

**MAJOR FACTORS THAT AFFECT THE  
CASHFLOWS OF SACCO SOCIETIES IN  
KIAMBU DISTRICT**

**BY**

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**DECLARATION**

I declare that this is my original work and has not been submitted for examination in any other University.

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## DEDICATION

To my dear parents and uncle (Reuben) for the support and guidance they extended to me throughout my education life.

## ABSTRACT

This study assessed the factors that affect the cashflow of SACCO societies in Kiambu District. Due to the cash flow problem, SACCOs are not able to serve their members properly and as a result the members have moved to seek credit from other alternative credit providers.

The main objective of the study was to establish the factors that affect the cashflow of the various categories of SACCO societies and recommend ways of arresting this problem. Literature review covered work already done on SACCO societies and in particular relating to cashflow. The dependent variable was the cashflow while the independent variables were: non-remittance of SACCO dues, increasing operation costs, payment of an increasing dividend payout ratio, competition from other credit providers and investment policies employed by the SACCOs.

Stratified random sampling was used to create a sample of 27 SACCOs out of the 80 SACCOs in the population being studied. All the different categories of SACCOs were represented in the sample. Data was collected by means of a structured questionnaire supplemented with some interview to make the questions clear. Data was analysed using descriptive statistics and in particular frequency tables, pie charts and bar graphs were used.

The findings were that SACCO cashflows are affected by competition caused by commercial banks and microfinance institutions, continued payment of an increasing dividend payout ratio, increasing operation costs and little or no member education.

The recommendations were that SACCOs should improve on education to members and staff by increasing the number of education days and funding, monitor the competition strategy of their competitors and adjust in time, change to pure residue dividend payout policy and increase the use of computers to reduce the cost of operations.

## DEFINITION OF TERMS

Loan	This is a form of cash advance extended to a customer under certain specified terms.
Co – operative Society	A voluntary association of individuals to achieve a common objective.
Commercial bank	A deposit collecting institution licensed by central bank to do banking business.
Credit	Financial assistance repayable in the future subject to specified terms.
Small SACCO	Membership below 1,000 people.
Medium SACCO	Membership between 1,000 and 3,000 members.
Large SACCO	Membership is above 3,000 members.
Check off Systems	Money that a SACCO receives from employers from deduction from employees for loans, shares and interest.
Cash Flow	In ward or outward flow of money in an Organization

## **ABBREVIATIONS**

<b>CPA-</b>	<b>Certified Public Accountant</b>
<b>FRS -</b>	<b>Financial Reporting Standard</b>
<b>ICA -</b>	<b>International Co - Operative Alliance</b>
<b>IAS -</b>	<b>International Accounting Standard</b>
<b>KUSCCO-</b>	<b>Kenya Union of Savings and Credit</b>
	<b>Co-operative Organisation</b>
<b>RBA -</b>	<b>Retirement Benefits Authority.</b>
<b>SACCO -</b>	<b>Savings and Credit Co - Operative Organization</b>

## CHAPTER ONE

### 1.0 Introduction

#### 1.1 Background to the Study

The co - operative movement supports 45% of the country's economic activities, and it therefore emerges as the best option for achieving this goal of supporting economic growth (Ongwae, 2003 ). The SACCO sub - sector covers both rural and urban areas. It has mobilized savings in excess of Kshs 105 billion (Khaemba, 2006). It can therefore be used in stimulating economic growth (Republic of Kenya 2004). As at 31 December, 2005 there were 2,700 active sacco societies registered with KUSCCO with a membership of 2.5 million. The sum of share capital and deposit was 120 billion (Mudibo, 2005).

Between 1999 and 2003, a number of businesses wound up their operations citing high operational costs (Daily Nation, 2004). This affected the operations of co - operative societies which draw their membership from such companies. Since members had lost their jobs they were not able to continue servicing their loans which led to the collapse of saccos. Organizations are required to prepare a profit and loss account and a balance sheet so as to make their performance and financial position known to their users Companies Act (Cap 486) 1948. The act further requires that the income statement and balance sheet be audited so as to become more useful and reliable to the users.

However, businesses fail and are wound up because of cash shortages or problems, despite adequate profits being made. The problem mainly lies on the cash flow of the business (Frank wood 2005). Cash flow refers to cash receipt and payments made by a business in a specified period. All the receipts over the period are referred to as cash

inflow while all the payments made are termed as cash outflows. On comparing the cash inflows and cash outflows at period end, the net cash inflow or outflow is determined. The comparison is best done in a statement called a cash flow statement. The cash flow statement shows the sources and applications of cash (FRS 1987 and IAS 7).

The cash flow statement will indicate actual cash receipt and payment irrespective of whether profits are made or not. The statement will therefore provide useful information which cannot be derived from a profit and loss statement or a balance sheet. However by using the information in a profit and loss statement and a balance sheet, it's possible to make a cash flow statement using the indirect method. (IAS, NO.7 Revised).

In a saving and credit co-operative society, cash flows in when:

- a) Cash is paid in as share contribution by the employers on behalf of the employees.
- b) Loan interest is paid in for the loans issued.
- c) Interest is paid in by other financial institutions in which the SACCO may have made deposits.
- d) Loans previously issued to members are repaid.
- e) The SACCO disposes some of its fixed assets.
- f) When a SACCO gets a loan from a financial institution like the co - operative bank.
- g) Members pay entrance fee.

**On the other hand, in a SACCO cash flows out when:**

- a) Loans are issued to members.

- a) Dividends and interest are paid out to members for their deposits and investments in the SACCO.
- c) Loans are repaid to the SACCO creditors like financial institutions such as the Co-operative bank.
- d) Payments are made when fixed assets are acquired.
- e) Normal operating expenses like salaries, rents and rates are paid for by the SACCO.

When the cash inflows are higher than the cash outflow there is a net positive cash position while if the cash outflows are higher than cash inflows the cash position is negative.

The position of the cash flow will help determine the financial health and stability of the organization. When the cash flow is positive, the organization has a healthy financial position and can be said to be financially stable since it will be able to meet its cash requirements easily. Such an organization can be said to be having a good liquidity position and hence has the ability to continue in the future. Such a SACCO will be able to issue out loans promptly and pay dividends and interest which are attractive in good time. On the other hand a negative cash flow position leads to instability with the SACCO not being able to meet its obligations and core responsibility of issuing loans to members in good time. The possible outcome of a negative cash flow position may include:

- a) Members queuing for loans for more than one or two months.
- b) High management turnover due to management failure to satisfy the members who in turn insist on their removal.
- c) Members pulling out of it and looking for financial assistance from financial institutions whose credit is quite expensive compared to the SACCO loans.

SACCO cash flow position may be affected by quite a range of factors which may include:

1. Cash investment policies of the SACCO.
  2. Withdrawal of members due to death, retirement, or voluntary withdrawal.
  3. Increase in membership when new members join the SACCO.
  4. No-remittance of check off by the employer or those supposed to do so.
  5. Operations of a SACCO like banking services through the (FOSA) and other cash generating products.
  6. Competition from other financial institutions.
  7. Financial management style that is practiced by the SACCO committee.
  8. Retrenchment which is not well planned.
  9. Effects of change in technology and liberalization of the economy and the cost incurred while trying to compete with other players in the liberalized economy.
- However the extent to which each of the factors affect different categories of SACCO societies differ.

## 1.2 Statement of the problem

The Sacco societies have had some very good impact in the improvement of the members' economic well being and bringing people together hence tightening members social ties. Sacco societies like most other financial organizations are highly affected by the fast changes taking place in the general business environment like competition, legal,

Technological and political changes. Such factors go along way in affecting the cash flow of sacco societies. Generally the factors that affect the cash flows of sacco societies are known to be; non remittance of sacco dues by the employers, effects of retrenchment and retirement, changes in Technology where high costs are incurred in the computerization process, high level competition from micro-finance institutions and commercial banks. However, though the factors that affect cashflow are generally known, they don't affect each of the different categories of the sacco societies in the same way. The research seeks to categorize the saccos in Kiambu District and establish the main factors that affects the cash flow of each category. The study will also recommend measures that can be taken to address cash flow problems of each category of SACCO societies basing on the factors that affect them.

### **1.3 Research objectives**

The main objective is to assess the factors that affect the cash flow of each category of sacco societies in Kiambu District.

The specific objectives are:

- a) To establish the main categories of SACCO Societies in Kiambu District.
- b) To find out the common cashflow position of most SACCO Societies in Kiambu District.
- c) To establish the factors that affects the cash flow of the various categories of SACCOs Societies in Kiambu.

- d) To categorize SACCO Societies in Kiambu according to the factors that affects their cashflow.
- e) To make necessary recommendations to management of the various categories of SACCO societies on how to address cash flow problems.

#### **1.4 Research Questions**

1. From where does the SACCO society draws its membership?
2. What is the credit policy of the SACCO and how is the repayment guaranteed?
3. What are the main businesses or operations of SACCOs in the Kiambu District
4. Who are the major competitors of SACCOs in the Kiambu District?
5. What is the effect of a fixed interest rate to the general cash flow of the SACCO Society?
6. To what extent has SACCOS been affected by retrenchment and retirement?
7. What training programmes and policies do SACCOs put in place?
8. What dividend policy is employed by the SACCO and what impact does it have to the cash flow?

#### **1.5 Significance of the study**

The ability of a SACCO or any other financial institutions to offer services effectively depends on the cash flow position that it sustains. A positive cash flow is the one that will ensure liquidity and hence efficiency and effectiveness of the SACCO or financial institutions. For this reason it is important and necessary to establish why some SACCOs sustain a negative cash flow position. SACCOs generally contribute greatly to development of a well integrated financial market and they help to speed up economic growth. This study is therefore very important to SACCO movements, since its of great

assistance to the management who will get to understand the factors that they need to be keen on in order to ensure liquidity and hence success.

The study will:

- i. assist the stakeholders of SACCOs like the ministry of cooperative in coming up with policies that ensure a favourable cash flow position for rural SACCOs,
- ii. be used by the Ministry of Finance to establish or study the trend of the money market which is very useful in economic planning.
- iii. be useful to the managers of the SACCOs who will use it to strengthen the management policies.
- iv. other researchers who may be interested in researching on rural SACCOs will benefit greatly from the findings of this study.

### **1.6 Scope of the study**

The study will target SACCOs within Kiambu district. The SACCOs to be included are those that have registered with the Kiambu District Co-operative office. These SACCOs have their offices within Kiambu district hence it will be easy to access them within reasonable time and cost. The study will include all SACCOs within Kiambu District

### **1.7 Assumptions of the study**

For the purpose of this study the following assumptions are made:

- i. That the respondents will answer honestly and promptly.

- ii. That the SACCOs maintain correct and complete record of their activities.
- iii. That the most important factors affecting the cash flow of SACCOs will be revealed by the questionnaires.
- iv. That the management will be willing to respond to the questionnaires.

## CHAPTER TWO

### Literature Review

#### 2.0 Introduction

This chapter deals with a review of literature relevant to the study. It will therefore present a review of works, some by scholars on the area of savings and credit organizations and on the cash flows of the savings and credit cooperative organizations. Savings and credit organizations offer services to individuals who must first save some of their incomes with them and apply for credit commensurate with their savings. This credit is not always going to be availed promptly mainly because cash is not available at all times hence the need to investigate the factors that affect the cash flows of such financial organizations.

#### 2.1 Origin of cooperative societies.

Cooperative movements are known to have existed in countries like England, Canada and United States of America. In England they are known to have existed since 1844 at Rochdale. They later spread to Canada (1901) and USA (1908). The first savings and credit cooperative was founded in 1849 in Rhineland (Lasserve, 1959). In Philippines members would save, borrow and repay the principal plus interest using rice (Right 2000).

In Kenya, traditional cooperatives existed all over the Kenya communities under different names. In Kikuyu it was called "Ngwatio", group work in which members of the group assisted each other in turn in cultivation and construction. The Luo had group work called "Saga", in which members of the group would plough or harvest individual garden of

their members in turns (Ouma. 1990). Similarly in Kisii there was “Risaga” and in Kalenjin there was “Kokweti”.

These informal co-operatives can be traced in different communities in every country of the world, for example the Luhya had what they called “Bulala”. Work performed under this association was not paid for except for food or drink which was provided after the work was complete. In some cases work would be paid for through material consideration such as foodstuffs which resembled barter method of exchange. This still exists except the payment these days is monetary.

Before colonization, Africans knew that unity was strength and that was why they cleared bushes together, lived together in homesteads, defended themselves against enemies together and looked after cattle together. The old people knew that the young ones would look after them when they become too old to work among other things (Ouma1987).

In Kenya SACCO movements began in 1946 when due to great economic problems and social changes which affected the whole nation especially so the working class they felt that they should form cooperative associations (Ouma 1990). They mobilized savings and pooled resources for the purpose of granting credit facilities to themselves. Currently there are about 10,000 cooperative societies and unions. SACCO societies account for 42% (4,200) of these societies and have a membership of 1.5 million and a turnover of 74 billion shilings (Republic of Kenya, 2004).

## **2.2 Objectives of SACCO Societies**

The main objectives of the SACCO Societies was to avail credit to the low and middle income class of employees at favorable terms than that offered by commercial banks, which availed credit to the wealthy members who could offer collaterals for the loans granted. SACCOs are an integral part of microfinance as they provide savings and credit facilities to the low income and poor households. The primary objectives of SACCOS are:

- i. Mobilize savings from members.
- ii. Give loans to members upon request but subject to lending conditions in place.
- iii. Invest surplus funds in viable and secure ventures.
- iv. Pay members a reasonable return on their savings and perform any other duty relevant or incidental to their core business.

## **2.3 Definition of a co-operative**

According to International Co-operative Associations (ICA), a co-operative is an autonomous association of persons working voluntary to meet their common economic, social and cultural needs and aspirations through jointly owned democratically controlled enterprises.

According to Co-operative Societies Act Cap 490 (1966), a cooperative is an association of persons who have voluntarily joined together to achieve a common goal through the formation of a democratically controlled organization, making equitable contributions to capital required and accepting a fair share of risks and benefits of the undertaking in which the members actively participate.

In an ICA meeting held in Manchester, England in 1995 the following were agreed upon as the governing principles of co-operatives; open and voluntary participation of members, autonomy and independence, education and training, cooperation among co-operatives and concern for the community in general.

#### **2.4 Cash flow of SACCOs**

Businesses generally do not go broke because they lack assets but because they have inadequate cash flow (FER 1980). Organizations are required to prepare and present an income statement and balance sheet to its shareholders (Companies Act Cap 486) of the Laws of Kenya. The cash flow statement is not mandatory according to the act but it provides useful information not provided by the income statement or the balance sheet (Muchiri 2005).

According to international accounting standard (IAS ) No. 7 ( Revised), a cash flow statement should show:- the net cash in flow or outflow from operations, the net cash flow from investing activities, the net cash flow from financing activities and an analysis of cash at the beginning and year end. The summary of the above will give either a negative or positive cash position. When the summarized cash flow gives a net cash outflow, the position is negative cash flow whereas if the summary is a net cash inflow the position is a positive cash flow.

The cash flow statement gives the sources and application of the organization finances. In SACCO sources of cash include:-

Trading income – This comes from the loans issued to the members during the year. The loans must be repaid with interest which forms one of the cash inflows. SACCO funds are also invested in form of fixed income securities like treasury bonds and bills which generate income to the SACCO. When a SACCO disposes some of its assets, the proceeds are an income to the SACCO irrespective of whether the sale is at a profit or loss. Equally when a SACCO acquires a loan from outside, this is an income to the SACCO and will add to the cash inflow.

All the above will be termed sources of SACCO funds and will be applied in the following ways - issuing of loans to members, paying of the running expenses of SACCOs like salaries, wages, rents, electricity, stationeries, payment in acquisition of assets like buildings, machines, motor vehicles and payment of taxes.

When members' contributions are received by the SACCO in form of shares they will be treated as financing items. Loans acquired from financial institution for boosting loans to members will serve as financing items too.

After summarizing the cash flow from sources and the cash outflow from applications, the net may be negative meaning that the applications are more. This is a negative cash flow position. If the net is positive meaning that the sources are more than the application, there is a positive cash flow position.

A negative, cash flow leads the SACCO to suffer from financial disintermediation which has been the cause of collapse of some SACCOs in Kenya. According to Rose and Traser (1985), financial disintermediation is the removal of savings from a financial institution

and placing of those funds by savers in other investments like stocks, bonds, bank deposits.

In an attempt to analyze the SACCOs sources of funds, they have been seen to receive their largest share of revenue from interest earned from loans to members. The common rate of interest charged by SACCOs is 1% per month. At times as Mandisha (1986) argues, keeping the interest rate fixed at this rate is disastrous for the SACCO given the annual rates of inflation.

### **2.5 Non remittance of check off proceeds or dues**

According to the research findings published by Center for Corporate Governance, Brookside Grove, (2004), most management committees are aware of the risks facing their co-operative. However they have not taken steps to mitigate against risks like loses that can arise due to non-remittance of members contributions by employers, especially government department and parastatals. This state of affairs has impacted negatively on the cash flows of SACCOs.

Also the Co-operative Society Act No. 2 of 2004 (Cap 490) does not have adequate provisions for making employers especially the government departments and parastatals to remit their employee cooperative dues promptly and on a regular basis. For example the teachers have had to call a strike to force the government to remit their cooperative dues to their SACCO's.

### **2.6 SACCO Investments**

Lack of capital resources and skilled manpower have impacted negatively in the attempt of SACCOs to adopt modern technology (Ouma 1990). They have no investment

knowledge and don't even carry out any investment appraisal before investing. Fademullah (2002) established that for medium and large SACCOs, a SACCO manager is supposed to have a minimum Certified Public Accountant Part II (CPA II) or a bachelor of Commerce degree from a recognized University but for the other members of the committee there are no basic minimum qualifications. Though SACCOs invest in investments like land, buildings, treasury bills and fixed deposit these are not subjected to investment appraisal techniques due to lack of knowledge. These usually end up affecting the cash flows of the SACCOs negatively. There had also been a misconception that SACCO societies have funds to be freely spent (Manyara 2000). Those charged with the responsibility of managing their affairs have allowed their personal interest to override those of the SACCO they have been entrusted to manage (Manyara 2004). There are instances where members collude among themselves and employees to defraud the SACCO society. This offers a great challenge to the survival of the SACCO since the cash flow is highly affected.

## **2.7 Retrenchment and Retirement of Employees**

The retirement benefits authority rules prohibits the use of retirement benefits in offsetting a member liability including outstanding SACCO loans (Co-operative Societies Act No 3 of 1997) As a result the retirees may be drawing their monthly pensions without repaying their loans. The process of following or chasing defaulters is cumbersome leading to loan write off in a number of instances hence affecting the liquidity and automatically cash flow of the SACCO. According to the act, a SACCO cannot claim deduction from an employees retirement benefits upon the retrenchment of such an employee or upon the liquidation of an insolvent company or organization. During times

when employers who remit SACCO dues to the SACCO Societies are in financial problems, the SACCO societies face cash flow problems which make them face difficulties when offering loans to their members. Organizations that have found themselves in over employment situations either due to unplanned recruitment or due to improved technology have usually ended up retrenching the excess workers so as to reduce the labour costs. The retrenchment benefits are paid direct to the workers without regard to the dues that they owe the SACCOs. SACCOs have been led to struggle with the gap created and at times it's the remaining members who have to bear the weight by having to wait for loans since the cash flow is negative. Due to the urge such members have on the credit, they end up withdrawing from the SACCO to look for credit from the other financial organizations where the credit is readily available.

## **2.8 Competition from commercial banks and financial institutions**

Commercial bank lending rates are coming down, implying that it is going to be cheaper to borrow, (Daily Nation May 27th 2003). Treasury bills and bonds rates have come down and no longer making them attractive for local and foreign investors or private agents with excess liquidity.

“My government has continued to pursue a micro-economic policy aimed at containing inflation and maintaining a competitive interest rate structure that will promote savings”, President Kibaki's speech delivered at Nairobi Show (Standard Newspaper 1st October 2004).

Commercial banks now offer the stiffest competition to SACCOs in offering loans at fixed rates far below the commonly applied 12% interest rate charged on co-operative loans. Could this signal the final journey to oblivion? Now they face one final lesson

from the School of "Hard Rocks". Banks have since unleashed their financial might on erstwhile turf of salaried employees. Cautioning one member about prevailing commercial banks rates on unsecured loans, Gichuru asked "Why buy your own money at 12% interest when you can get a bank loan for less? In any case it takes 48 hours to obtain a bank loan compared to months for the most efficient SACCO", (Daily Nation 2004.).

Manyara (2004) argues that commercial banks see low risk in personal loans because it depends on regular salary income unlike corporate lending, which depends on cash flows.

Thus due to high risks in corporate customers and low investment returns from government, commercial banks had no other alternative but to do some quick strategic move through consumer personal loans. With the advent of liberalization and globalization, the co-operative sector was one that was loudly crying for restructuring.

The co-operatives had to be made autonomous and member controlled. Sessional paper No, 6 on co-operatives in a liberalized economic environment" was formulated in 1997.

It stated categorically that from then onwards co-operatives were operating in a liberalized economic environment. The monopoly hitherto extended to them had come to an end. This liberalization policy had dire implications on co-operatives. Co-operatives were to be exposed to the normal market forces of supply and demand and to cut throat competition without further recourse to the state for protection as before.

Commercial banks are offering personal loans at rates that are much near to the SACCO rates. The personal loans are available on demand since the banks have high level of

liquidity compared to the SACCOs whose only source of money for lending is the member's contributions and the interest on members loans, Many members have withdrawn from SACCOs and reduced the membership which in turn has magnified the problem on cash flow. Commercial banks even buy out the SACCO loans by repaying the loans for the members and issuing the members with new loans.

Mandeshe (1986) argues that SACCOs are legally not allowed to offer different types of classes of share accounts unlike banks which can issue both ordinary and preference shares and also issue debenture at the same time. Instead the share saving account are only loan collateral and the fixed interest rates makes the liquidity of SACCOs negative at most times meaning that members in dire need of loan can only shift to the commercial banks whose liquidity is usually positive. Since the main reason behind member moving to the commercial banks is liquidity then it's clear that maintaining the liquidity will ensure that members are retained at all times since they can get loans when they need them.

According to Suleiman A Chambo, associate professor of economics and corporate management in his presentation at the EARAS conference held at Grand Regency Hotel SACCOS have a good potential for growth due to their mobility. They can be created in both rural and urban areas. According to Suleiman A Chambo SACCOS face three major threats related to competition namely: market competition which arises from competing financial services suppliers in product design, product development and the need for widening and deepening financial interventions. It is ironical to note that known co-operative competitors use co-operative principles to compete with the SACCOS. Secondly is the demand risk whereby the employee based SACCOS are facing collapse

due to massive lay offs and industrial pressure to retrenchment and competition. There is need to look for the retrenched and keep them within the SACCO. Thirdly is the innovative risk where by there is need for innovation and continuous work design. The SACCO level of technology does not match that of the competitors. On the other hand it is argued that SACCOs face strategic risk of inefficiency due to their failure to appraise their products and services adequately. SACCOS have maintained a closed membership client instead of opening up so that other members can access the SACCO credit services.

## **2.9 Risks management in SACCOs**

SACCOs were originally formed by employees belonging to a single employer and hence shared a common bond. With the adoption of Co-operative Societies Act No. 2 of 1997, the common bond has been liberalized. SACCO societies for self employed persons and farmers have sprung up (Soderland and Oberg, 2001). The common bond helps in reducing risk in SACCO society. Such bond may be on the basis of employment, business type, geographic location or religious affiliation. For the employee based SACCOs, the common bond assist in obtaining knowledge about the employee, work history and member salary. The common bond reduces information cost and default risks.

Setting of a minimum savings for one to qualify for a loan is another mechanism for reducing risk. Thus SACCOs base their lending policy on the character of the borrowers. SACCOs risk management only targets the risk that arises due to reasons such as death of a loanee. For such they have insurance policies with insurance companies. Although retrenchment is taking place day in day out, there is no policy to cater for risk arising from such and when it occurs the SACCO has no alternative than to do without the loan amounts of the retrenched plus its interest. Although the loans are guaranteed, the

guarantors are likely to be retrenched in the process. Usually the date or time for retrenchment is not known. This means efforts to quantify the resulting risk is not possible. The risks arising from death of the loanee can be quantified through reliable statistical data which can help estimate the possible deaths in a year and hence project for future deaths and cover them with appropriate policy amount. This task of risk management in a SACCO lies on the management but if they lack the knowledge of risk management, the function will be concluded wrongly. According to research by Center for Corporate Governance, (Brookside Grove 2004), most management committees are aware of the risks facing Co-operatives but are not able to deal with them.

In an investigation of HIV/AIDS by world council of credit union, it was noted that members are becoming sick and dying. Some Sacco's members are faced with the challenge of taking care of the sick family and the orphaned children. Due to the high financial needs, such members are expected to be provided with financial facilities by a demand driven sacco society. According to a presentation by Edward K. Mudibo(2004) at the third EARAS held at the Grand Regency Hotel on risk management in SACCO operation, there is no provision on loan loss and capital to sustain increasing loan defaulters, increased illness, death and retrenchment among members. Members are not able to increase savings due to the pressure arising from HIV/AIDS and economic crisis facing Kenyans. The interest rate arising from loans is inadequate to cater for the loans lost. To try to cover SACCOs on loan loss due to death, retrenchment and default, KUSCCO has come up with a risk management programme. According to a report from KUSCCO the programme has paid claims worth Kshs 465 millions since inception. 70% of the claims are attributed to HIV/AIDS related cases. It has also been noted that most

saccos operate a sinking fund and a benevolent fund but they operate at a deficit with the end result that such saccos are not able to cater for all the members claims.

## **2.10 Education and Training**

Nyagake (1995) found out that training is not well co-ordinated in the Jua -kali co - operatives. Education and training has an impact on the SACCO cash flows. Members need to be told that the current SACCO loans being offered at 1% per month translates to 12 % per year. Sacco loans have very low transaction cost unlike bank loans which normally attract a 2% charge on the amount of loan as transaction fee. Bank rates range between 14% and 18%. These rates are high bearing in mind that there is some transaction costs. There is need for vigorous education for the members so that they can understand the hidden cost and charges that go with bank loans. SACCOs should engage in vigorous and aggressive marketing so as to convince the members before they are taken by the commercial banks. The number of SACCO education days should be increased both for the committees and the members as well.

In a study by Fadamullah (2002) it was established that the education requirement for SACCO managers is CPA 11 or Bachelor of Commerce. The ordinary committee members have no minimum education requirement. Commercial banks are employing very qualified people with masters degrees and higher levels of education. They are engaging highly qualified consultants in areas like marketing, finance, taxation, investment and customer relations.

## 2.11 Dividend and interest on shares policy

People invest their incomes with the aim of later receiving a return on their investment. By the time an investor is making the investment decision he considers the expected return and if its favourable he goes ahead and invest. Dividends are paid from the income of the organization. Dividend and interest paid to SACCO members can as well be retained to assist in the provision of loans. There are various dividend and interest policies which firms employ namely; regular dividend, residual dividend, constant dividend and stock dividends.

Dividend policy is about how the post tax profit is distributed to the owners of the organization. Some organizations will retain the profit to finance their activities. In SACCOs, this would be used in issuing loans, while others will give cash dividends since it has some informational value.

By using retained earnings a firm will be able to control certain costs unlike where funds are to be borrowed from outside (Western Brigham 1990). The dividends or interest if not paid out as cash dividends to the members will go a long way in reducing the cash outflow which will reduce the chances of negative cash flow position.

According to van Home et al (1978) dividends should be looked at financing decision point of view whereby the dividend or interest to be paid should be based on the financing needs of the organization. Where there is financial requirements, no dividend should be paid but where cash flow is positive, dividend can be paid. Pointon and Davis (1994) mention that according to new classical percepts the firm objective should be the maximization of wealth. The firm will be justified not to pay dividends and interest but invest the amount in its activities in this case meeting members

loans.

The residual dividend policy is the most prominent policy in firms since it advocates that internal financing is cheaper than external financing (Scheduled Flalley 1983). This policy is carried out in three approaches namely pure residual dividend policy, fixed dividend pay out ratio policy and the smoothed residual dividend policy. In practice the dividend policy is very much influenced by investment opportunities and by the availability of funds to finance them (Brigham 1989). This has led to the development of a residual dividend policy which states that a firm should follow four steps in deciding its dividend pay out ratio as follows:

Determine the optimal capital budget, determine the amount of capital needed to finance that budget, use retained earnings to finance the capital budget and pay dividend only where there is a balance.

Dividends payments have an informational value meaning that SACCOs or firms that don't pay dividends will not be popular. However if there is proper education of the members they will be convinced that financing of SACCO activities with dividend will improve their cash flow and hence reduce the waiting period.

## **2.12 Summary of gaps to be filled by the study.**

An urban SACCO is a model SACCO since a rural SACCO is a recent phenomenon (Ouma 1986). No much research has been done on rural SACCOs especially on the cash flow. The factors that affect cash flows are known but the extent to which each of the factors affect the different categories of SACCO societies is not known and documented. This research aims at categorizing the SACCO societies and establishing the main factors that affect the cashflow of the various sacco Societies.

SACCOs share capital mainly serves as security for loans and it cannot be used for any other purpose like investments. The payment of interest on this share capital demands that SACCOs be in favorable liquidity position. Liquidity will only arise if the cash flow is well managed such that its positive at all times. What then determines this cash flow position in the different categories of SACCO Societies is not known. This research will establish what determines the cash flow of the different categories of SACCO societies in Kiambu District.

Technological changes and liberalizations of the economy have resulted into changes in the co-operative law. It is necessary to establish what the change of law has on the cash flow of different categories of SACCO societies in Kiambu District. Although SACCOs play a crucial role in economic growth and development this very important goal is affected by the unfavourable cash flow and hence it will be necessary to establish what actually determines the cash flow of SACCOs in the rural area.

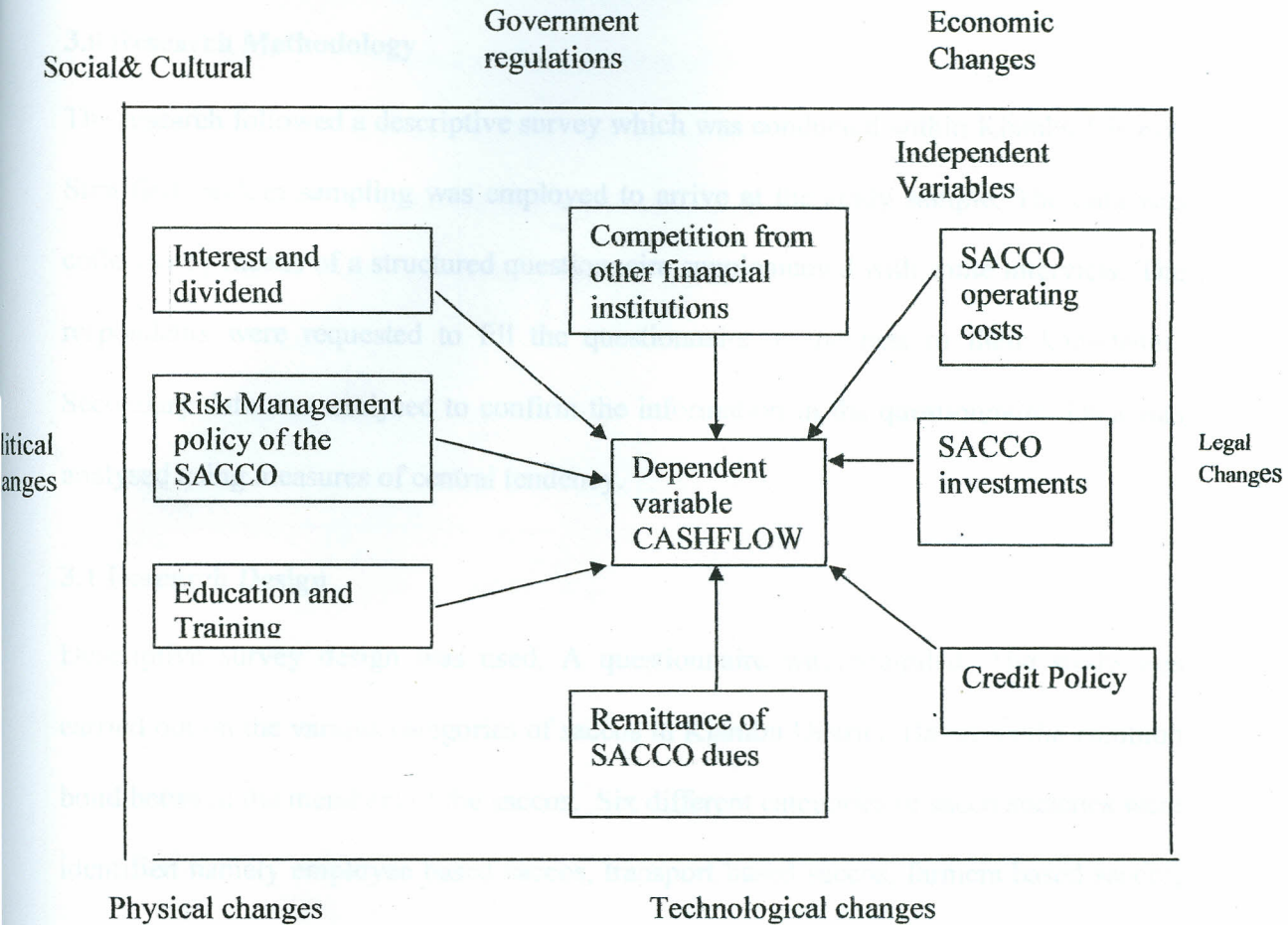
Dividends play a crucial role in availing information of a SACCO. No research has been done around this and this research will look into the dividend issue and policies SACCOs in the rural area employ and how they affect the cash flow of the organizations. Though education and training of management and members is known to affect the cashflow, how it affects particular categories of SACCO Societies is not clear. The number of education days that should be given should depend for instance on the previous knowledge members have and hence the level of training to be given to members is not the same.

## 2.13 Conceptual Framework

Cash flow involves the generation and use of cash. Generation of funds can be from members who get their salaries deducted by the employer and remitted to their SACCO societies where later they seek credit. For non salaried people the income from their produce will be deducted according to agreement by the management and remitted to the SACCO. Cash can as well be generated from incomes from SACCO investments and also other income generating products offered by the SACCO. The uses will include lending to the members and other expenses to run the operations of the SACCO like salaries. SACCO cash flow will be influenced by all factors that limit the amount coming into the SACCO and those that lead to cash flowing out of the SACCO. These include:

1. When check-off is not remitted in good time.
2. Members withdrawing, retire or are retrenched.
3. When the SACCO over employ and hence pay high salaries.
4. When the SACCO invests in long term investments that generate little income compared to that invested.
5. Competition from banks which attract the SACCO members.
6. Education and training level of the SACCO members and management which make them understand and adopt to changes in their operating environment. All these factors are also affected by the general environmental changes taking place around the SACCO. However the research will not deal with general environmental factors.

# Relationship Between Variables



Source: Researcher

## CHAPTER THREE

### 3.0 Research Methodology

The research followed a descriptive survey which was conducted within Kiambu District. Stratified random sampling was employed to arrive at the study sample. The data was collected by means of a structured questionnaire supplemented with some interview. The respondents were requested to fill the questionnaire to the best of their knowledge. Secondary data was analysed to confirm the information in the questionnaire. Data was analysed using measures of central tendency.

### 3.1 Research Design

Descriptive survey design was used. A questionnaire was compiled. The study was carried out on the various categories of saccos in Kiambu District. Based on the common bond between the members of the saccos. Six different categories of sacco societies were identified namely employee based saccos, transport based saccos, farmers based saccos, faith related saccos, Jua kali saccos and communal saccos. Managers and other members of the management were requested to complete the questionnaires. Some interview was also conducted so as to gather extra information. Secondary data was also analysed to gather and confirm the information provided in the questionnaires.

### 3.2 Target Population

The study population was made of saccos within Kiambu District and which have registered in the District co-operative office. As at the time of the research the registered and active saccos in Kiambu were 80 in number.

### 3.3 Sampling Procedure

Stratified random sampling was used. Saccos were stratified into six categories according to the respective common bond of the members of the saccos. From each category 30% of the saccos were selected randomly so as to make the sample that was studied. Although Zikmund recommends a sample size of 20%, a sample size of 30% was preferred so as to make the sample reasonable, economic and reliable. The sample schedule was as follows:

**Table 1: Sample schedule**

SACCO Category	Total no of SACCOs	30% of the SACCOs
Employee	14	5
Communal	31	10
Transport	3	1
Jua Kali	12	4
Farmers	5	2
Faith related SACCOs	16	5
<b>TOTAL</b>	<b>80</b>	<b>27</b>

Source: District co-operative office

Stratified sampling was adopted because the different categories have their different problems and hence its necessary to establish how their cash flows behave. Employee based saccos are made up of people who work under an employer who therefore remit their sacco dues to their sacco. Farmers based saccos market their products together and the management remit sacco dues and pass the balance to the members. Transporters remit their dues to the sacco on a daily basis. Due to the varied operations of the different

categories it was necessary to stratify the saccos according to their categories so as to establish what factors affects their cash flow.

### **3.4 Data Collection/Research Instrument**

The main data collection instrument was a structured questionnaire (appendix 1) with questions flowing from the study objectives. The questions were directed to the managers of the saccos. Interviews were used for clarification purpose. Some communication was made through telephone where the questionnaire was not clear. Managers were identified as respondents because they are knowledgeable on the factors determining the suitability of cash flow.

A structured questionnaire was used because it maximizes the reliability of the data collected since respondents give information through written form. Such information can be verified by looking at alternative sources like audited accounts and the cash flow statement.

Data was collected by physically handling the questionnaires to managers and addressing them on how to fill them. The respondents were requested to fill the questionnaire within a week after which the filled questionnaires were collected for analysis.

### **3.5 Data Analysis and Presentation**

The data collected was analyzed using frequency distribution tables in which the frequency has been converted to percentage, bar graphs and pie charts. This method was preferred since the data is mainly quantitative in nature. The frequency distribution diagrams show the dominant factors or factors affecting cash flow of saccos. In each

frequency table, a cash flow factor is assessed and the extent to which the factor affects the cash flow of each category of sacco society is shown by the frequency.

#### 4.1.3 Data analysis and presentation of results

##### 4.1.3.1 Introduction to Data Analysis.

The research methodology discussed in this chapter was used to come up with the results that appear in the following chapter.

The measures of central tendency, Frequency, and the mode are used to describe the data. The frequency can be clearly seen in a frequency table.

The mode or represent the mode. Biggest sector, and the most important factor are the number appearing most times.

The mode is the value that appears most often in a data set.

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##### 4.1.3.2 Quantitative Data Analysis

Since most of the data is quantitative in nature analysis is by frequency tables, and bar graphs.

## CHAPTER FOUR

### 4.0 Data analysis and presentation of results

#### 4.1 Introduction to Data Analysis.

In this chapter the data collected has been analysed using descriptive statistics which consists of measures of central tendency. Frequency tables have been used whereby the highest frequency can be clearly seen in a frequency table. The highest bar has been used to express or represent the mode. Biggest sectors in a pie chart have been used also to represent the number appearing most times.

The summary of statistics as indicated by the above analysis methods namely; frequency table, pie chart and bar graphs were useful in clearly showing the factors which have a great impact on the sacco's cash flow. The most important factors are the dominant ones which emerge from the results of the questionnaires. To reduce the information in the frequency tables, for clarity purpose, the frequency in the frequency tables are in percentages only.

#### 4.2 Quantitative Data Analysis

Since most of the data is quantitative in nature analysis is by frequency tables, and bar graphs.

## Cash flow position on average

**Table 2:** Cash flow position on average

Sacco category	Positive Cash flow	Negative Cash flow
Farmers	50%	50%
Employees	25%	75%
Transport	100%	-
Faith related	-	100%
Communal	33%	66%
Jua Kali	100%	-

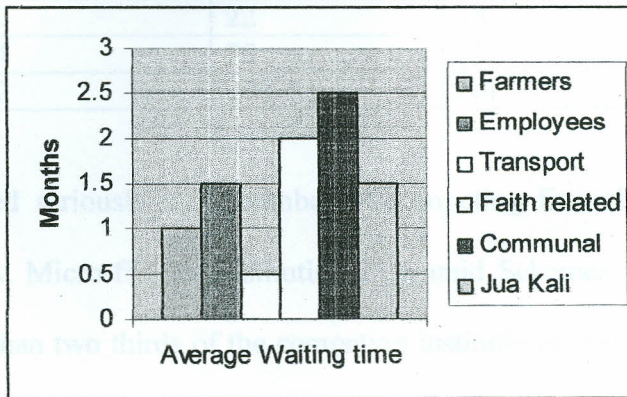
100% of both transport and Jua kali SACCOs had a positive cash flow position. Half of the farmers SACCOs also had a positive cash flow while only 33% of the communal and 25% of employee SACCOs had a positive cash flow position. On the other hand, all the faith related SACCOs that were sampled had a negative cash flow position. More than 50% of the employee, farmers and communal SACCOs had a negative cash flow position.

Further enquiry proved that most of the saccos do not prepare or know the purpose of the cash flow statement. However the length of waiting time shows that the cash flow is generally negative since all saccos indicated that the reason for not issuing out loans promptly is due to shortage of loanable funds.

## Average waiting time for loans

**Table 3: Average waiting time for loans**

Sacco category	Average Waiting time	Reason
Farmers	1 month	Long processing period
Employees	1 ½ month	Shortage of loanable funds
Transport	2 weeks	Long processing period
Faith related	2 months	Shortage of loanable funds
Communal	2 ½ months	Shortage of loanable funds
Jua Kali	1 ½ months	Shortage of loanable funds



**Figure 1: Average waiting time for loans**

The communal saccos have the longest waiting period and the reason given is shortage of loanable funds. Transport saccos have the shortest waiting period due to high liquidity and positive cash flow position. The shortest waiting time is two weeks for the longest is two and a half months. The cause of this waiting period is shortage of loanable funds and long period of processing loans.

#### 4.2.1 Competition from other Financial Institution

**Table 4:** Competition from other financial institutions

Category	Sample size	High competition (%)	Low competition (%)	No competition (%)
Employees	5	80	20	Nil
Transport	2	Nil	100	Nil
Faiths related	5	20	80	Nil
Communal	9	22	78	Nil
Jua kali	4	75	25	Nil
Farmers	2	100	Nil	Nil

Saccos are affected seriously by a number of competing financial organizations like Commercial banks, Micro-finance institutions, Pyramid Schemes and Shylocks. Those affected by more than two thirds of the competing institutions were listed as facing high competition whereas those affected by below two thirds of the whole group of competitors were rated as facing low or moderate competition. Employee based saccos, jua kali saccos and farmers related saccos faced very high competition since their members were a major target group by the competing organizations. The incomes of members of these saccos are stable and easy to determine which makes them highly credit worthy.

Faith related saccos, communal saccos and transport saccos faced low competition mainly because their saccos have a very strong bond especially for the transport saccos while faiths related saccos and communal saccos do not have a steady income, hence not attractive to competitors.

Generally sacco cash flow is affected by competition in which members leave the saccos to seek credit elsewhere. As a result the members withdraw their deposit and contributions thus affecting the sacco cash flow position.

#### 4.2.2 Dividends and interest

**Table 5: Dividends and interest policies**

Sacco Category	Sample size	Paid increasing rates of dividends(%)	Fixed dividend payout ratio (%)	No dividend (%)
Employees	2	100%	-	Nil
Transport	5	100%	-	Nil
Faiths related	9	65%	-	35%
Communal	9	65%	-	35%
Jua kali	4	25%	-	75%
Farmers	2	100%	-	Nil

All the sampled employee, transport and farmers related SACCOs pay dividends at the end of the financial year. 65% of the faith related SACCOs and communal SACCOs also pay dividends but only 20% of the Jua Kali SACCOs pay dividends. The only dividend policy adopted was the increasing dividend pay out ratio. It was noted that the saccos that did not pay dividends had a financial problem and also a management problem. Dividend pay out lead to cash out flow which leaves the sacco struggling to meet its loan demands. When the trend is an increasing dividend payout ratio its more hectic since even when there are financial difficulties breaking the trend is a big problem.

### 4.2.3 Sacco Operating Cost

**Table 6: Sacco operation cost**

Sacco category	Sample size	Operating cost increasing	Operating cost constant	No operating cost
Employees	5	100%		-
Transport	2	100%		-
Faiths related	5	40%		60%
Communal	9	45%		55%
Jua kali	4	50%	25%	25%
Farmers	2	100%		-

Employees, transport and farmers related saccos indicate that their operation cost keep moving up. The very organized faiths related saccos and Jua Kali saccos also showed an increasing operations costs. The saccos that had very low operating costs are the ones whose members are localized in the same area and were operated by the members themselves. Their transactions are generally few. The increasing operating costs draw a lot of cash out of the sacco and hence affect the cash flow position of the sacco and thus its effectiveness in meeting the loan demands.

### 4.2.4 Risk Management Policy of the Saccos

**Table 7: Risk management of the saccos**

Sacco category	Sample size	Had risk management policy (%)	No risk management policy (%)
Employees	5	60	40
Transport	2	100	-
Faiths related	5	60	40
Communal	9	23	77
Jua kali	4	25	75
Farmers	2	100	-

All the sampled transport and farmers related SACCOs have put in place a risk management policy. 60% of the employee based SACCOs and the faith related SACCOs have also put in place a risk management policy. However, only 23% of the communal

and 25% of the Jua Kali SACCOS have a risk management policy. The risk management covered matters like death of a loanee, retrenchment of a loanee and loan defaulters. The main risk management activities were taking an insurance cover against death. Defaulters were taken care of by the shares of the defaulter and the guarantors were also compelled to pay any balance.

#### 4.2.5 Risk management on retrenchment and HIV

**Table 8: Risk management on retrenchment and HIV**

Sacco category	Sample size	RETRENCHMENT		HIV	
		Risk covered (%)	Risk not covered (%)	Risk covered (%)	Risk not covered (%)
Employees	5	60	40	40	60
Transport	2	-	100	-	100
Faiths related	5	-	100	-	100
Communal	9	-	100	-	100
Jua kali	4	-	100	-	100
Farmers	2	-	50	-	50

60% of the employee SACCOS have covered themselves against risk arising from retrenchment. The outstanding loans with the retrenched employees are recovered from guarantors. Transport, faith, communal and farmers SACCOS have no cover against risks arising from retrenchment. Generally it can be said that, SACCOS have not put in place measures to take care of loss which can arise due to retrenchment. Those who have done so have transferred the burden to the guarantors. A guarantor guarantees to pay in case of default by the principal debtor.

On HIV related problems most saccos have not put in any risk management policy arising from HIV related difficulties. Those who claim to have some measure have transferred the burden to the guarantors or the loan insurers.

#### 4.2.6 Education and training

**Table 9:** Education and training

Sacco Category	Frequency converted to percentage		
	Sample size	Education & Training done(%)	Education & Training not done (%)
Employees	5	50	50
Transport	2	-	100
Faiths related	5	30	70
Communal	9	-	100
Jua kali	4	50	50
Farmers	2	50	50

The higher percentage of saccos did not carry out any education and training. The number of education days in those that bothered to offer education was one in a year. The amount spent on members education was very little even to the level of only sh. 5,000. The topics covered were also not capable of holding the competition. Interest rates for example were not dealt with but mainly the handled topics were on sacco policies, which are generally known by the members.

Lack of education means that members are not enlightened on the advantages of saccos as compared to other financial institutions that compete with them. Members hence blindly move out of saccos to borrow from other financial institutions whose credit is expensive. Organizations like banks spend a lot of money on education and training so as to remain competitive. Due to lack of education and training to members, some members have fallen prey to the aggressive banking institutions. The banks have bought the members out of the saccos together with their loans only to start repaying more expensive loans.

#### 4.2.7 Remittance of sacco dues

**Table 10:** Remittance of sacco dues

Sacco category	Sample size	Frequency in %	
		Dues remitted	Not remitted
Employees	5	80	20
Transport	2	100	-
Faiths related	5	40	60
Communal	9	40	60
Jua kali	4	50	50
Farmers	2	100	-

Transport and farmers SACCOs have their dues remitted in time. 80% of the employee and 50% of Jua Kali SACCOs also receive their dues promptly. However, only 40% of both faith related and communal SACCOs receive their dues in time. Although non-remittance is there its not all that high and hence cannot be claimed to be a major factor in affecting the cash flow of sacco society especially in employee, transport and farmers related saccos. However, in faith related saccos, communal and to some extent Jua Kali saccos, cash flow is still being affected by high rates of non-remittance of sacco dues in good time.

#### 4.2.8 Saccos investment policies

**Table 11:** Saccos investment

Sacco category	Sample size	Frequency in %	
		Entered into capital investment	Not entered into capital investment
Employees	5	100	-
Transport	2	100	-
Faiths related	5	60	40
Communal	9	33	66
Jua kali	4	25	75
Farmers	2	100	-

Quite a large number of saccos entered into capital investments. Employee, transport and farmers saccos all engage into capital investment. Communal and Jua kali sacco did not

enter capital investment. Generally the saccos had invested in shares in the Nairobi stock exchange and bonds. The transport related saccos have invested in the purchase of public transport vans and also in the fuel industry where they set up petrol stations.

#### 4.2.9 Types of investment entered into by saccos

**Table 12:** Types of investment entered into by saccos

Sacco category	Sample size	Shares in NSE (%)	Treasury bill/Bond (%)	FOSA (%)	Fuel/transport van (%)	insurance brokers/sale of tyres (%)	invested (%)
Employees	5	80	80	20			
Transport	2				100	100	
Faiths related	5	60		20			
Communal	9	44	33				23
Jua kali	4	60	60				
Farmers	2	100	100	100			

The main area of capital investment was in the Nairobi stock exchange where most saccos have made investments by buying shares. A number of saccos have invested in Treasury bill and Treasury bonds. The main saccos that invested in the Nairobi stock exchange and treasury bill and bonds are the well organized and wealthy saccos like the employee and farmers saccos. A small proportion of the saccos are operating front office savings accounts which have banking related transactions. This has been noted in farmers and employees based saccos. These types of investments are fairly liquid and have no chances of affecting the cash flow of saccos but only help in good cash management.

## **CHAPTER FIVE**

### **5.0 Conclusions and recommendations**

#### **5.1 Summary of major findings**

From the data collected and analyzed, the major factors that affect the cash flow of sacco societies in Kiambu District are as follows:

##### **5.1.1 Competition from traditional banks and other financial institutions**

As indicated by the analyzed data on competition it has emerged that sacco cash flows are affected by competition from: commercial banks, financial institutions, micro-finance institutions, and pyramid schemes. The most organized saccos in Kiambu District are employee and farmers based saccos. These two categories of saccos are facing high competition from commercial banks since the members have a stable income which the banks have targeted. These two categories of saccos are also targeted by pyramid schemes. Once the scheme fail members are left in a situation of financial despair and hence will be thirsty of very prompt loans. They may not be able to get the loans from their saccos and hence become good prey to the commercial banks which do not need collaterals or savings when issuing out personal loans to such members. They end up buying members loans from the saccos so as to be able to deal with the members directly.

Jua Kali saccos, faith related saccos and communal saccos are mainly targeted by micro-finance organizations, pyramid scheme and shylocks who view them as easy targets. Most members after entering into loan arrangement with these organisations become

financially handicapped and withdraw their sacco savings so as to try and mend their financial problems.

Banks are able to compete with the saccos since they have ready cash and more attractive loan terms especially the personal loans where the only collateral is the salary. After approval from the employer the loan will be banked into the members account in less than three days. They also don't require any contribution from the loanee which gives them a good bargaining ground.

### **5.1.2 Interest and Dividends:**

Another important factor that emerged from the analysed data is that all the saccos have a policy of paying out an increasing rate of dividends. This happens irrespective of the cash flow position of the sacco. Although this has a good informational value, its advantages are washed away when members ask for loans and are told to wait. The amount paid out as dividends should be retained in the organization reserves so as to help in quickening the rate of issuing out loans. Saccos should aim at changing their dividend policies from increasing dividend pay out ratio to pure residual dividend pay out policy such that dividends are paid out only when the cash flow position is highly positive. All categories of saccos were identified to be facing this cash flow problem.

### **5.1.3 Operating cost of the saccos**

On average 76% of the saccos are incurring high operational costs. The main threat is that the operation costs are increasing. This means that a lot of organization cash is going towards meeting operational costs. Since the core objective is to issue out loans, operation costs should be kept low or at least constant. More efficient and effective

measures of operating should be put in place. The main area of operation taking a high proportion of costs is the salaries.

#### **5.1.4 Risk Management of the sacco**

Generally the various categories of saccos have taken care of loss of financial resources as a result of death of a loanee. They have done so through taking an insurance cover against such risk and also compelling loan guarantors to repay the loans they guaranteed but which were not repaid.

However, for the employee based saccos retrenchment has not been covered and the risk is possible. The insurance on defaulters is not enough to cover both loan defaulters and retrenched workers loans as well as risk of death.

Also most saccos seem not to beware that HIV/AIDS is there and that members are directly or indirectly affected by it. Members take loans to take care of themselves or of the family members. Loans meant to take care of sick people are not invested and their repayment may be a problem. Management should have a way of advising members who may be in this situation otherwise they will affect the sacco cash flow if they are unable to repay their loans as scheduled.

#### **5.1.5 Education and training**

The data analysed on education and training reveals that education and training is not done. 65% on average of all the saccos do not conduct education and training to their members. In most saccos there was either one education day in the year or none at all.

The cash spent on education is also low. Members' education failure means that members are left at the mercy of other organizations like financial institution which ensure very competitive membership promotion. The pyramid schemes came and acquired very high membership due to very comprehensive publicity. They captured a market population that did not have an adviser. Most members hence were made to view pyramid schemes as very viable sources of finances. Members borrowed heavily from sacco to invest in the pyramid schemes. Members who lost in the schemes have either sold their loans with the sacco to the bank or have financial problem created by the failed pyramid schemes. Saccos should have vigorously educated and advised their members against investing in such schemes whose survival cannot be predicted.

On the other hand the topics covered on the few education days are also not very relevant to the competitive environment in which sacco operate. None of the sacco that offered some education captured anything to do with the interest rate. When banks started bringing down their interest rate, they are cheating members that their rate is either equal or lower than the sacco interest rates of 12% pa. The sacco management have not bothered to help members compare their interest rate with the rates from other financial institutions. Members still wonder whether the sacco loans are cheaper than the bank loans. Due to the uncertainty about which of the loans is cheaper, members have fallen prey to banks. They have withdrawn from sacco to seek expensive loans from banks. The withdrawal has left sacco struggling with an unfavorable cash flow position

### **5.1.6 Saccos Capital Investment policies**

It was noted that saccos generally invest their finances in Nairobi stock exchange by purchasing shares, treasury bills and treasury bonds. Only the saccos in the transport category invested in assets like vehicles and businesses that are related to transport like tyres, fuels stations and insurance brokerage. Saccos therefore have not invested in real estates and hence are not tying their capital. By investing in the shares, bills and bonds it means that the investments can be turned into cash within a short time and hence the investment do not affect the cash flow position but only serves as a prudent way of cash management.

The investments are known to be improving the sacco cash flow since the saccos are paid interests which help to improve the sacco cash flow position.

### **5.2 Conclusions**

What emerges from the analysis of the data collected is that there is stiff competition directed to the saccos by the main banks namely Kenya Commercial Bank, Barclays Bank, Family bank and cooperative bank. Micro-finance institutions also offer credit in almost the same terms as the saccos do. Other competitors are Pyramid Schemes which came with a lot of force and dislodged borrowers' financial stability. Shylocks are also there though they are not stationed in a specific place. Due to the might of the main traditional banks they are selling themselves competitively by offering personal loans which have no collateral other than the members' salary. One does not need to be an account holder in the banks since they don't want there to be any barrier to the

borrowing. Some of the banks especially Barclays bank is setting tents at all strategic points to attract borrowers.

Sacco members who are not strongly bound to their saccos and who are thirsty of money are falling prey to these banks. They are withdrawing from the saccos and are now borrowing from the banks. Nobody according to the study has bothered to convince the sacco members that the sacco loans after all are the cheapest. SACCO management should come up with measures aimed at convincing their members that, SACCO loans are cheaper compared to bank loans. Since the major cost of a loan is the interest charged, the management should convince their members that their interest rate is lower in comparison to that of banks. For instance a bank like Kenya Commercial will charge 16% interest for personal loans repayable within a maximum of three years and 19% for loans repayable within 5 years. SACCO loans are only charged 12% interest per annum which is hence quite cheap compared to bank loans repayable within the same period of three years.

The main reason why the saccos members are good target for the banks is that no education and training is done by the management. The topics covered in the education days should be geared towards differentiating the sacco products so that members are convinced that the best loan providers to them are the saccos. The rate of interest should be well covered and illustrated as above. Sacco management should help the members discover the other hidden costs in bank loans. The number of education days should be increased and more funding be allocated to members education. Knowledgeable people should be employed to give education to members. The management should be a little bit

more aggressive in knowing whatever competitors are emerging and they should study their movements and counter them before they penetrate their market.

The study also revealed that the operation costs are going up. Of the saccoes studied none had a decreasing operation cost. On the other hand a number of saccoes have computerized their systems hence the operation costs should be moving down. Saccoes should fully computerize and do away with manual operations. This in the long run will reduce the operations cost and help keep the cash flow position favourable.

Interest and dividends were paid by adopting the increasing dividend pay out ratio. Dividends are okay to pay but only when the cash flow position is favourable. Members should be made to understand that the best dividend policy that has long term advantages is the pure residual dividend pay out ratio which is paid only after the cash demand are addressed fully. Risk management is also not well done. No sacco has a risk management touching on HIV/Aids cases. Retrenchment is also not addressed. The insurance taken is to cover death while the guarantors cover the loan defaulters. Retrenchment especially in employee based saccoes should be covered since it's not the same as default. The sacco management should discuss with the employers such that retrenchment policies takes care of sacco loans. This is possible if the retrenchments are well planned.

### **5.3 Recommendations**

Saccoes should embark on vigorous education and training programmes for both the members and the management. The topics covered in the education days should be well thought of. Topics like the effective interest rate and transaction costs should be included in the education programmes. Expert trainers and educationist can be hired so that they

can fully convince the members. Saccos should also look into means of researching on the most effective competition tools. While banks will advertise and promote their operation through the audio and video media, saccos will rarely do so. This makes members develop the wrong notion that banks are better loan providers than saccos which is not actually the case.

Saccos base their loans on the amount of savings members have made in form of shares. They multiply the shares either by two or by three to arrive at the loanable amount. On repayment, members will repay the principal and interest calculated on the full loan amount. This amounts to buying of ones own savings with the saccos. Banks are highly relying on this as a campaign tool. They argue that by paying interest on ones own shares, it amounts to buying of ones own money. Interest is paid for the use put into another person's money, then why pay interest on own money?

With proper education to members, they should be made to understand that although they pay interest on the share capital, they also get dividends for the same. Members should be made to understand that a SACCO is also meant to encourage and facilitate saving for the future. This is practically done when members repay their loans since they are left with their share capital intact for future withdrawal especially on retirement. This facility is not available in banks.

Banks are also availing their loan within a period of less than 4 days from date of application. Saccos will take a period ranging from one month to even six months for some saccos. Members look for loans when they want to use them. They want prompt

loan provision and hence will prefer banks. Saccos can only avail loans promptly if they have a fast loan processing system which can be achieved through automation of their system. Computers should be installed since they will even lead to less operational costs since only a few workers are needed.

Saccos loan policy is also very strict in that the loan is either equal to two or three times the members' shares. The salary which can also go toward loan repayment is restricted at two thirds of a member salary. Some members who have saved a lot with the aim of getting a huge loan are not given a chance to do so. Such member may as a result withdraw such savings and move to other credit providers. By putting in place a flexible loan policy, it's possible to avoid or regulate this movement. The loan policy can be adjusted such that the period of repayment is increased so as to enable the member acquire a bigger loan but pay within the prescribed salary limit of 2/3 the members salary. According to the study, 80% of employee SACCOs, 60% of faith related, 44% of communal, 60% of Jua kali and 100% of farmers SACCOS have invested in companies quoted in Nairobi Stock Exchange. This means there is some money which can be availed to the very needy cases instead of leaving members to withdraw. Sacco management should study the market trend, for example members today need more money to invest unlike the past. By sticking to old loan policies, loans will remain low and unattractive.

Saccos risk management also requires some improvement. Insurance for loan only provides for loans not repaid as a result of death. Defaulters are dealt with through their guarantors. Risks like HIV/Aids have not been dealt with. HIV/AIDS affects members either directly or indirectly. A member who acquires a loan to take care of a HIV/AIDS

patient will not have invested the money in a profitable venture. No return will result although the members will have used the entire loan amount. A sinking fund can be created for the HIV/Aids related cases. This can be created from the surplus funds. Education should also take care of this very important social problem. Saccos can come up with a way of dealing with members who have HIV/Aids related problems. This should fall under social responsibility programmes of the saccos. Saccos should hence not isolate themselves from social problems since they affect the sacco cash flow in one way or another.

All the saccos studied pay the increasing dividend payment ratio policy. This means that saccos keep paying dividend at an increasing rate irrespective of the cash flow position of the sacco. Members should be made to understand that interest and dividends if not paid out can be used to create high reserves that will make loans provision very effective. Management should shift the dividend policy from the increasing dividend pay out ratio policy to pure residual dividend pay out ratio policy. This policy will go along way in ensuring that the cash flow position is favourable.

#### **5.4 Limitations of the study**

- (i) The study only dealt with sacco societies within Kiambu District
- (ii) None of the sacco members was interviewed or required to fill the questionnaire. The study only dealt with the management of the sacco hence members particular reason for moving was not established.
- (iii) Some of the saccos especially communal and faith related saccos have not computerized their systems and hence the data may not have been very accurate.

## 5.5. Suggestions for further study

The study mainly dealt with sacco in Kiambu District which is a rural area. There is need to compare sacco in the urban areas and sacco in rural areas. Since sacco are of many categories a study is needed to establish whether there is competition within the sacco and the reasons behind such competitions

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## Appendix 1

### Letter of Introduction

JOHN N. MAINA  
KENYATTA UNIVERSITY  
SCHOOL OF BUSINESS  
P.O.BOX 43844  
NAIROBI  
JULY 2007

Dear Respondent,

**RE: A STUDY ON ‘THE MAJOR FACTORS THAT AFFECT THE CASH FLOW OF SACCOs IN KIAMBU DISTRICT’**

I am a Postgraduate student in Kenyatta University pursuing a Master of Business Administration. I am carrying out a study on *“the major factors that affect the cash flow of Saccos in Kiambu district”* The success of the research substantially depends on your cooperation.

I hereby request you to respond to the questionnaire items as honestly as possible and to the best of your knowledge.

The questionnaire is designed for the purpose of this study only, therefore the responses shall be treated as confidential and anonymously given. No name shall be required from any respondent.

Thanking you in Advance.

Yours Faithfully,

JOHN N. MAINA

## Appendix 2

### Questionnaire for collecting information concerning the matters that generally affect the cash flow of SACCOs.

Please indicate the appropriate answers with reference to your SACCOs.

1. Name of the savings and credit co-operative society \_\_\_\_\_

a. Address \_\_\_\_\_

b. Telephone number \_\_\_\_\_

c. Location of SACCO offices \_\_\_\_\_

d. Title of respondents \_\_\_\_\_

2. For how long has the SACCO been in operation. Tick

a. Below 2 years

b. Between 3 and 5 years

c. Between 5 and 10 years

d. Above 10 years

3. Indicate the number of members as at the close of 31<sup>st</sup> December of each year.

Years	Members
31-12-01	_____
31-12-02	_____
31-12-03	_____
31-12-04	_____
31-12-05	_____

4. What was the total share capital and member's deposits as at the given dates

Year	Share capital + Member deposit
31-12-01	_____
31-12-02	_____
31-12-03	_____
31-12-04	_____
31-12-05	_____

5. What is the total demand for the different forms of loans available for each of the years given?

Year	Total loan Demand
2001	_____
2002	_____
2003	_____
2004	_____
2005	_____

6. a) Does your SACCO draw a cash flow statement at the end of each financial year?

- YES
- NO

b) If yes indicate the cash flow position in each of the Year listed (Positive or Negative)

Year	Cash flow position (Tick)	
	Positive	Negative
2001	_____	_____
2002	_____	_____
2003	_____	_____
2004	_____	_____
2005	_____	_____

c) If the answer is No which methods do you use to determine your cash flow position

- 
- Less than 2 weeks
  - Between 2 weeks and 4 weeks
  - Between 1 month and 2 months
  - Between 3 months and 3 months

7. Indicate your SACCO expenditure under each of the following expenditure head

Expenditure Head	2006	2005	2004
Salaries			
Traveling			
Electricity & Water			
Rent			
Stationary & Postage			
Maintenance			
Others (specify)			

8. a) How promptly are check-off remitted by the employer. Tick the correct answer.

- i. 2 days after month end
- ii. 3-10 days
- iii. 11-20days
- iv. 21-30 days
- v. Above a month

b) Indicate the check offs in arrears at the end of the years stated

Year	Check off in arrears
2001	
2002	
2003	
2004	
2005	

9. a) How long do members take from loan application to receiving of the loan amount?

Tick correct period.

- i. Less than 2 weeks
- ii. Between 2 weeks and 4 weeks
- iii. Between 1 month and 2 months
- iv. Between 2 months and 3 months

v. Above 3 months

b) What is the cause of the waiting period mentioned above?

i). Long Processing period

ii) Lack of enough funds

iii) Lack of collateral

10. a) Do you prepare a profit and loss account at year end? Tick the correct answer

Yes  No

b) If yes indicate the net surplus or Deficit

Year	Surplus	Deficit
2001	_____	_____
2002	_____	_____
2003	_____	_____
2004	_____	_____
2005	_____	_____

c) What are the possible reasons for surplus or deficit?

---

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11. What are the other sources of financial resources other than members contributions?  
Tick as appropriate.

i. Loans from banking institutions

ii. Government grants

iii. Self help groups

iv. Other co-operatives

v. Non governmental organization

vi. Other (specify)

12. a) Indicate the total loans to members and the total loan repayment in years indicated

Year	Total	Total loans
	Loans	Repayments
2001	_____	_____
2002	_____	_____
2003	_____	_____
2004	_____	_____
2005	_____	_____

c) What is the grace period before a member starts to pay the loan? Tick as appropriate

- a) Nil
- b) One month
- c) Two months
- d) Above two months

13. a) What is the SACCO policy on loan recovery when a member defaults?

\_\_\_\_\_

b) What is the percentage of loan defaulters compared to all the loanees?

\_\_\_\_\_

c) Do loan defaulters affect the operations of the SACCO tick as appropriate?

- a) Strongly affect
- b) Don't affect
- c) Have no major effect

14. a) Apart from making loans to members what other operations does the SACCO engage in:

- 1 \_\_\_\_\_
2. \_\_\_\_\_
- 3 \_\_\_\_\_

b) What are the incomes from the mentioned operations in the following years.

Year	Operations				
2001	1	2	3	4	5
2002					
2003					
2004					
2005					

15. What other financial organizations offer services similar to those offered by your SACCO? Tick if the organization is your competitor in credit provision.

i. Commercial Banks eg. KCB, Baclays etc \_\_\_\_\_

ii. Financial Institutions e.g. AFC, ICDC \_\_\_\_\_

iii. Micro-finance institutions e.g. Women Finance Trust, Faulu-Kenya \_\_\_\_\_

iv. Pyramid Schemes \_\_\_\_\_

v. Shylocks \_\_\_\_\_

16. i) How often do you conduct education to members? Tick as appropriate.

a) Once a year

b) Twice a year

c) Thrice a year

d) More than three times a year

e) None

ii) List down the major topics covered on education days

- 1.
- 2.
- 3.

iii) How much money is spent on member's education by your SACCO?

---

17. How do you get your SACCO known by the members? Tick as appropriate

- a) Written literature to the potential and existing members
- b) Holding SACCO open days
- c) Media publicity e.g. SACCOs newspaper
- d) Promotions in show grounds
- e) Others (specify)

18. Indicate the members who left as a result of death, voluntary withdrawal, retrenchment and natural retirement for each of the years below.

Year	Death	Voluntary withdrawal	Retrenchments	Natural retirements	
2001					
2002					
2003					
2004					
2005					

19. List the investments the SACCO has entered in the last 5 years and the income they have generated and the sources of the invested funds.

Year	Investment	Income	Source of investment fund
2001			
2002			
2003			
2004			
2005			

20. a) Indicate the rate and total amount of dividends paid in the year given.

Year	Rate in %	Total Dividend
2001	_____	_____
2002	_____	_____
2003	_____	_____
2004	_____	_____
2005	_____	_____

(b). What is the dividend policy for your SACCO? Tick the appropriate one.

- i. Increasing dividend pay our ratio policy
- ii. Fixed dividend payout ratio policy
- iii. Pure residue dividend policy.

21. a) What system of recording does your SACCO employ? Tick the appropriate answers

- i. Computerized system
- ii. Manual system

b) If computerized what was the initial cost of computerizing the system

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c) If manual what has hindered you from computerizing

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d) Do you think the change of technology affected the running of your SACCO

(i) No

(ii) Strongly think so

(iii) Not much benefit

22. What measures do you employ to cover the risks arising from

(a) Death of a loanee

---

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b) Retrenchment

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23. (a) Is HIV/AIDS a threat to your SACCO operation?

Yes

No

(b). If yes, how do you cover your organization from this threat?

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## Appendix 4

### Research Budget

1. Collection of materials for literature review	5000.00
2. Typing and printing of proposals	10,000.00
3. Photocopying and binding	5,000.00
4. Stationery	2,000.00
5. Pilot testing expenses	5,000.00
6. Transport	23,000.00
7. Data collection and analysis	15,000.00
8. Project printing and binding	10,000.00
9. Allowances for research assistants	20,000.00
10. Miscellaneous expenses	<u>5,000.00</u>
<b>Total</b>	<b><u>100,000.00</u></b>