimu co-operative savings and credit society. However it has led to increased competition and easier access to short-term credit. This product is one of the package of services offered by co-operative societies to its members and hence it is not an independent legal entity.

5.4 Recommendations for Further Research
Further research should be done to establish the following, so that a clearer condition of the co-operative societies withdrawable savings fund can be ascertained.

1. More research of this nature should be done on other co-operative societies offering this product.

2. Can there be a balance between the ministry of finance and ministry of co-operative development to avoid conflict and at the same time protect depositors.
3. Should there be a threshold before a co-operative society is allowed to operate a banking section

4. What is the reaction of commercial banks to this intrusion on their turf?
REFERENCES

Cowell, Donald (1985): The marketing of services Heinemann, London.


APPENDIX 1

QUESTIONNAIRE TO THE MWALIMU SACCO WSF STAFF.

July/ August 2005

Dear Sir / madam,

RE: RESEARCH PROJECT QUESTIONNAIRE.

The researcher is a post-graduate student at Kenyatta University undertaking a research entitled - Impact of co-operative societies front office banking services (FOSA/W.S.F) on co-operative societies-A case of mwlimu SACCO. The research is for partial fulfillment of the requirement of masters of business administration (finance).

The responses will be treated with utmost confidentiality and your cooperation will be highly appreciated.

Thank you,

Yours,

Benson. N. Ng`ang`a

Kenyatta University.
THE QUESTIONNAIRE TO MWALIMU SACCO STAFF

Operations

Instructions.

Answer the following questions as honestly as possible. You are reminded that your responses will be treated with utmost confidentiality.

Section A: Biodata

1. Gender: Male ☐ Female ☐

2. Age: below 25 ☐ 25-35 ☐ 35-45 ☐ above 45 ☐

3. Have you worked in a commercial bank before joining the front office banking service?
   Yes ☐ No ☐

4. If yes for how long?
   Less than 1 year ☐ 1 – 3 years ☐
   3-7 years ☐ above 7 years ☐

Section B.

5. Do you think that the establishment of the front office banking section has led to financial growth of the co-operative society?
   Yes ☐ No ☐
6. If yes to what extent.

   a) Very great  
   b) Great  
   c) Fairly  
   d) Low  
   e) Very low

7. Why do you think members open a front office bank account?

   a) To process salary  
   b) To access salary advance  
   c) To access long term finance  
   d) To support the co-operative society  
   e) Any other specify

8. Do you believe that the establishment of the banking service has attracted more members to the co-operative society?

   Yes  
   No
9. If yes to what extend?
   a) Very great □
   b) Great □
   c) Fairly □
   d) Low □
   e) Very low □

10. How long do you take to process a loan (advance) to a member?

   Within a day □ 1-3 days □ more than 3 days □

11. Who in your opinion owns the Mwalimu Sacco’s withdrawable fund (W.S.F.)?

   a) Mwalimu Sacco □
   b) The Co-operative bank of Kenya □
   c) Others (specify) ___________________________
To management staff

12. Is there any agreement made between the co-operative society and a commercial Bank.

Yes [ ] No [ ]

13. a) Is yes what is the nature of the agreement?

(Specify)

b) Specify the commercial bank

14. Was the agreement ratified by the annual delegates meeting?

Yes [ ] No [ ]

15. If yes in which year?

16. Was the agreement registered with any government or a banking industry agency?

Yes [ ] No [ ]

If yes specify the agency.

End.