EFFECTS OF COMMERCIAL BANKS' PERSONAL BANKING SERVICES ON THE OPERATIONS OF SAVINGS AND CREDIT COOPERATIVE (SACCO) SOCIETIES OPERATING IN PUBLIC UNIVERSITIES IN KENYA

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DECLARATION

This project is my original work and has not been presented in any other university or college for any academic award.

Signed: _______________________________ Date: ____________

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This work has been submitted for examination with my approval as the university supervisor.

SIGNATURE: _______________________________ DATE: ____________

NDEDE F.W.S

CHAIRMAN’S APPROVAL

This work has been submitted for examination with my approval as Chairman.

SIGNATURE: _______________________________ DATE: ____________

DEPARTMENT OF ACCOUNTING AND FINANCE
DEDICATION

This study, with all my love is dedicated to my children Paul, Joy and Grace.
ACKNOWLEDGEMENT

I wish to register my thanks to all individuals who have contributed in one way or another to the success of this project. I am greatly indebted to my supervisor, Mr Ndede for his guidance, dedicated support, understanding, patience, and generosity with his time despite his many schedules.

Special thanks to all my MBA lecturers for the knowledge they imparted to me during the course. My colleagues for the moral support and encouragement. I am immensely indebted to my children who selflessly sacrificed during my time of study.

To all I say ‘MAY GOD BLESS YOU’
ABSTRACT

The Kenyan financial Co-Operative Sector, referred to as the Savings and Credit Co-Operatives (SACCO), play an important role in the Kenyan financial sector. SACCOs have been popular among employees and the agricultural sector. They have, for a long time, been providers of development loans, credit, and most recently processing of salaries. Lately, the commercial banks have become very liberal with their loan schemes targeting employees who need not necessarily be account holders. By luring employees who are members of SACCOs, the banks have become direct competitors to SACCOs. This direct competition must have had effect on the operations of SACCOs. The study therefore, aimed at assessing the effect this might have had on SACCOs. The objectives of this study include; examining the effect of commercial banks’ lending activities on the SACCO societies operating in the public universities, the products that attract SACCO members to withdraw from the society, establish products and services that attract and retain members to the SACCOs, and assess the various strategies that SACCO societies can adopt to mitigate the negative effects arising from competition from commercial banks. The study is based on two SACCO societies operating in two public universities namely Kenversity of Kenyatta University, and Fundilima of Jomo Kenyatta University. These SACCOs have a total of 3,303 members. Both qualitative and quantitative approaches were used in the research. A sample size of 230 respondents was used in the study. A combination of stratified and simple random sampling techniques was used in identifying the respondents. Data was collected by use of both questionnaires and interviews. Data collected was analyzed using statistical package for social sciences (SPSS) and Microsoft excel.
Research findings indicate that savings and credit are the dominant factors attracting members to the SACCO societies, BOSA activities are more popular than FOSA activities, there are lesser new members joining SACCO societies, it takes considerably long period for SACCO societies to process and disburse loans as compared to commercial banks, SACCO credit terms are viewed by members to be more difficult in comparison to commercial banks, and that many members opt for bank loans largely because of quick processing and disbursement of loans, and long repayment period.

The study concluded that banks continue to exert pressure on SACCO members through more innovative and creative products and services. This has affected the operations of SACCO societies negatively as members continue to withdraw and remit more funds to the commercial banks by way of loan repayments. There is need for concerted efforts by SACCO societies to mitigate the negative effects posed by commercial banks competition. Such measures include aggressive marketing of SACCO activities, infusion of professionalism in the management, adoption of new technology (ATMs), introduction of more innovative products and service, and reduction of interest rates on FOSA products.
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LIST OF ABBREVIATIONS

ACCOSCA: African Confederation of Co-operatives Savings and Credit Associations.

AGM: Annual General Meeting.

ATM: Automated Teller Machines.

BOSA: Back Office Service Activity.

CBK: Central Bank of Kenya.

CIC: Co-Operative Insurance Company of Kenya.

FOSA: Front Office Service Activities.


KUSCCO: Kenya Union of Savings and Credit Co-Operatives Limited.

MSE: Micro and Small Enterprises.

NGO: Non-Governmental Organizations.

SACCO: Savings and Credit Co-Operatives Societies.
DEFINITION OF OPERATIONAL TERMS

**Bank:** Means a company which carries on, or proposes to carry on, banking business in Kenya and includes the Cooperative Bank of Kenya Ltd but does not include the Central Bank.

**Banking Business:** Means accepting from a member of the public of money on deposits repayable on demand or at expiry of a fixed period or after notice, or on current account, and employing the money held or part thereof by lending, investing or in any other manner for the account and at the risk of the person so employing the money.

**Deposit:** means a sum of money received or paid on terms under which it shall be repaid with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it.

**Personal Banking:** Means providing banking services to individuals or retail banking. It includes all products directed at individual customers and not corporate customers.

**Population:** A population is group of individuals, objects or items from which samples are taken for measurement. It is an entire group of persons or elements that have at least one thing in common, in this case, members of Kenversity SACCO and Fundi Lima SACCO.

**SACCO society:** Means a savings and credit co-operative society registered under the Co-operative Societies Act 1997.

**SACCO services:** Refers to the services or products offered by the Sacco societies.

**Sample:** A sample is a sub set of the population used for the research analysis.
CHAPTER ONE
INTRODUCTION

1.1 Background of the study
Members join cooperative societies for various reasons. However, the most notable reasons are; savings, access to credit, and earning income in form of dividends. It is for these reasons that Savings and Credit Cooperative Societies (SACCOS) are formed. It is estimated that SACCOS serve more than 17% of the Kenyan population and have grown at an average rate of 20% per annum between the years 2002 – 2007 (KUSSCO, 2008). The significance of the SACCO movement in the Kenyan economy cannot be underestimated. The sector continues to be one of the mainstays of the financial markets as it contributes significantly to the country’s growth and development by mobilizing savings from where members borrow to undertake various economic activities. As at 31st March, 2007 there were 5,000 registered SACCO societies in Kenya. By the beginning of the year 2008, SACCO’s had the following deposits, outstanding loans and members in comparison to commercial banks:

Table 1.1 Comparisons of SACCO and Banks

<table>
<thead>
<tr>
<th>Details</th>
<th>Banks</th>
<th>SACCOS</th>
<th>Percentage/ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>682 billion</td>
<td>210 billion</td>
<td>31%</td>
</tr>
<tr>
<td>Outstanding Loans</td>
<td>400 billion</td>
<td>150 billion</td>
<td>38%</td>
</tr>
<tr>
<td>Members or account holders</td>
<td>2,000,000</td>
<td>7,000,000</td>
<td>1: 3.5</td>
</tr>
</tbody>
</table>

Source: Kussco, 2008
From the above table, it becomes apparent that SACCOS play an important role in the Kenyan economic system. SACCOs hold in size about 31% of the deposits held by all banks combined. Similarly they loan out about 38% the size of loans given out by banks. Perhaps the significance of the movement lies in the number of members. The Sacco movement is more than three times the banking sector in terms of the members. These are largely people in the lower cadres of employment and the informal sector (KUSSCO, 2008).

In their quest to make more income for members, to diversify risk and serve members better, SACCO societies have been devising new products. One of the new areas is front office services (FOSA). This involves carrying out deposit taking business by SACCO societies. In doing this, Savings and Credit Cooperative societies relied on their members as sources of the deposits. However the operations of FOSA activities are under the threat of stiff competition from commercial banks. Most banks operate deposit taking accounts with nil balances. This action is intended to attract customers who hitherto could not open and maintain bank accounts due to lack of minimum balance. Another factor that has had a direct bearing on the FOSA activities of SACCO societies is the increased liquidity in the market. As a matter of policy, the Government reduced the level of borrowing from the domestic market. Banks that previously invested heavily in the Government securities resulted in holding huge sums of money. For example, as at 31st December, 2003, the banking sector had a net deposit liabilities of Kshs 378 billion as compared to the liquid assets of Ksh 186 billion (Arqwings-Kodhek, 2007). The statutory minimum liquid assets are Ksh 75 billion implying that the balance of Ksh 111 billion should be lent out to productive uses. It is this amount that commercial banks are lending out as unsecured
loans to salaried workers. A large number of banks have also entered new lines such as insurance premium financing, car loans and mortgages. These are activities upon which more SACCO societies were thriving.

The Government through the Central Bank of Kenya (CBK) has continued to lower the interest on government securities. This action has deprived the banks income previously earned from these securities. The CBK has gone further in publishing the bank fees and other charges in the press. The objective is to ensure that the bank’s job and source of income remains offering of loans. All these actions have brought commercial banks and Cooperative societies in direct competition. Commercial banks are now targeting the population that hereto was the preserve of SACCOs.

As at 31st December 2005, there were 3,000 active SACCO societies with a membership of about 3 million. The share capital and deposits stood at 120 billion while loans outstanding were Kshs 90 billion. These increased to deposits and outstanding loans of Kshs 210 billion and Kshs 150 billion by the beginning of the year 2008 (Ademba, 2008). This was an increase of 75% and 40% respectively. Such an increase demonstrates the significance of the SACCO sector to the economy in the mobilization of finances and the confidence Kenyans have in the sector.

The aim of this study was to examine the effect of personal banking services by commercial banks on the operations of the SACCO societies in the public universities in Kenya. Specific reference was made on SACCOs operating in Kenyatta and Jomo Kenyatta Universities. These societies are Kenversity and Fundi Lima cooperative
societies. The choice of the public university societies was taken on the basis that such employees well represent both the Kenyan public servants and the private sector employees. Further the university employees are more knowledgeable and hence are expected to make rational decisions or choices. Given the location of these two institutions, it is evident that they are closer to most of the banks. Thus the decisions and operations of the banks that affect the SACCO movement can be easily discerned from their operations.

1.2 Statement of the Problem

The services of SACCO’s are largely directed to the individuals and households of lower income strata (Wamuyu, 2005). With liberalization of the sector, small scale traders and Jua Kali operators are also able to access the services of these organizations. The interest rate charged by SACCO’s is 12% per annum which is reasonably within the reach of most borrowers. Beside the high interest rates charged by commercial banks, they will normally demand collateral before advancing credit something that most low income individuals do not have (Mullei and Bokea (1999).

One of the challenges facing SACCO societies in Kenya is stiff competition by the mainstream banking sector. Commercial banks are now targeting the small savers with inducement for personal loans hitherto the domain of savings and credit societies. The competition posed by commercial banks has the potential of stiffening the financial base of most SACCO’s (Johnson, et. al, 2002). Currently commercial banks are offering unsecured loans to salaried employees to a tune of Kshs 2 million repayable over a period of six years. Further, products such as loan top up has the effect of holding the borrower
for a considerable long period of time. Other activities conducted by commercial banks that could have negative effects on the financial position of SACCO’s include buying out loan balances payable to SACCO’s so that employees can qualify for huge bank loans. Such measures and techniques have the potential to push out SACCO’s out of business.

The survival of most SACCO’s is heavily dependent on members’ contributions and repayment of loans. Should commercial banks succeed in winning this segment of the market, it becomes imperative to examine the future survival of SACCO’s in Kenya. The Government through various policies such as Vision 2030, Economic Recovery Strategy for Wealth and employment Creation, Poverty Reduction Strategy, and Economic management for renewed growth, acknowledges the crucial role played by the Micro and Small Enterprises. These businesses are largely financed by SACCO societies.

Most of the research that has been conducted on financial institutions outside the banking sector has targeted the Micro finance Institutions (Wamuyu, 2005). There is therefore a need to carry out a comprehensive study on the future of SACCO societies in Kenya in the face of competition from commercial banks.

1.3 Research Objectives

1.3.1 Broad Objective

The broad objective of the research is to examine the effect personal banking services by commercial banks has on the operations of Savings and Credit Cooperative Societies (SACCOs) operating in the Kenyan public universities.
1.3.2 Specific Objectives

The specific objectives for the study include;

a) Examine the effect of commercial banks’ lending activities on the SACCO societies operating in the public universities in Kenya.

b) Examine the products that attract SACCO members to withdraw from SACCO societies for commercial banks.

c) Establish products and services that attract and retain members to the SACCO societies.

d) Assess the various strategies that SACCO societies can adopt to mitigate the negative effects of the commercial banks competition.

1.4 Research questions

The research questions include;

a) What is the effect of commercial banks lending activities on the operations of the SACCO societies operating in the public universities in Kenya?

b) What products and services are offered by commercial banks that attract SACCO members to withdraw from the Cooperative in favor of the bank?

c) What products or services are offered by SACCO societies that attract and retain their members?

d) What are the various strategies that SACCO societies can adopt so as to mitigate the negative effects of stiff competition posed by commercial banks?
1.5 Significance of the Study

The research findings will be of help to the SACCO members, management, employees, government and regulatory authority, academicians, business students, and other stakeholders such as suppliers.

Members of the societies will benefit from findings of this study because of the increased information concerning the operations commercial banks on their savings and credit society. Members will be able to evaluate the benefits and disadvantages of using either bank loan or cooperative loan. Operations of SACCO societies enable members to foster through social fabric as brother and sisters. Such harmonious coexistence has tremendous benefits.

The management committees will be armed with increased information on how to compete commercial banks in provision of services and products to members. By so doing, the management committees will design strategies that will assist them to effectively compete with the banks while remaining profitable and relevant. The provision of products and services that compete effectively with commercial banks will contribute positively to the long term viability and profitability of SACCO societies.

Employees of the SACCO’s will benefit from security of employment. A prosperous organization will not only guarantee them of continued employment but also increments in employment benefits. Employers also stands to gain from effective operations of SACCO societies related to them. Since members of SACCO’s are largely salaried employees, profitability of such organizations directly affect the prosperity of respective
employees. Thus well managed SACCO's can act as motivation to employees working in a certain organization. Issues such as staff turnover and employee dissatisfaction can be drastically reduced.

Regulatory authorities such as the ministry of cooperatives and marketing, and the commissioner of cooperatives will benefit from the increased information regarding the coexistence of the cooperative movement and the banking industry. Such information will be useful in the formulation of policies affecting the sector. Other organizations that are related to the SACCO movement in Kenya include KUSCCO, CIC, Co operative bank, KERUSSU, and Kenya National Federation of Cooperatives.

SACCO societies provide a large market to various suppliers directly and indirectly. Suppliers of materials and products such as iron sheets, water tanks, bicycles and motorcycles, wheel barrows, solar panels, and furniture sell them to members through the SACCO. The survival of the SACCOs is critical to the future profitability of these organizations. On the other hand, there collapse could result in financial distress to such organizations. Scholars, students and other researchers will benefit from increased literature. This study will act as an impetus for more research in this area.

1.6 Scope of the Study

The study is based on two SACCO societies operating in public universities namely Kenversity of Kenyatta University, and Fundilima of Jomo Kenyatta University of Agriculture and Technology. As at 30th September, Kenversity had a membership of 1,403 and Fundi Lima had 904 members who are university employees. SACCO members who are not university employees are not part of the study population.
1.7 Limitations

Due to lack of funds, a wider range of SACCO's will not be included in the study. This will no doubt limit the generalization of the findings of the study to the whole country. However employees in public universities are varied in terms of age, educational status, income, home origin, and gender. Such differences will no doubt enhance the validity of the findings as having captured the views of a cross section of Kenyans.

Another limitation is the possibility of respondents not giving adequate and correct information. The researcher intends to overcome this problem by verifying some of the provided information with other sources of data such as University payroll. Such information will include number of employees within the university having bank loans, and loan balances.

Respondents may not have adequate time to fill in the questionnaire. The researcher intends to employ the services of research assistance who will then deliver the forms and collect them as agreed by the respondents. This is will motivate the respondents to fill in the forms and hasten the process.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter gives the overview of information on the SACCO sector in Kenya, its historical perspective, products, and the legal framework. Various variables that results in the competition between SACCO society’s activities and commercial banks is explored. Various authorities and cited so as to bring clarity to the research question being studied.

2.1 The Cooperative SACCO sector: Significance and Historical Perspective

The Kenyan Financial Cooperative (SACCO) sector is by far the largest SACCO sector in Africa. Several Kenyan’s largest SACCO has a capital base large enough to become banks (Graham, 2007). In the year 2005, the share capital and deposits in SACCOS accounted for over 24% of the domestic savings (KUSCCO, 2006). The SACCO movement boasts of an asset base of over Kshs 200 billion and a total savings exceeding Kshs 210 billion. These factors underlie the significance of the SACCO movement in the Kenya’s financial fabric.

SACCO societies are peoples’ banks whereas commercial banks are not. Commercial banks lack the motivation, attitudes and techniques to provide for the type of services small holder families need most (Johnson, 2004). In the past, the high minimum account balances and transaction costs made it difficult for the common person to become a regular customer with them. Salarised employees opted to open savings accounts with the SACCO societies. Such employees were able to withdraw their salaries after a short
period of time. In most cases salaries take less than a day to process and pay instead of the minimum four working days required by the banks.

Cooperatives were introduced in Kenya in the 1930’s and recognized and controlled by government from 1931 when an ordinance to regulate their operations was first passed. In 1945 the Co-operative Ordinance Act was passed that is the predecessor of CAP 490 of the laws of Kenya, the current Cooperative Act. That Act was amended in 1997 removing much of the control of Government (Kodthek, 2004). The first cooperative however was registered in 1964 after the country attained independence in 1963. In the following year, several SACCOS based upon common bonds linked to residence, occupation and churches were formed. However in 1969 the government required that SACCOS be strictly based on a secure crop or employment relationship. In this ‘check-off’ system, SACCOS received payments directly from employer, processors and marketing organizations. This system ensured that a member’s income would have automatic deductions to boost shares and repay loans. This was a significant factor in the development of SACCOS (Kibaara, 2006).

Liberalization of the cooperative sector in the 1990’s had several impacts. The cooperative societies were now allowed to obtain services from the large market. This development offered SACCOS an opportunity to expand their services. This is because there was a wide spread bank failures at the time. Most banks withdraw from rural areas. Thus SACCOS significantly expanded their network and services both in the urban and rural areas.
The introduction of the Cooperative act of 1997 enhanced the expansion of SACCO movement in Kenya. It led to the introduction of community based SACCO, church based, and Jua Kali SACCOs (artisans, mechanics and metal workers). Currently there are 3,200 SACCOs in Kenya serving 1,300,000 savers and 1 million borrowers. Many of these are urban and employment based with the largest being Mwalimu SACCO serving teachers, and Harambee SACCO serving employees of the departments under the office of the President whose assets run to Kshs 4.5 to Kshs 3.9 bn respectively. Such statistics help to illustrate the significance of the SACCO sub sector in Kenya (Kodhek, 2004).

SACCO societies respond to people’s needs for food and food production, housing, education, small enterprises, transport, medical care, clothing and expenses in marriage, birth and death. Additionally, they instill thrift, self reliance, democratic principles, social concern, leadership and management (Otto, 2002).

2.2 Products and Services Offered by SACCOS

The SACCO societies offer numerous services and products to their members. These products and services include: Savings, Loans, and Front Office Services popularly known as FOSA.

2.2.1 Savings (Shares)

SACCO societies recruit members through sale of shares that are an investment for the members. These shares are the source of funds for lending (Kodhek, 2004). Members of SACCO societies are able to save as they are required to make periodic contributions that constitute their shares. Normally the respective society through their articles of
association determines the minimum amount to be contributed monthly. The main motivating factor is that a member's loan is usually determined by the amount of shares contributed. In case of the two societies under study, a loan is given to the maximum of three times the amount of shares outstanding at any given time. Interest and dividend is shared to the members in proportion to the amount of shares outstanding at the end of the period.

Savings is the largest single most sources of funds to the SACCO societies. It is from the accumulated savings that SACCO are able to grant loans and advances to their members. Any reduction in the amount of shares received by the SACCOs will negatively affect the smooth operations of the societies.

### 2.2.2 Credit

SACCO societies are a major source of loans and advances to the members. Some of the loans given by the SACCO societies are categorized as normal or development loans, emergency loans, school fees loans, and recently super loans or top up loans. Loans and advances offered by Co operative societies will normally attract a low interest rate to the maximum of 12% per annum or 1% per month. Besides, Cooperative loans do not require collateral. In the place of collateral, members will normally guarantee one another. This requirement makes SACCO loans more accessible and affordable to the vast majority of members.
2.2.3 Members’ Dividends and Interest

Dividends and interest are paid to members at the end of the year depending on the financial performance of the organization. This constitutes the income to the members. Dividends and interest are declared during the Annual General Meeting (AGM).

2.2.4 Savings Account (Front Office Services and Activities)

A major innovation in the development of FC sector in Kenya was the development of Front Office Savings Activities (FOSA). The first urban FOSA was started in 1995. In their traditional SACCO operations, services could only be provided to members and the only savings optional for members were the non-withdrawable savings. This had a negative impact on the majority of SACCO’s ability to attract savings necessary to be viable and created long delays in providing loans.

Research evidence (Jonhson, 2004) shows that SACCO societies have a high liquidity because of the high savings as opposed to the credit. This is congruent with international experience which shows that poor people value savings facilities highly. This finding indicates the significance of SACCO societies in the mobilization of savings from low income earners for investment and development purposes. The demand for savings accounts drives one of the most significant developments among SACCOs. This is the investment in Front Office Services and Activities (FOSA). Other services provided under FOSA include; Overdrafts, and advances.
2.2.5 Insurance and Benevolent schemes
These are schemes designed to help members in times of grief and loss. As SACCOs make loans and advances from the pool of savings, they expose themselves to the risk of default. A member can fail to repay the loan for various reasons including:

a) Loss of a job
b) Death
c) Over commitment

2.2.6 Acquisition of Property
SACCO societies assist members in acquiring property such as Land, Iron sheets, water tanks, buildings, mobile phones, and bicycles. Since the society acquires the property in bulk, it is possible to negotiate better terms of purchase. Such benefits are shared between the society and the members.

2.3 Recent Developments
A major innovation in the development of the Financial Cooperatives (SACCO) sector in Kenya was the development of Front Office Savings Activities (FOSA). The first urban FOSA was started in 1995. Although traditionally SACCOs offered services to members only, FOSA in contrast offer services to members and non members. Through FOSA, SACCO societies are able to receive deposits just like banks. Banker’s cheques for school fees and other debt obligations are now facilitated by SACCOs. Short notice loans such as overdrafts and advances are facilitated through the FOSA accounts. Some of the members make savings for specific purposes such as annual holidays, school fees or asset financing. Perhaps the real revolution and advantage of FOSA services was the ability of
members to access cash in the shortest period. FOSA services currently account for a considerable income of SACCO activities. Some of the SACCO societies such as Ukulima are operating Automatic Teller Machines (ATM).

2.4 Legal Framework
2.4.1 Members Meetings
The supreme authority of a co-operative society is vested in the general meeting at which members have a right to attend, participate and vote on all matters (GOK, 1997). Co-operative societies are required to hold an annual general meeting within a period of four months after the end of every financial year. Such a meeting is convened after giving a written notice of at least fifteen days to the members. At the general meeting of the co-operative society, members are required:

a) Consider and confirm the minutes of the last general meeting,

b) Consider any reports of the Committee or the Commissioner,

c) Consider and adopt audited accounts,

d) Determine the manner in which any available surplus is to be distributed or invested,

e) Elect the co-operative society’s office bearers for the ensuing year,

f) Determine, where necessary, the maximum borrowing power of the society,

g) Appoint an auditor for the ensuing year, and

h) Transact any other general business of the co-operative society of which notice has been given to members in the manner prescribed in the by laws of the co-operative society.
A part from the general meeting, the law allows members to convene a special general meeting if required. Such a meeting can be convened by the committee for the purpose of approving annual estimates or discussing any urgent matter which is in the Committee’s opinion is in the interest of the co-operatives society. A member of a co-operative society can also request for the convening of such a meeting by giving notice to the committee members stating clearly the reasons and purpose for such a meeting. Should the committee fail to convene such a meeting within a period of fifteen days then such a member can give notice to other members stating the objects and reasons for the meeting and the fact that the officials have failed to convene the meeting.

2.4.2 Committee Membership, Composition and Powers

The Co-operative societies Act, 1997, require that a co-operative society shall have a committee consisting of not less than five and not more than nine members. The members of the committee shall then elect the chairman and vice chairman from among themselves. The elected committee is the governing body and hence is in charge of the affairs of the co-operative society. However, such direction should be in line with the provisions of the general meetings and the by laws governing the specific society.

Ordinarily the governing committee has powers over the following;

a) To enter into contracts.

b) To institute and defend suits and other legal proceedings brought in the name of or against the co-operative society.

c) To do all other things necessary to achieve the objects of the co-operative society in accordance with its by laws.
2.5 **Emerging Challenges to SACCO Movement**

The cooperative movement in Kenya which birthed the SACCO financing is a major force to reckon with. However as with every successful venture, there are challenges that must be recognized, understood and faced if its future survival is to be guaranteed. According to Ngenye Kariuki (2008), one of the leading stock brokers in Kenya, the relaxation of the lending policy by commercial banks poses the major threat to the survival of SACCO societies. The practice of commercial banks buying off loan balances held by SACCO members threatens the profitability of SACCOs. Most of the members who are granted bank loans are also forced to open bank accounts with the respective commercial banks.

The signing of the SACCO bill into law by the President is also expected to generate challenges to some of the SACCOs. The new regulations require the establishment of a deposit guarantee fund. The SACCOs are also required to meet certain liquidity requirements.

Other challenges facing SACCO societies include:

a) The element of ‘negotiability’ allows powerful individuals to manipulate the system to their own advantage. Such people manipulate the small investors (members) so as to be elected to the management committees. As the organization becomes larger, it becomes harder for the members to monitor the performance of the management committee, and as such committee members may begin to protect their own interests rather than those of members. This they do by employing unqualified relatives and friends, borrowing heavily without the
required shares. These actions result in all-too-familiar situations of escalating costs and bad loans (Johnson, 2004). Without addressing such a weakness, SACCO societies will find it difficult to compete effectively with commercial banks that are managed by professional persons.

b) A further factor that reduces the prospects for effective management and governance is the complexity of the financial products on offer. Flexible conditions and terms require more detailed reports to monitor performance and hence higher levels of management skills and stronger governance mechanisms to give effective oversight (Johnson and Malkamaki et al., 2002).

c) Non-remittance of the members’ funds by employers both in the public and the private sectors. This has been a major contributory factor to weak financial position of some societies.

d) Mass withdrawal of membership due to reasons such as death and absorption by commercial banks has led to the weakening of the capitalization of SACCO societies. Most employees that take loans from commercial banks are forced to repay SACCO loans and forward their salaries direct to the bank. Since such members may not qualify for a cooperative loan for a long period of time, more often they will resign from the society and seek refunds of their shares.

According to Ademba (2008), the Managing Director of Kenya Union of Savings and Credit society in Kenya, SACCO movement in Kenya faces the following challenges: traditional products, leadership and governance issues, capitalization, taxation, information technology, regulation and supervision, developing a competitive business model, demand for loans, non-remittance, HIV and AIDS, and outreach.
2.6 The SACCO SOCIETIES ACT No 14 of 2008

2.6.1 Regulatory Authority

The SACCO Societies Act No. 14 of 2008 provides for introduction of SACCO Societies Regulatory Authority. This authority shall be governed by a board appointed by the Minister of Co-operative societies. This authority shall be a body corporate with perpetual succession and a common seal. Thus the board shall have the capacity of suing and being sued in its own name, taking, purchasing or otherwise acquiring, holding, charging, and disposing of both movable and immovable property. The authority will also have borrowing and lending powers. The regulatory authority is empowered by the Act to, among other things, impose a levy called the SACCO societies levy, on the deposit taking SACCO societies. The Act further provides that the levy shall be payable at such a rate as may be specified in the order. Stiff penalties are provided for failure to comply with this requirement. Such provisions no doubt will result in increased financial burden to the SACCO societies.

2.6.2 Objects and Functions of the Authority

The objects and functions of the proposed authority are;

a) Licensing SACCO societies to carry out deposit taking business in accordance with the Act.

b) Regulate and supervise licensed societies.

c) Hold, manage and apply the General Fund of the Authority in accordance with the provisions of the Act.

d) Levy contributions in accordance with the Act.

e) Do all such other things as may be lawfully directed on it by the minister.
f) Perform such other functions as are conferred on it by this Act or by any other written law.

2.7 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending policy on Personal Loans</td>
<td>Operations of SACCO societies: Membership, BOSA activities, FOSA activities.</td>
</tr>
<tr>
<td>Required Minimum Account Balances</td>
<td></td>
</tr>
<tr>
<td>Interest rates on loans</td>
<td>Closer Competition for the same customers</td>
</tr>
<tr>
<td>Legal and regulatory framework</td>
<td></td>
</tr>
<tr>
<td>Interest rates on loans</td>
<td>(Strategies used)</td>
</tr>
</tbody>
</table>

Figure 2.7

Source Researcher

The survival of SACCO societies largely depends on the competitiveness of the products and services they offer. Thus the first independent variable in our study is the various products and services offered by the SACCO societies. The products and services offered by Commercial banks do also targets the same customers of the SACCOs. Thus, effectiveness of the products offered by commercial banks is another independent variable.
The products and services offered by SACCO societies and commercial banks bring the two institutions into competition. The strategies used by these institutions to overcome the competition and command a market share are intervening variables. Such variables include innovation in product offering, time of service, after sales service, flexibility, and term or duration of loan repayment.

The dependent variable is a function of the independent and intervening variables. Long term survival, profitability, and mission fulfillment of the SACCO societies are the dependent variables. SACCO societies exist to provide credit and income to their members.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0  Introduction
This chapter outlines how the research will be carried out. The chapter has five parts namely; design population of the study, sample and sampling design, data collection procedure and instruments, and data analysis and presentation.

3.1  Research Design
This refers to the structure of the research (Kombo, 2006). The design below shows the arrangement of the way the research has been conducted. This will be an exploratory study that intends to highlight the effect of personal banking services by commercial banks on the operations SACCO societies. Both qualitative and quantitative approach will be used. However descriptive statistics will be used in the data presentation.

3.2  Population of the Study
The population of study included members of Kenversity and Fundi Lima SACCO societies. Only members of the SACCO that are employees of the university are included in the study population. As at 31st September 2009, Kenversity has a membership of 1,403 and Fundi Lima 904 who are employees of the respective universities (University payrolls). This makes a total of 2,307 members for both SACCOs.
3.3 Sample size and Sampling Design

Stratified sampling technique was used to determine the number of respondents from each university SACCO. This was important to ensure that the individual universities SACCOs are well represented. However simple random sampling technique was used to identify the actual respondents to be included in the sample. A sample size of 230 was considered ideal. This makes it 10% of the population. Thus the sample size is large enough to comply with the requirements of large samples or normal curve distribution (Lucy, 1997). The break down of the sample composition will be as follows:

<table>
<thead>
<tr>
<th>SACCO</th>
<th>population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenversity</td>
<td>1,403</td>
<td>140</td>
</tr>
<tr>
<td>Fundi Lima</td>
<td>904</td>
<td>90</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,307</td>
<td>230</td>
</tr>
</tbody>
</table>

A population frame of the SACCO members of the two cooperatives will be obtained from the relevant offices.

3.4 Data Collection Instruments

Interviewing and questionnaire techniques were used in the collection of data. Interviewing was used to gather information from members who may not be able to fill in questionnaire forms. However the set questionnaire was used for the interview. Both closed and open ended questions were used in the study.
3.5 Data Collection Procedures

Permission to conduct the research was obtained from the respective Management committees of both Kenversity and Fundi Lima SACCO societies. Two research assistants were used in the distribution and collection of the filled in questionnaires. They were also trained by the lead researcher on how to interview and record the responds. This was necessary to ensure consistency in the recorded responses.

3.6 Data Analysis and Presentation

Data collected from this research was coded, formatted and analyzed using Microsoft Excel, SPSS (Statistical Package for Social Sciences) and Microsoft word computer packages. Since the study is also quantitative in nature, descriptive statistics such as tables, percentages, frequency distributions, pie and bar charts were used in presenting the research findings.

Qualitative information was grouped and summarized in a tabular form so that frequencies of similar responses were obtained. In this way, the adequacy, credibility, consistency and usefulness of the information could be determined. Hence information obtained could be used for generalization purposes.
CHAPTER FOUR
DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction
This chapter presents the findings gathered from the field by the use of data collection procedures discussed in chapter three. The aim of this study was to analyze the effect of personal banking services on the future operations of SACCO societies operating in the public universities in Kenya. For purposes of this research, two SACCO societies, namely Kenversity and Fundi Lima were included in the study.

A sample size of 230 respondents was chosen from both institutions. However a total of 146 respondents filled in and returned the questionnaire. This is a respond rate of 63.5% which is sufficient for the study.

4.2 Reasons for joining the SACCO
The respondents gave diverse reasons as to why they joined the SACCO societies. They included savings, access to loans (credit), income (dividends), development, emergency assistance, and other factors such as peer pressure.
Table 4.2 Reasons for joining SACCOS

<table>
<thead>
<tr>
<th>Reasons of Joining the SACCO</th>
<th>Respondents</th>
<th>Percentage</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>58</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>Loans (Credit)</td>
<td>52</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>Income/Dividends</td>
<td>12</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Development</td>
<td>12</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Emergency assistance</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Others (peer pressure, SACCO growth etc)</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

Savings ranked first with forty percent followed by credit with thirty six percent. The two factors combined together makes seventy six percent of the reasons for joining the SACCO. Other factors given by the respondents are need for dividends, development, emergency assistance, and peer pressure from colleagues.
4.2 Reasons for Joining the SACCO

![Pie chart showing reasons for joining the SACCO.]

- **Savings**: 40%
- **Loans (Credit)**: 36%
- **Income/Dividends**: 4%
- **Development**: 4%
- **Emergency assistance**: 8%
- **Others (peer pressure, sacco growth etc)**: 8%

**Figure 4.2**

4.3 Duration in the SACCO

**Table 4.3**

<table>
<thead>
<tr>
<th>Duration in the SACCO</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>One to five years</td>
<td>47</td>
<td>32</td>
</tr>
<tr>
<td>More than five years</td>
<td>94</td>
<td>65</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>
Sixty four percent of respondents indicated that they have been in the SACCO for more than five years. An addition thirty two percent showed to have been members for a period between one and five years. Only a paltry three percent of the respondents are less one year old in the SACCO.

![Duration in the SACCO](image)

Figure 4.3

4.4 SACCO Products Offered

Table 4.4

<table>
<thead>
<tr>
<th>Products offered</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans (Credit)</td>
<td>90</td>
<td>62</td>
</tr>
<tr>
<td>FOSA Services</td>
<td>35</td>
<td>24</td>
</tr>
<tr>
<td>Utilities (phone, insurance)</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Loans remain a popular product or service of the SACCO. Sixty two percent of the respondents identified loans as a product offered by the SACCO. FOSA services came second with twenty four percent followed by utilities with fourteen percent. Top up loans remain not common with the respondents.

Figure 4.4

4.5 Share contributions

Table 4.5

<table>
<thead>
<tr>
<th>Share contribution amounts</th>
<th>Respondents</th>
<th>Percentage</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 500</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>500 - 1000</td>
<td>69</td>
<td>48</td>
<td>1</td>
</tr>
<tr>
<td>1001 - 2000</td>
<td>40</td>
<td>27</td>
<td>2</td>
</tr>
<tr>
<td>Above 2000</td>
<td>37</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
A majority of members (forty eight percent) monthly share contributions falls within Kshs 500.00 to Kshs 1,000.00. Those contributing between Kshs 1,000.00 and Kshs 2,000.00 were twenty seven percent while those contributing above Kshs 2,000.00 were twenty five percent. There were no respondents contributing less than Kshs 500.00. Assuming a member has been contributing Kshs 1,000.00 for five years continuously; such a member has accumulated a total of Kshs 60,000.00 as shares. Such an amount can only qualify for a loan of Kshs 180,000.00.

Figure 4.5
4.6 Composition of Loans/Credit disbursed

Table 4.6

<table>
<thead>
<tr>
<th>Type of loan received</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal</td>
<td>66</td>
<td>46</td>
</tr>
<tr>
<td>Emergency</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>Super Loan</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>Other (FOSA advances etc)</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>

The societies offer a variety of loans. Forty six percent of the respondents had at one point taken a normal loan, followed by emergency loan with twenty two percent, super loan, and FOSA advances at sixteen percent. Normal and emergency loans are charged at one percent per month on a reducing balance.
Most respondents (forty percent) cited development as the reason for taking SACCO loans. School fees loan was second reason with thirty four percent of the respondents. Medical was another factor with thirteen percent of the respondents. Investment and financial constraints were given as other factors with a combined weight of thirteen
percent. Development may refer to acquisition of assets such as land, building, business capital, motor vehicle, and agricultural equipment and tools. Such items will normally cost colossal sums of money. School fee is also an expensive undertaking. Most public universities charge fees in excess of Kshs 130,000.00 per annum.

![Purpose of the Loan](image)

**Figure 4.7**

4.8 Duration to process SACCO loan

**Table 4.8**

<table>
<thead>
<tr>
<th>Duration to process a loan</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 month</td>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>1-2 months</td>
<td>96</td>
<td>65</td>
</tr>
<tr>
<td>more than 2 months</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>
Most respondents (sixty five percent) indicated that it took one to two months to process a normal loan, from application to the receipt of the cheque. Only twenty five percent received the loan within a period of less than one month.

![Pie chart showing time taken to process SACCO Loan]

Figure 4.8

4.9 Members' opinion on loan waiting period

Table 4.9

<table>
<thead>
<tr>
<th>Opinion of waiting period</th>
<th>Respondents</th>
<th>Percentage</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very long</td>
<td>26</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>Long</td>
<td>64</td>
<td>43</td>
<td>1</td>
</tr>
<tr>
<td>Reasonable</td>
<td>46</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>Short</td>
<td>10</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
Respondents indicated the waiting to be long, forty three percent, reasonable, thirty two percent, very long, eighteen percent, and lastly short with seven percent. This means that sixty one percent of the respondents consider the waiting period to be long.

![Opinion on Loan waiting period](image)

**Figure 4.9.1**
The above histogram shows that majority of the respondents consider the waiting period to be long. In fact the number of respondents that consider the waiting period to be short is only fifteen percent of the respondents that consider the waiting period to be long. Equally the respondents that consider the waiting period to be short constitute thirty eight percent of the respondents that consider it to be very long.

![Histogram showing waiting period preferences](image)

**Figure 4.9.2**

### 4.10 SACCO conditions to get a loan

Several factors were given as conditions to qualify for a SACCO loan. Such factors include guarantors, share contribution, membership of at least six months, and a disposal salary equivalent to a third of the basic salary. Guarantors and share contribution were cited as the major hindrances in accessing a SACCO loan. Given that most members' monthly share contribution was between Kshs 500.00 and 1,000.00, and that most members' duration was given as five years, it follows that on maximum total shares for the period would be Kshs 60,000.00 which qualifies for a loan of Kshs 180,000.00.
4.11 FOSA products and services

Table 4.11

<table>
<thead>
<tr>
<th>Front Office Services</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary processing</td>
<td>62</td>
<td>43</td>
</tr>
<tr>
<td>Short term credit</td>
<td>50</td>
<td>34</td>
</tr>
<tr>
<td>Deposits</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Others (holiday, education etc)</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Salary processing and short term credit are the common services offered by the FOSA. The minimum account balance of the FOSA is kshs 500.00. Short term credit includes overdrafts and advances. Facilities such as saving for holidays, education, and insurance are not popular among the respondents.

![FOSA services to members](image)

Figure 4.11
4.12 How SACCO members are introduced to the Bank and reasons for taking bank loans

Table 4.12

<table>
<thead>
<tr>
<th>How SACCO members are introduced to bank loans</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank agents</td>
<td>37</td>
<td>25</td>
</tr>
<tr>
<td>Other employees (colleagues)</td>
<td>54</td>
<td>37</td>
</tr>
<tr>
<td>Media</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td>University management</td>
<td>29</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The above table indicates that most of the SACCO members who have bank loans were introduced to the bank by their colleagues (friends). Bank agents also play a significant role in introducing members to the bank. Twenty percent of the respondents reported to have been introduced by the university management.
Figure 4.12.1

The above histogram illustrates the fact that colleagues play a significant role in encouraging other members to opt for bank loans. Equally the bank agents, university management, and media (print and electronic) are channels through which banks reach the university employee who also happens to members of the SACCO.

Figure 4.12.2
4.13 Reasons for opting for a bank loan

Table 4.13

<table>
<thead>
<tr>
<th>Reasons for taking bank loans</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long repayment period</td>
<td>28</td>
<td>19</td>
</tr>
<tr>
<td>No guarantors</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>No shares required</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>Loan buy out</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Quick disbursements (short processing period)</td>
<td>62</td>
<td>43</td>
</tr>
<tr>
<td>More money than what SACCO gives</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Most respondents at forty three percent (43%) reported to prefer bank loans because of the quick disbursement of loans. Another nineteen percent (19%) said preferred banks because of long repayment period. Combined these two factors account for sixty two percent (62%) of the respondents. Guarantors and number of shares as a requirement of SACCOs to access a loan accounted for a total of twenty five percent (25%) of the respondents that opted to go to the bank. Loan buy out involving SACCO members accounted for only eleven percent (11%) of the respondents.
4.14 Duration taken to process and receive a bank loan

Table 4.14

<table>
<thead>
<tr>
<th>Time taken to get a bank loan</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 4 days</td>
<td>38</td>
<td>26</td>
</tr>
<tr>
<td>5 - 7 days</td>
<td>49</td>
<td>34</td>
</tr>
<tr>
<td>7 - 14 days</td>
<td>59</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

All bank loans are processed and disbursed within a maximum period of fourteen days from the day application unlike SACCOs that take sometimes more than two months. Sixty percent of the respondents indicated getting the loan within seven days. The
The histogram and pie chart below are used to depict the duration that it takes a bank loan applicant to apply and receive a loan when successful.

**Figure 4.14.1**

```
Time taken to receive a bank loan

<table>
<thead>
<tr>
<th>Time</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 4 days</td>
<td>38%</td>
</tr>
<tr>
<td>5 - 7 days</td>
<td>49%</td>
</tr>
<tr>
<td>7 - 14 days</td>
<td>59%</td>
</tr>
</tbody>
</table>
```

**Figure 4.14.2**

```
Time taken to receive a bank loan

- Above 7 days: 40%
- 1 - 4 days: 26%
- 5 - 7 days: 34%
```
4.15 Bank and SACCO, which conditions are difficult to fulfill

Table 4.15

<table>
<thead>
<tr>
<th>Bank or SACCO which has difficult credit terms (conditions)?</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>48</td>
<td>33</td>
</tr>
<tr>
<td>SACCO</td>
<td>98</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>

Sixty seven percent of the respondents found SACCO credit terms difficult compared to the bank. These credit terms include guarantors, number of shares, duration of membership, waiting time, and a third of the disposal income.

Figure 4.15
4.16 Reasons for members withdrawal from the SACCO

Table 4.16

<table>
<thead>
<tr>
<th>Reasons for withdrawal from SACCO</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressure and appealing products from banks</td>
<td>80</td>
<td>55</td>
</tr>
<tr>
<td>No reason to remain in the SACCO</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Financial Constraints</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Unhappy with management</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Most members withdraw from SACCOs to take advantage of more creative and appealing products from banks. A significant numbers (twenty one percent) cited financial constraints. Fourteen percent of the respondents said they were unhappy with the management. Another ten percent found no reason to belong to the SACCO. It is apparent that banks are exerting a lot pressure to SACCO members through their products to withdraw from the Cooperative.
4.17 Why members still maintain bank accounts

Table 4.17

<table>
<thead>
<tr>
<th>Reasons for maintaining a bank a/c</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM facilities</td>
<td>57</td>
<td>39</td>
</tr>
<tr>
<td>Loan repayment conditions</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>Access to the account country wide</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Other facilities (Visa Card, credit card, cheques, mortgage)</td>
<td>28</td>
<td>19</td>
</tr>
<tr>
<td>No minimum bank balance</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>others (prestige, culture, security)</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Respondents cited ATM as a major factor for holding bank accounts at thirty nine percent. Nineteen percent (19%) of the respondents said other facilities offered by banks such as personal cheques, credit and visa cards motivated them to hold on bank accounts.

Fifteen percent of the respondents preferred bank accounts for prestige purposes. Other factors are loan repayment conditions, thirteen percent, nationwide access to the bank, ten percent, and nil account balance at four percent.
Figure 4.17

4.18 New products desired by members

Table 4.18

<table>
<thead>
<tr>
<th>New products members desire from the SACCO</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM services</td>
<td>122</td>
</tr>
<tr>
<td>Car Loan</td>
<td>55</td>
</tr>
<tr>
<td>Mortgage</td>
<td>47</td>
</tr>
<tr>
<td>Investments in real estate (properties)</td>
<td>7</td>
</tr>
<tr>
<td>Long loan repayment period</td>
<td>133</td>
</tr>
</tbody>
</table>

Long repayment period ranks the first most desired service by the respondents. ATM services are second, followed by car loan and mortgage. Only seven respondents showed a desire for Investment in properties.
New Products desired by SACCO members

![Chart showing demand for various products and services.]

**Figure 4.18**

4.19 Products and services holding members in SACCOs

**Table 4.19**

<table>
<thead>
<tr>
<th>Product or Service holding members in the SACCO</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick credit (emergency loans, overdrafts, and advances)</td>
<td>136</td>
</tr>
<tr>
<td>School fees</td>
<td>122</td>
</tr>
<tr>
<td>Dividends</td>
<td>47</td>
</tr>
<tr>
<td>Savings (shares)</td>
<td>67</td>
</tr>
<tr>
<td>Development Loans</td>
<td>127</td>
</tr>
</tbody>
</table>

Most of the respondents (136) indicated that their commitment to the SACCO was because of accessing quick credit such as emergency loans, overdrafts, and advances. Normal loans and school fees loans came second and third with 127 and 122 respondents respectively. Dividends and savings were not cited as major factors in comparison to the others.
Figure 4.19

4.20 Quality of services rendered to Members by SACCOs

Table 4.20

<table>
<thead>
<tr>
<th>Ranking of SACCO Services</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Good</td>
<td>95</td>
<td>65</td>
</tr>
<tr>
<td>Average</td>
<td>40</td>
<td>27</td>
</tr>
<tr>
<td>Poor</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>146</td>
<td>100</td>
</tr>
</tbody>
</table>

No respondent rated the SACCO services as very good. However sixty five percent of the respondents said the services were good. Twenty seven percent said rated them as average while eight percent rated them as poor. This shows that ninety two percent of the respondents are happy (good and average) of the services rendered by the SACCO.
4.20 Quality of SACCO services

Figure 4.20

4.21 What members do not like about their SACCO

Table 4.21

<table>
<thead>
<tr>
<th>Something you do not like about your SACCO</th>
<th>Respondents</th>
<th>Percentage</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delay in processing of loans</td>
<td>35</td>
<td>24</td>
<td>1</td>
</tr>
<tr>
<td>Less amount of loan as compared to banks</td>
<td>10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Disappearance of documents &amp; Poor record keeping</td>
<td>28</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>High interest rate on some products</td>
<td>17</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Poor dividend payout</td>
<td>16</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Poor services (overcrowding, long queues etc)</td>
<td>18</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Politics during elections and staff appointments</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>A lot of personal documents required</td>
<td>10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Perennial theft by staff members</td>
<td>8</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>146</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>
What respondents did not like most about the SACCO is the long duration or delays in processing of loans. Disappearance and poor record keeping came second with nineteen percent of the respondents. Other respondents cited high interest on products such as overdrafts, advances, and loan top up. Currently Kenversity charges fifteen percent interest per annum on loan top ups instead of the normal loan interest of twelve percent (12%) per annum on reducing balance. Interest on overdrafts and advances is four percent (4%) per month.
CHAPTER FIVE
SUMMARY OF RESEARCH FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study in relation to research objectives as outlined in Chapter one. The conclusion to the study is also made. Various recommendations are made regarding the operations of SACCOs in the face of the operations of commercial banks. Recommendations are also made suggesting areas of further study.

5.2 Summary of findings

Savings and access to credit are the dominant reasons of members joining SACCO societies. Both combined they make up seventy six percent (76%) of the respondents. Eight percent (8%) of the respondents indicated development as reason of joining the society. Development being principally achieved through loans, it implies that savings and credit account for eighty four percent (84%) of the respondents. In fact forty percent (40%) of the respondents indicated that their loans were for development purposes while thirty four percent (34%) said it was for school fees.
BOSA (Back Office Savings Activities) are more popular than the FOSA (Front Office Savings Activities). BOSA services include normal loans, shares, emergency loans, and school fees loans. FOSA services include savings account, overdraft, advances, and salary processing. This is because the interest rate on FOSA services is higher than BOSA. For example the interest rate on overdrafts and advances is four percent (4%) per month while the interest rate on BOSA loans is one percent (1%) per month on reducing balance.

Ninety seven of the respondents indicated that they were more than one year old in the SACCO. This shows that few members are joining the SACCO. This finding suggests that SACCO societies are becoming less attractive to new member who could be opting for bank services.

A majority of SACCO loans (65%) take between one and two months to process. Only twenty five percent (25%) of the respondents indicated to have received the loans within less than one month period. Sixty one percent (61%) of the respondents found this waiting period to be long with eighteen percent (18%) terming it very long. Only seven percent of the respondents considered the waiting period to be short.
Guarantors and share balances were considered as the major hindrances in accessing SACCO loan. Given that most members monthly share contribution is between Kshs 500.00 and Kshs 1,000.00 and that most members’ duration in the SACCO is five years, it follows that on maximum total for such a period would be Kshs 60,000.00 which qualifies for a loan of Kshs 180,000.00. Such an amount is hardly adequate to satisfy the reason members join the SACCO, which is development as stated above.

Factors that attract SACCO members to take bank loans are largely quick disbursement of loans and long repayment period. These factors constituted sixty two percent (62%) of the respondents. Bank loans are processed and disbursed within a maximum period of fourteen (14) days while SACCO societies take an average of two months. In addition respondents found SACCO credit terms (conditions) more difficult compared to those of banks.

5.3 Conclusion

From the research findings, it is apparent that banks are exerting a lot of pressure to the SACCO members through their innovative and creative products, and aggressive marketing. Most members opt for the bank loans even though they are expensive compared to the SACCO loans. The major reasons why SACCO members opt for bank loans are quick loan disbursements and a long loan repayment period. Quick disbursements of loans and extension of repayment period can be done without any conflict with the Cooperatives laws. Disappearance of members’ documents and poor record keeping also encourage members to go to the banks. As a result of the above some SACCO members have totally withdrawn from the SACCO.
5.4 Recommendations

The following recommendations are made in order to help SACCO societies maintain their rightful role in the mainstream financial system in mobilization of savings and provision of much needed credit for economic development.

The management needs to consider engaging aggressive marketing of SACCO societies to attract and retrain members. In particular there is need to market the FOSA products such as holiday and purchase of insurance cover. In addition there is need to review the utilities offered by the SACCO as to their relevance to the members’ needs.

The management of SACCO societies should come up with innovative and creative products that are able to compete effectively with the commercial banks. Infusion of more professionalism in the management of SACCO societies is crucial in achieving creativity and innovativeness.

Members of SACCO societies should build up their share capital to be able to compete with commercial banks in giving out loans promptly and also to increase the loan repayment period. Thus, members of SACCO societies should consider increasing their monthly minimum share contribution. There is need to make investments in ATM and any other modern technologies to enable them serve their customers effectively.

SACCO management should consider reducing interest rates on FOSA products such as overdrafts, advances, and top up loans. Such action will motivate members to use FOSA products rather than going to the banks for short loans.
REFERENCES


Ademba, C (2008), ‘Kenya Union of Savings and Credit Co-Operatives’


APPENDICES

WORK PLAN

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>MAY</th>
<th>SEPTEMBER</th>
<th>OCTOBER - NOVEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>******************</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>******************</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>******************</td>
</tr>
</tbody>
</table>

KEY

1. Proposal writing
2. Adjustments of the proposal
3. Data collection, Analysis and Report writing
BUDGET

a) Travel to Libraries within Nairobi, 10 days @ shs 300 per day  = 6,000.00

b) Stationery  = 5,000.00

c) Photocopying services  = 3,000.00

d) Internet use  = 3,000.00

e) Secretarial  = 4,000.00

f) Binding  = 3,000.00

g) Miscellaneous  = 2,000.00

TOTAL 26,000.00
Questionnaire

PART A

Date.....................................................................................................................

Name of the society..............................................................................................

Position in the society: Tick the appropriate

• Members
• Management Committee
• Any other

PART B

1. What are the main reasons that made you join a SACCO society?
   a) .....................................................................................................................
   b) .....................................................................................................................
   c) .....................................................................................................................

2. For how long have you been a member of the society?
   ✤ Less than a year
   ✤ 1 year – 5 years
   ✤ More than 5 years

3. What are the products offered by the society to the members?
   a) .....................................................................................................................
   b) .....................................................................................................................
   c) .....................................................................................................................
   d) .....................................................................................................................

4. How much do you contribute periodically as shares? **Tick appropriate**
   ✤ Less than Kshs 500.00
   ✤ Kshs 500.00 – 1,000.00
   ✤ Kshs 1000.00 – 2,000.00
5. Have you applied and received a loan from the society?
   - Yes
   - No

6. If yes which type of loan were you advanced?

7. What are the major reasons for taking a loan from the society?
   a)
   b)
   c)
   d)

8. Are there other loans and advances offered by the society?
   - Yes
   - No

9. If yes state them.
   a)
   b)
   c)
   d)

10. How long does it take from the time of application until the time you receive the cheque?
    - Less than 1 month
    - 1 – 2 months
    - More than 2 months
    - Not known

11. How do you consider the waiting period?
    - Very long
    - Long
    - Reasonable
    - Short

12. What are the conditions given for a member to qualify for a loan?
13. Does your SACCO operate Front Office Services (FOSA)?
   • Yes
   • NO

14. If yes, name those services
   a) .................................................................
   b) .................................................................
   c) .................................................................
   d) .................................................................

15. Do you operate any account with the SACCO?
   • Yes
   • No

16. If yes what is the minimum account balance?
    ..............................................................

17. Are you an account holder with any bank?
   • Yes
   • No

18. If yes what is the minimum account balance?
    ..............................................................

19. From which account is your salary received?
    ..............................................................

20. Are you aware of any bank that is offering personal loans?
    • Yes
    • No

21. If yes, how did you come into contact with that information?
 Introduced by a friend or colleague
 Introduced by the university
 Advertisement in the media
 Any other (explain)

22. Have you applied for a personal loan from the bank?
   - Yes
   - No

23. If yes, state the reasons that motivated you to apply a personal bank loan.
   a) ..................................................................................
   b) ..................................................................................
   c) ..................................................................................
   d) ..................................................................................

24. Are you aware of the interest rate charged by the respective commercial bank on the personal loans?
   - Yes
   - No

25. If yes what is the interest rate charged?
    ....................% 

26. Does the interest rate charged remain constant during the period of the loan?
   - Yes
   - No

27. Are there any other bank charges associated with the processing of the personal loan?
   - Yes
   - No
   - I do not know

28. If yes estimate the amount or percentage of the above costs.
    .................................................................

29. Are there other members of the society that you know and have taken personal loans from the bank?
   - Yes
30. If yes, what are the reasons given for them to take bank loans?
   a) ........................................................................................................
   b) ........................................................................................................
   c) ........................................................................................................

31. How long does it take to receive such a loan from the bank?

32. Comparing the society and the bank which one has difficult conditions to advance a loan?

33. Give the reasons for the answer above?
   a) ............................................................
   b) ............................................................

34. Do you know of any member(s) that has left or withdrawn from the society upon receiving a personal loan from the bank?
   Yes
   No

35. Are you aware of the reasons for such a withdrawal?
   Yes
   No

36. If yes state the reasons
   a) ............................................................
   b) ............................................................
   c) ............................................................

37. What other services or products make you maintain a bank account with the commercial bank?
   a) ........................................................................................................
   b) ........................................................................................................
38. Are there products you will wish the society can introduce to the members?
   √ Yes
   ☐ No

39. If yes state the products
   a) ........................................................................
   b) ........................................................................
   c) ........................................................................

40. Which product or service makes you remain a member of the cooperative?
    ........................................................................

41. How do you rank the personal service that you receive from your SACCO every time you visit?
   √ Very Good (Excellent)
   ☐ Good
   ☐ Average
   ☐ Poor

42. State any one thing that you do not like about your SACCO.
    ........................................................................
    ........................................................................