A SURVEY ON THE EFFECTS OF NON-REMITTANCE OF MEMBERS DEDUCTIONS BY EMPLOYERS TO THE SAVING AND CREDIT CO-OPERATIVES SOCIETIES: A CASE OF NAIROBI PROVINCE

BY

KIGIRI PETER CHEGE

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signed ____________ Date 6/11/07

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

Signed ____________ Date 6/11/2007

Mrs. Angela Kithinji
Lecturer
Department of Finance
School of Business
University of Nairobi

DEDICATION

To my mum for the support she gave throughout my studies

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ABSTRACT

The study examined the effects of non-remittance of members' deduction by the employers to the Saving and Credit Co-operative Societies, a case of Nairobi Province while looking at its relationship with the SACCO performance. The target population of the study was all registered SACCOs in Nairobi as at December 2006. A sample of 60 out of a population of1060 SACCOs was studied.

Primary data was collected using a questionnaire and a total of 28 questionnaires were completed and returned. Secondary data for 40 SACCOs was collected using a semi-structured questionnaire from the Ministry of Co-operative Development and Marketing main registry. Data was analyzed and processed using computer software's SPSS (statistical package for social Scientist). Tables, pie charts, graphs and percentages were used to summarize the data and present research findings.

The findings of the study reveals that 64.3% of the SACCOs studied experience the problem of non-remittance and this has negative impact on SACCO performance. Some of the effects experienced include the SACCOs are unable to give loans, they are unable to pay dividends, they cannot pay salaries, members are likely to withdraw and liquidity position is likely to deteriorate among others.

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CHAPTER ONE

1.1 BACKGROUND

A Co-operative is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, mainly equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking (International Labour Organization-1978).

Ouma (1987) observes that the Savings and Credit Cooperative Societies (SACCOs) were first introduced in Kenya in 1964. Their emergence is traced to cash crop farmers' cooperatives movements, particularly in coffee growing areas, in the 1930s. These cooperatives were used as a medium for channeling to farmers the proceeds from sales of their crops. Majority of the working population have no collateral securities required by the commercial banks and therefore resort to the co-operatives for flexible credit facilities, farmers access the farm inputs through their farming co-operatives and the marketing co-operatives equally assist their members to access new markets for their products.

The types of Co-operatives that exist particularly in Kenya are therefore as varied as people's interests in different businesses. Leading in number are the savings and credit co-operative societies (SACCOs) which mobilizes resources from its members (Savings) and later create credit facilities to the very members from the mobilized pool of resources (loans). The Co-operative payroll deductions (savings and loan recoveries) are implemented simultaneously by the employer where members happen to fall in the same common bond through the check off system while observing the two-thirds rule.

Maina and Kibanga (2004) note that the loans advanced to members depend on the savings he/she has made, the demand of the same from other members and the liquidity position of the organization. Given the fact that collateral securities are limited to ones future earnings, deposits, guarantors deposits, the SACCOs have become very popular both in urban and rural areas no wonder these institutions are built on the motto of 'save regularly, borrow wisely and repay promptly'.

In Kenya SACCOs have become much more popular due to shortages of efficient and effective credit institutions to cater for the poor farmers and low income earners, micro-finance institutions fail to recognize the widespread subsistence farming as an entrepreneurial activity which could attract credit facilities and hence the widespread of SACCOs.

1.2 SACCOs' PERFORMANCE STANDARDS

Maina (2007) observes that financial statements are used as control and decision making tools in relation to the performance of the business. Information about the business's past and present is important for stakeholders to make decisions about its future direction. Financial analysis is a method of evaluating the business's operations and financial position by studying financial statements and developing ratios out of these statements in order to get the situation you want about the business. In analyzing the financial statements, there must be past information for comparison. The main areas of concern in any business are to establish whether it is able to pay for its current liabilities, it is profitability, it is efficiently managed or it will be able to pay its long- term debts.

Ratios are used to measure the financial health and efficiency of the business against these four areas of concern and more others. Ratios establish the relationship between the various elements in financial statements in order to bring out the desired situations in the business. There are four types of ratios each addressing the business's liquidity, profitability, efficiency and solvency situations in addition to more others peculiar with the Sacco as demonstrated in the PEARLS model.

Ratios are, however, used for specific periods of time and give quick, yet accurate comparisons of expenses to income, delinquent loans to total loans as well as other indicators. They have to be compared to standards, as well as a period of time to be meaningful.

1.3 MANAGEMENT OF SACCOS

The SACCOs being institutions born under the Co-operative Societies Act Cap 490, the same specifies that the supreme authority (AGM) delegate its governing authority to an elected management committee. The management committee carries out all the activities of the Sacco. There are situations when the employer fails to remit the co-operative cheque to the management committee and this lead to conflict between the management committee, members of the Sacco, the employer, consequently impacting negatively to the growth of the whole economy as the members of the public that indirectly depend on the Sacco loans forgo the same.

1.4 EFFECTS OF NON-REMITTANCE OF SACCO FUNDS

With liberalisation, it has become necessary for the Government to facilitate the creation of commercial, autonomous and member-based co-operative organisations. It will be the Government's policy therefore to enhance liberalisation of the co-operative sector gradually in a reasonable time. Thus, the process of change will necessarily include pragmatic phasing out arrangements. In order to consolidate the benefits derived from co-operatives, it will be necessary for the Government to provide, especially during the transition period, sufficient support and attendant measures to assist co-operatives to adjust and cope up with the resultant effects of liberalisation. The issue of non-remittance of the co-operative funds by the various employers has far reaching and devastating effects to the society and impinge on the growth of the national economy (Sessional Paper No. 6 of 1997).

Helm (1968) observes that failure to remit the cooperative deductions pushes the SACCOs into a serious liquidity positions such that they are not able to meet their objectives as legal institutions that is, giving the credit facilities to its members on demand and other services.

Maina and Kibanga (2004) note that non remittance affect loan disbursement as there is no money with the Sacco to do that and incase there is, favoritism will apply and even corruption as everybody want to access the loan. Further those people who have retired and those who want to withdraw will not have their shares refunded. Servicing of loans by members and expenses of following the defaulters becomes huge.

1.5 STATEMENT OF THE PROBLEM

The primary purpose of the study is to find out the magnitude and the effects of non-remittance of the Co-operative deductions to the society, growth prospects of the SACCOs as autonomous institutions and the national economy. The need for this study therefore has been occasioned by the many cases witnessed of non-accessibility of loans by members particularly parents who are unable to meet cost of their children secondary education yet they are owed millions of shillings as unremitted Co-operative deductions!

Gitonga (2007) notes that "lack of remittance of members' contributions and default by members are the major causes of liquidity problems in most SACCOs" and thus they cannot meet some of their obligations such as loans and advances. The authority cites the case of Jitegemee, the Mombasa Municipal Council employees Sacco that is owed KShs. 453.6 million by the council representing 94% of the total amount owed by employers to the Sacco in Mombasa. Started in 1968 by council employees as a vehicle for self-reliance, Jitegemee Sacco has become a burden and the source of headache to many employees at the town hall. Besides its inability to advance members' loans, the Sacco cannot even pay retirees their life savings. As at December 2006 records indicate that inclusive of interest, the council owes the Sacco more than KShs. 500M pointing out that although the Sacco has a share capital of about KShs. 170M, this money exists only in books.

Mayoyo (2003) council workers' co-operatives are to recover their members' contributions from the Local Authorities Transfers Fund (LATF). He said the government was concerned about the huge amount of money local authorities owed their workers in un-remitted co-operative society's deductions. The minister for Co-operative Development states "we are aware that some workers have been unable to take their children to secondary schools due to lack of school fees yet they are owed millions of shillings by employers who have deducted their money and failed to remit it to their Saccos."

According to the Ministry of Cooperative Development Report, the success or failure of any business pivots on the quality of its management, which depends on accurate record keeping; in fact sound management of a Sacco depends on accurate financial statements. Production of timely financial statements and their analysis is essential. This is because reliable records can point out problems before they become serious and can serve as a motivational tool to deal with the problem as well. Although SACCOs have served the Kenyan peoples sufficiently well during the last forty years; it has however been observed that there are certain inherent weaknesses that need to be addressed. Major weaknesses observed include weak accounting and internal control systems, financially undisciplined in that books and records for majority of SACCOs are out of balance and that financial statements are not always produced on a monthly basis. Although SACCOs have expanded their products and services; they have not embraced risk based management and rely on antiquated systems, procedures and methodologies to manage a fast expanding portfolio. The situation is ripe for fraud.

1.6 OBJECTIVES OF THE STUDY

The objectives of this study are: -

1. To determine the extent of non-remittance of members contributions by the employers to SACCOs in Nairobi during the period 2000 -2006.
2. To establish the relationship between extent of non-remittance and Sacco performance.

1.7 IMPORTANCE OF THE STUDY

The study aims to provide the way forward on the issue of non remittance of the co-operative funds while focusing on the principal beneficiaries including the members of the Sacco societies, pension schemes, regulators of the co-operative activities (commissioner office), parent institutions holding the co-operative deductions cheques, the management committee of the various SACCOs and the public trustees that occasionally deal with cases of the dead members funds which had not been remitted at the time of his death or no nominee was appointed by the member or both.

The members of the various Sacco societies stand to gain immensely from the study as it intends to explore ways and means of improving the legal redress system consistent with the Co-operative Societies Act which eventually if adopted as policy document will discourage holding of the co-operative funds or ensure complete recovery of the same with accumulated interest. If this is achieved it will guarantee quick disbursement of loans to members and translate into undertaking economic activities that improve the standard of living. Equally, the members will benefit from the alternative investment opportunities that can keep their institutions running when finances are not remitted immediately as suggested by the study.

Commissioner for Co-operative Development whose office supervises the SACCOs activities including provision of advisory and consultancy services will substantially benefit as the study seeks to strengthen the implementation of clause 35 of the Co-operative Societies Act on non remittance.

The management committee will significantly enhance credit administration as the study seeks to seal the loopholes in the Co-operative Societies Act which employers have taken advantage of to withhold the Sacco funds.

The study also intends to draw a clear distinction between the board of directors of the Co-operative Society and the parent company to avoid unnecessary lay offs for the Co-operative Society board of directors since both of them belong to completely separate entities.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Co-operative is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking (International Labour Organization - 1978).

In Kenya the colonial government and settlers initiated co-operative just before First World War. The objective was to organize production and marketing of export produce intended for the industries and capital of the west. It was not until after the Second World War those indigenous producers were permitted to grow such "special" crops as coffee and tea. They too formed co-operatives along the same lines as their forerunners. After independence in 1963, the new government continued to promote and support co-operatives, which were seen as means by which large numbers of the population could get to participate in the modern economy within a short time (Lumbama 1998).

Maina and kibanga (2004) observe that the role of co-operative in national development cannot be overemphasized, 75% of the population both in rural and urban areas are in one way or the other directly involved in co-operative activities in most developing and developed countries. The success and appropriateness of co-operatives is largely based on the concept of economies of scale. Co-operatives particularly SACCOs have the potential of mobilizing domestic savings necessary for national development. The main function of SACCOs is mobilization of savings and channelling the mobilized and other external funds to individuals' members of the co-operatives as loans for specific development projects at affordable rates of interest.

The origin of this type of co-operative is recorded in Germany in the mid 19th century. The operational concept was for the co-operative society to borrow funds (external) and lend to its members at more favourable terms than would be possible if the members borrowed on individual basis from commercial lending institutions. In the USA, the co-operative borrowed occasionally for the purpose of lending to members like in Germany but as a rule the co-operative societies lent funds provided through members' savings. This means discouraging external borrowing to finance members' credit and encouraging savings among the members of the co-operative for self-financing (Maina and Kibanga -2004).

Maina and Kibanga (2004) observe that in Kenya, the co-operatives take the approach where members are encouraged to save by offering them an attractive interest on such savings and grant them loans out of the same savings at reasonable and competitive rate. There is need to develop the German aspect of sourcing funds from other external sources, like donors, at favourable terms and channel such funds to the members of the co-operative as development loans although this is discouraged within the co-operative movement.

Ouma (1990) says that SACCOS are types of co-operatives, which are normally found where there are many people working under the same employer. The members authorize their employer to deduct a portion of their earnings every month through the check-off system and remit it to their society. It is in this way that regular savings are accumulated from which members can draw loans. The repayment of loans is also carried out in the same way.

2.1 MANAGEMENT OF SACCOS

Maina and Kibanga (2004), in the management of cooperative enterprises, the most important element is their members. As opposed to other enterprises where factors of production are derived from different sources, for example, capital from investors, labour from employed workers and hired managerial staff, co-operatives enterprises factors of production come from one source, the members. For quite a long time, co-operatives have been business enterprises in the sense that the same shareholders are also the customers of the various providers they offer this traditional way of conducting business is now changing to the extent that certain activities of the SACCOs are open to the public patronage not necessarily members.

There is a hierarchy of responsibilities clearly seen in the management of other business enterprises with the person in charge at the top. From the top authority is delegated to those beneath in progressively increasing number. In cooperative enterprise, the top of the hierarchy is the member. This broad top membership delegates authority to the committee (central management committee), which is in turn delegate to the general management. The difficulty here is that the central management committee is often an executive committee that does not delegate to the general manager. This is not withstanding the fact that the central management committee is made up of individuals with no common alignment on the vision and mission of the cooperative.

Kibanga (2004) the co-operative law in Kenya as regards to the management of cooperative enterprises, says: "The central management committee of the cooperative society shall be the governing authority of the society and subject to any direction from a general meeting of the society: is shall direct the affairs of the society with powers to enter into contracts, to institute and defend suits and other legal proceedings brought in the name of or against the society and to do all other things necessary to achieve the society's objects in accordance with its by-laws.

The committee of a cooperative society shall ensure that such officers have signed any payment made by cheque as the by-law authorize and be responsible for the custody of all money's belonging to the society.

Schaars (1980) observe that SACCOs have been of benefit to members belonging to the weak or poor socio economic segments of the population who use it to improve their economic and social situation and to integrate themselves in processes of social economic development. Thus, SACCOs promote poor members by offering them the services and goods at reasonable cost hence improving their socio-economic status. Through cooperative enterprises, members can acquire management and business skills, capital for the purchase of equipment for production projects and generally expose them to both financial and commodity markets. This requires that members participate actively in financing, decision making and in promotional services of their cooperative enterprises.

2.2 CO-OPERATIVE LAW

Remittance refers to the transfer of co-operative deductions by the employer to the co-operative society usually on monthly basis. There has been a problem where the employers are not remitting the contributions and thus come the issue of non-remittance.

Many societies used and are still suffering a situation whereby the employer makes share and loan recovery deductions and fails to remit them to the society. This state of affairs has made it extremely difficult for some societies to survive particularly the SACCOs, which fully depend on such deductions to advance loans to members and for their survival. As per the data (in 2005, there were 4,678 SACCOs with 4,602,000 members with a turnover of KShs. 101.686 billions) the Sacco sector is the most popular category and has the biggest financial portfolio in the cooperative sector and indeed worth the pertinent issue of non-remittance (almost KShs. 4.5 billion) afflicting the Sacco sector, majority of the people of Kenya employed mainly in the private sector that are the principal beneficiaries of the credit facilities extended by the Sacco have no bright future (Statistical Abstract 2006).

The enactment of the Cap 490 of 1966 emphasised on the non-SACCOs, as it was believed that the majority of the working class did not need co-operatives. The issues of remittances by the employer were therefore completely ignored in the Act. The clause 35 which could have addressed the non-remittance problem only captured the liability of past members for debts of society and it says:

> "The liability of a past member of a registered society shall be in respect of the debts of the society as they existed at the date when he ceased to be member, and proceedings in respect thereof may be commenced within a period of two years from such date:
>
> Provided that, in the case of a registered society with limited liability, if the first audit of the accounts of such society after his ceasing to be

a member discloses that the society is solvent the financial liability of such past member shall forthwith cease".

When the cap 490 was completely overhauled and new clauses inserted including the clause 35 on non-remittance by the various employers, the situation improved. The clause 35 (1), (2) and (3) in the new Act. No. 12 of 1997 now states:

"(1) Where the employer of a person who is a member of a co-operative society having with the agreement of such member and of the co-operative society concerned made a deduction from such member's emoluments for remittance by the employer to the co-operative society concerned fails to remit such deductions within fifteen days after the date upon which the same was made, the co-operative society concerned shall be entitled after having given such employer not less than seven days notice in writing, in that behalf requiring immediate payment to file proceedings for recovery of such deductions.''

''(2) The notice to be given under sub-section (1) shall be in writing and require that the employer concerned shall, within seven days after the service thereof on the employer pay the sum deducted as aforesaid to the co-operative society and shall further provide for summary recovery of the sum concerned together with compound interest thereon at the rate of not less than 3% per month, through the courts will be filed again such employer without any further notice to the employer.''

''(3) In any proceeding instituted under the provisions of this section the society may be represented by the registrar."

Sessional Paper No. 6 of 1997, the co-operative sector has faced a lot of mismanagement practices by the central management committee since this liberalization of the 1997. The committee has no technical know-how and the capacity to deal with the non-remitting employers as proposed in the Act No. 12 of 1997. Consequently upon this realization and in-order to address other pertinent issues of mismanagement in the sector, the No. 12 of 1997 was amended in 2004 and the clause 35 on non-remittance improved with the Commissioner of Co-operative Development assuming the role of pursuing non-remitting employers. The new version of the clause 35 state;

> "(1) Where an employer of a person who is a member of a co-operative society, has under instruction of the employee, made a deduction from such employee's emoluments for remittance to the co-operative society concerned but fails to remit the deductions within seven (7) days after the date upon which the deduction was made, the employer shall be liable to pay the sum deducted together with compound interest thereon at the rate of not less than five percent per month.''
>
> ''(2) The Commissioner may, on behalf of the society, institute legal proceedings in court for the recovery of the sum owing under sub-section (1) without prejudice to any other mode of recovery and such sum shall be a civil debt recoverable summarily".

This punitive provision will certainly assist societies recover their dues from the employer. It is important to observe that the enforcement of section 35 may not be automatic against the employer unless there is in place some tripartite agreement between the employer, society and member. It is therefore important for societies to reduce the legal hurdles by ensuring that there is in place such agreement binding the employer to deduct and remit. The provisions of section 35 are highly punitive.

Akutekha (2002) says it is doubtful whether the society will retain a good relation with the employer after such penalty. Saccos use the employers' payroll and facilities to effect share deductions and loan recovered.

The provision is likely to place co-operatives in that uncomfortable status of trade unions. It would be interesting to observe what would happen where the top executives of the defaulting employer are on the management committee of the society, or in the alternative where the management committee consists of very junior employees in the organization.

2.3 SACCOs' PERFORMANCE STARNDARDS

According to the Ministry of Cooperative Development Reports, SACCOs constitute not only the fastest growing sub sector of the cooperative movement in Kenya, but also the most significant in impacting on the livelihoods of its members. They are currently regulated through the Cooperative Societies Act, which unfortunately is grossly deficient of adequate provisions to guide SACCOs in the competitive financial sector. The Act does not prescribe standards of performance required for such specialized cooperatives providing financial intermediation.

Success or failure of any business pivots on the quality of its management, which depends on accurate record keeping; in fact sound management of a Sacco depends on accurate financial statements. Production of timely financial statements and their analysis is essential. This is because reliable records can point out problems before they become serious and can serve as a motivational tool to deal with the problem as well. Although SACCOs have served the Kenyan peoples sufficiently well during the last forty years; however, it has been observed that there are certain inherent weaknesses that need to be addressed urgently. Major weaknesses observed include weak accounting and internal control systems, financially undisciplined in that books and records for majority of SACCOs are out of balance and that financial statements are not always produced on a monthly basis. Although SACCOs have expanded their products and services; they have not embraced risk based management and rely on antiquated systems, procedures and methodologies to manage a fast expanding portfolio. The situation is ripe for fraud.

Maina (2007), notes that a cooperative, and indeed any business, should develop a standardized, well-balanced financial monitoring system that monitors its performance in the foregoing areas in addition to development and use of financial ratios. Ratios are important tools particularly for external users of financial statements. Directors and managers responsible for the direction and day to day operations of the business must develop a financial management system that incorporates the ratios for monitoring and controlling the business along the four desired situations – profitability, liquidity, efficiency and solvency.

2.3.1 RATIO ANALYSIS

Maina (2007) give four type of ratios developed and used in evaluating an enterprise along the four situations/areas we need to understand in the organization. These are -:

2.3.1.1 LIQUIDITY RATIOS

Liquidity is the ability of the cooperative or business to meet current demands for funds. It helps to determine whether an organization is able to pay its debts, particularly short term. The objective of liquidity ratios is to monitor whether the business can favourably respond to the likely threat from current liabilities e.g. if the bank suddenly re-calls its overdraft facility or if members (in the case of cooperative) resign and demand their saving back, will the business pay such debts and remain in operation? Liquidity ratios deal with the size of and due dates of liabilities, as well as the cooperative's dependence on outside funds.

Three ratios developed and used in this area include:

A. Cash Ratio

This is the measure of the adequacy of available cash. It is far better to give out loans in the case of SACCOs than holding excess cash.

$$\text{Cash Ratio} = \frac{\text{Cash + Cash Equivalents}}{\text{Current Liabilities}}$$

B. Current Ratio

It gives an indication as to whether a business is able to pay for immediate bills, short-term liabilities e.g. rent, salaries, water etc.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

C. Working Capital Ratio

Working capital is the amount necessary to operate a business on a daily basis. It is the difference between total current assets and total current liabilities.

$$\text{Working Capital Ratio} = \frac{\text{Income}}{\text{Working Capital}}$$

A low ratio i.e. below the standard, in a Sacco will mean that members' are tied up in other investments, hence the inability for the cooperative to give loans as required.

Some important and relevant ratios for SACCOs include:

- Loans – to – Saving ratio

It determines the degree to which member savings are funding loans to members. A high ratio can signal liquidity problems, probable high delinquency, heavy savings withdrawals, high credit demand or poor loan policies. A low ratio might indicate high interest rates, low loan demand, high savings rates or restrictive loan policies.

$$\text{Loans – to – Saving ratio} = \frac{\text{Total Loans Outstanding}}{\text{Total members' savings}}$$

- Loans – to – Assets Ratio

This shows the degree to which the cooperative is providing its most important service i.e. loans and that the cooperative is not using members' savings in the purchase of other assets. A high ratio indicates less liquidity while a low ratio represents more.

$$\text{Loans – to – Assets Ratio} = \frac{\text{Total Loans Outstanding}}{\text{Assets}}$$

2.3.1.2 PROFITABILITY RATIOS

These are earning ratios. Although SACCOs are not profit making institutions, it is allowed that they generate enough income to cover its expenses and run some surplus.

- Rate of Return on Assets

The annual rate of return on total assets shows the relationship of the cooperative's gross interest income to total assets.

$$\text{Rate of Return on Assets} = \frac{\text{Gross interest income}}{\text{Average total assets}}$$

- Rate of Return on Loans to Members

Since cooperatives earn most of their income from loans to members, it is important to know the returns on loans. This is referred to as " Gross – income test or loan – yield ratio. If the percentage is less than the cooperative's nominal lending rate, it is likely that there is substantial loan delinquency or that interest is not being calculated accurately. Average loans outstanding are calculated by taking the amount of loan outstanding at the beginning of the time period, adding them to the total at the end and dividing by two.

$$\text{Loan – yield ratio} = \frac{\text{Total loan interest received during period}}{\text{Average loans outstanding}}$$

2.3.1.3 EFFICIENCY RATIOS

- Operating – Expenses – to – Income Ratio

This shows how much income must be earned to meet operating expenses. If the ratio did not meet the stated goals, it may be that expenses are excessive or income was insufficient. It indicates how efficiently the cooperative is being managed. As the cooperative grows and draws the economies of scale, this ratio decreases or should decrease.

$$\text{Operating – expenses – to –Income Ratio} = \frac{\text{Total operating expense}}{\text{Total income}}$$

2.3.1.4 SOLVENCY RATIOS

Solvency refers to a business's ability to meet its long –term obligations on a continuous basis. For the cooperative, it means its ability to repay member shares, deposits and other debts.

- Solvency Ratio

This ratio indicates the estimated cash value of the cooperative per monetary unit of deposits if all assets were held to maturity and book value is correct.

$$\text{Solvency ratio} = \text{Deposits} + \text{Shares} + \text{Reserve funds} + \text{other Accounts} - \frac{\text{Delinquent loans}}{\text{Deposits} + \text{Shares}}$$

The ratio must be positive i.e. more than 1

2.3.1.5 ASSET QUALITY RATIOS

The main asset for SACCOs is loans to members. This is the income-generating asset for this type of cooperatives. The main risk also facing this asset is the loan delinquency. It is important for directors and managers to understand how to determine the strength or the quality of such asset in their cooperatives by developing asset quality ratios.

- Delinquency Ratio

This shows the proportion of total loans outstanding that is delinquent and may be lost. If one or more repayments are missed, the entire loan is considered delinquent. This ratio is a predictor of loan repayment.

$$\text{Delinquency Ratio} = \frac{\text{Total delinquent loans}}{\text{Total loans outstanding}}$$

This ratio must be kept as low as possible and must continuously be monitored to keep it at manageable level; it should preferably be kept below or equal to 5%.

2.3.1.6 GROWTH RATIOS

They measure annual changes in savings, loans, net income, expenses, assets, liabilities/equity, membership, etc. By determining or examining these ratios, management will be enabled to know whether the cooperative is growing as planned. Growing ratios are based on the previous year's ratios and they include:-

- Annual membership growth = $\frac{\text{Current membership} - \text{Previous year Membership}}{\text{Previous year Membership}}$

According to the World Credit Union, this ratio should grow at least at the rate of more than 5% annually.

- Annual Savings Growth = $\frac{\text{Current year total savings} - \text{Previous year Total savings}}{\text{Previous year Total savings}}$

This is the growth in savings during the past 12 months, which can also be annualized for short periods.

The World Council of Credit Unions (WOCCU) has developed a performance – monitoring tool referred to as PEARLS to be used as a guide by cooperative financial institutions. It is a guiding tool to financial management and is used to evaluate the operations of SACCOs. This system is made up of 45 financial ratios and provides a complete measure of the cooperative's financial performance. Each element of PEARLS looks at a critical area of the cooperative's financial operations:

- P = Protection
- E = Effective Financial Structure
- A = Assets Quality
- R = Rates of Return and Cost
- L = Liquidity – availability of funds to meet daily disbursements
- S = Signs of Growth

PROTECTION

By a cooperative starting to accept members' savings, it should establish financial disciplines to protect savings from various risks. The most obvious risk to a Sacco stems from potential losses caused by loans defaulting and outright financial mismanagement. The protection indicators measure whether the cooperative has adequate provisions to absorb expected loan losses. They monitor the solvency of the institution i.e. its ability to return the full value of savings to members.

EFFECTIVE FINANCIAL STRUCTURE

This monitors the structure of both sides of the balance sheet – they show the sources and uses of funds. On the asset side, indicators monitor where the funds are invested: loans, liquid investments, financial investments and non- financial investments.

These indicators help managers to use funds where they will earn the highest returns. However, the core business is loans to members and data on loan growth and diversification is an important performance indicator here. It recommends net loans to total assets to be between 70 – 80%. Liquid investments should be kept below 20%, investments of members savings on real estate is at 0%, meaning that this should not be done. Although the PEARLS's model give provision for external credit to total assets at 5%, it has been made clear on how external loans should be handled. On the liabilities side the indicators show the primary sources of funds: members' savings, shares, loans and retained surpluses as the cooperatives grows, its financial structure changes, but care must be taken to ensure that growth in cooperatives facilities remains shared equally among the members. The equity capital of a Sacco must not change due to its growth; it must always remain equally shared by all members. Equity capital is recommended to be between 10 and 20% i.e. member share capital to total assets. Institutional income i.e. reserves, to total assets should be at a minimum of 10%.

ASSET QUALITY

This measures the problem areas that have the greatest impact on the efficiency or generation of surpluses. SACCOs must generate income to pay interest on members' savings so as to continue attracting more savings. When there is loan defaulting, when fixed assets are more in relation to total assets, or when the cooperative invests savings in no-earning assets, it will fail to earn the income necessary to pay financial costs and operating expenses. Funds mobilized through members savings with the cooperative must not be invested in fixed assets. They must be given to members as loans from where the cooperative will earn enough income to pay interest on savings/ deposits and pay for direct and indirect costs. Total loan delinquency to gross loan portfolio should be equal to or less than 5% and non-earning assets to total assets should be equal to or less than 5%.

RATES OF RETURN AND COST

The rates of return and cost indicators tell the cooperative what it earns on the various uses of its funds: loans, liquid investments, financial investments and non-financial investments. These indicators also reveal the costs that the cooperative pays to acquire the various sources of funds: members' savings, shares, loans and retained surpluses. This information enables managers to identify sources of funds that minimize financing costs and to match the returns on the returns on uses of funds with the costs of sources. The rates must be competitively matched with market rates in the financial sector.

LIQUIDITY

This measure the ability of the cooperative to ensure that adequate liquidity is available to meet the withdrawal demands of the members and the disbursement demands of loans from members.

SIGNS OF GROWTH

These indicators measure the growth of membership, as well as the growth rate of the balance sheet. The comparative rates of growth in savings and loans tell the cooperative what impact – balanced or not balanced – growth will have on liquidity and surpluses. They allow managers to monitor the growth of the cooperative capital as required to maintain adequate capital levels of protection during periods of high growth. The following statistical data is important for SACCOs to be prepared and noted in their financial statements: membership growth, savings/deposits growth, loans growth, interest on members' savings/deposits and interest on loans.

2.4 EFFECTS OF NON-REMITTANCE OF SACCOS FUNDS

Even though to a large extent non-remittance of Sacco funds by the various employers has impacted negatively to the Sacco fraternity, it has been a source of inspiration to the Sacco to pursue strategies that could boost the capital base, that is diversifying their income generating sources as pursuant to clause 45(b) of the Co-operative Societies Act.

It has also been realized that when employers fail to remit the co-operative funds, they invest the same elsewhere. Unfortunately when time comes to pay the SACCOs, they only remit the principal amount excluding earnings on the same over the years. Consequently the employer's financial status improves as the Sacco or by extension the public suffer financially. For instance loan disbursement will be affected, as there is no money with the Sacco to do that and incase there is, favoritism will apply and even corruption as everybody want to access the loan. Further those people who have retired and those who want to withdraw will not get their shares refunded. Servicing of loans by members and expenses of following the defaulters also becomes a problem (Maina and Kibanga-2004).

Helm (1968) says failure to remit the cooperative deductions pushes the SACCOs into a serious liquidity positions such that they are not able to meet their objectives as legal institutions that is, giving the credit facilities to its members on demand and other services.

The Annual Reports Ministry of Co-operative Development (2006) other effects include non-remittance discourages savings and investment on the part of the public (cooperators) and hence low entrepreneurship at the national level, which could spur economic growth as per the government poverty eradication paper. Non-remittance leads to institutional conflict usually between the society, the management committee and the government as the parties trade accusations on who is legally empowered to pursue the matter through long court battles. This again depletes the society resources further.

Moreover non- remittance leads to institutional collapse. SACCOs as have been pointed out, are legal structures and have mutual contracts with the shareholders that is, they must offer specific services in return of the shares and deposits on top of other things they begin to withdraw their investment which eventually leads to institutional collapse and widespread poverty at the national level.

Further non-remittance leads to speculation by the larger public (cooperators) as to whether the cooperative legislation is effective or whether the commissioner has the capacity to implement the cooperative law and safeguard the cooperators funds. This speculation is dangerous in the cooperative business as it keeps a way the potential members of the public who could have either joined or formed a Sacco, the result of which is very few SACCOs in Nairobi with a potential of having 2000 SACCOs, has only 1500 SACCOs.

In additional, Cooperatives are institutions built on mutual trust reinforced by the law and when this is broken by any of the said parties, the result is that the same members will invest elsewhere for example, micro finance institutions or generally the Sacco competitors in business for example, K-rep, Faulu Kenya, etc.

It has been understood that SACCOs provide many employment opportunities to many Kenyans and as they collapse due to non-remittance, these opportunities are equally lost leading to low standard of living.

Mudibo and Masika (1991) say in Kenya, co-operatives particularly the SACCOs have contributed a great deal towards improving the living standards of the people. Unfortunately, all is not smooth in the cooperative sector. Instances of corruption, mismanagement and incessant disputes have increased and are threatening to bring the sector down. Continuous changes in economic socio economic, political and technology have impacted negatively on the management of cooperative enterprises. Most of these factors are beyond the control of the ordinary citizens particularly in co-operatives activities. Properly managed co-operatives would be ideal vehicles for the attainment of millennium development goals; this may end up being a pipe dream unless the cooperative members are assured that their deposits and other assets are jealously protected. They must be assured that embezzlers, thieves and others who commit economic crimes against them will face full force of the law. Other challenges facing the SACCOs are the strict loan conditions where only the members' can assess the loan; failing to develop appropriate financial products which meet the needs of their membership and also the weak management, control and information systems. The effects are according to the annual returns from the districts reports.

2.5 CITED CASES OF NON-REMITTANCE

SACCOs have over the years enabled many Kenyans secure loans as start-up capital for their small businesses. The SACCOs have also come in handy where members needed soft loans to take care of their financial commitments. Stifled by failure of employers to remit members' contributions, mismanagement and lack of economic empowerment, most SACCOs at the Coast Province are redundant; with others so cash-strapped they are tottering on the brink of collapse. Gitonga (2007) notes that "lack of remittance of members' contributions and default by members are the major causes of liquidity problems in most SACCOs" and thus they cannot meet some of their obligations such as loans and advances. He cites the case of Jitegemee, the Mombasa Municipal Council employees Sacco that is owed KShs. 453.6 million by the council representing 94% of the total amount owed by employers to the Sacco in Mombasa. Started in 1968 by council employees as a vehicle for self-reliance, Jitegemee Sacco has become a burden and the source of headache to many employees at the town hall. Besides its inability to advance members' loans, the Sacco cannot even pay retirees their life savings. As at December 2006 records indicate that inclusive of interest, the council owes the Sacco more than KShs. 500M pointing out that although the Sacco has a share capital of about KShs. 170M, this money exists only in books.

Gitonga (2007) observes that, Mrs. Roslina, still an employee of the council, wants an advance payment to enable her pay school fees for daughter at the Mombasa polytechnic who has been barred from sitting her final exam. 'I have been contributing to the Sacco for over 20 years now,' she says, 'and I have so far saved over sh.100, 000. I thought this money would help me in future but I cannot even secure a small loan for my daughter's school fees.' She cannot withdraw her share either, as she would suffer the same fate as Nyamawazi Mazuri who retired last year. He has four children in secondary school but cannot pay their school fees yet Jitegemee is holding some sh.150, 000 he saved over the 36 years he worked at the council. The manager of Jitegemee Sacco says he cannot release any money as he has a list of retirees who are yet to be paid. 'You know I cannot just dismiss them so I keep their hopes high,' he comments later. 'We have not paid members who retired in 2001 their money which is very serious. Unless something is done the Sacco is going to collapse (Gitonga -2007).'

Mayoyo (2003) observes that, council workers' co-operatives are to recover their members' contributions from the Local Authorities Transfers Fund (LATF). He said the government was concerned about the huge amount of money local authorities owed their workers in un-remitted co-operative society's deductions. The minister for Co-operative Development says "we are aware that some workers have been unable to take their children to secondary schools due to lack of school fees yet they are owed millions of shillings by employers who have deducted their money and failed to remit it to their SACCOs."

Mishael (1998) notes that the Ministry Of Co-operatives Development and Marketing has embarked on a major crackdown on some 250 employers countrywide who have failed to remit KShs. 2.5b to SACCOs. The Minister for Co-operative Development said the Co-operative Act, which was recently passed in parliament empowers the ministry to crack down and force employers to pay and even prosecute those who fails to remit workers funds to SACCOs. The Minister said, "Coast Province is a major culprit in this vice, especially the hotel industry. We shall not spare any employer because we have given them enough time". He said the money had accumulated to KShs. 2.5 billion over the years due to lax laws that could not be used to prosecute those who refused to remit Sacco

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The study is a descriptive sample survey aimed at investigating the effects of non-remittance of funds to the SACCOs in Nairobi while looking at its relationship with the Sacco performance.

3.2 THE POPULATION

The population of interest in this study consists of 1060 SACCOs operating in Nairobi according to the Ministry of Co-operative Development data as at December 2006.

3.3 SAMPLE

The population will be divided into six categories, that is, non-governmental organizations, private sector, church based organizations, community based organization, transport and public sector. A sample of 60 SACCOs will be selected judgementally depending on the number in each category.

3.4 DATA COLLECTION

Both Secondary and Primary data will be used in this study. The main methods to be used to collect the data will be a semi-structured questionnaire. In each Sacco, a questionnaire will be distributed to members, management committee and employees.

3.5 DATA TYPES AND ANALYSIS

Primary data about the extent of non-remittance of members' contributions by employers to SACCOs will be collected using the questionnaire. The major variables to be used include share capital, loans to members and membership. Trends will be computed on the variables using SPSS (statistical package per social scientist) and tables, bar charts, graphs and percentages used to summarize the data.

Secondary data from the SACCOs financial statements will be used to compute measures of Sacco's performance.

CHAPTER FOUR

4.0 DATA ANALYSIS AND FINDINGS

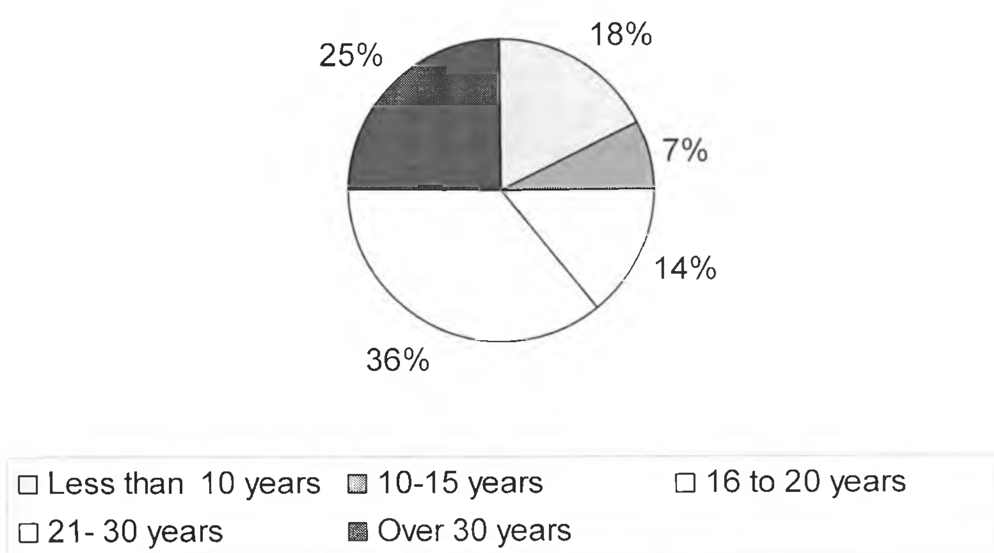
4.1 INTRODUCTION

This chapter presents analysis and findings of the research achieving the objectives. 28 firms were respondents in the study out of the target of 60 thus response rate was 47%.

4.2 NUMBER OF YEARS IN OPERATION

This section sought to find out the number of years the SACCO had been in operation

Figure 2: Number of years in operation



It can be seen from the above chart that 36% of the SACCOs involved in the survey had been in operation for between 21 to 30 years and 25% had been in operation for over 30 years. On the other hand 18% had been in operation for less than 10 years, 14% had been in operation between 16 and 20 years, and only 7% had been in operation between 10 and 15 years.

4.3 DESIGNATION OF THE RESPONDENTS

This section sought to find out the designation of the respondents. The results are as shown below.

Table 3: Designation

Designation	Frequency	Percent
Accountant	11	45.8
General manager	2	8.3
Manager	3	12.5
Member	1	4.2
Registrar	1	4.2
Secretary	6	25.0
Total	24	100.0

The above table shows that majority of the respondents comprising of 45.8% were accountants, 25% were secretaries and 12.5% were managers. On the other hand 8.3% of the respondents were general managers, 4.2% were members and another 4.2% comprised of the registrar of the company.

4.4 GENDER

This section was devoted in finding out the gender of the respondents

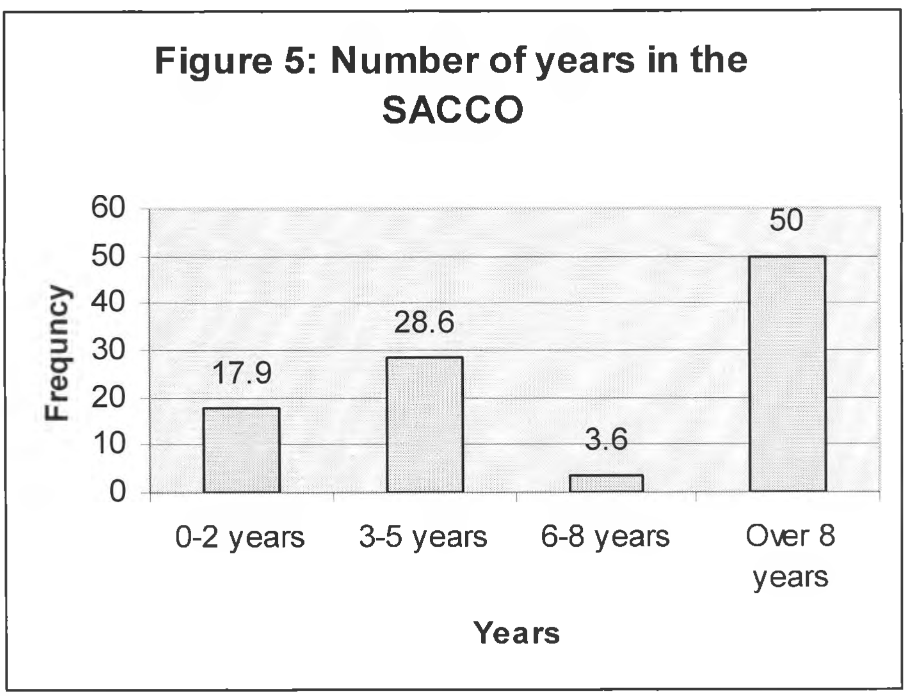
Table 4: Gender

Gender	Frequency	Percent
Male	25	89.3
Female	3	10.7
Total	28	100.0

Majority of the respondents were male comprising of 89.3% of the total population while only 10.7% of the respondents were female.

4.5 NUMBER OF YEARS IN THE SACCOS

In this category the interest of the researcher was on the number of years the respondent had been in the organization.



It can be seen from the above graph that 50% of the respondents had been with the organization for over 8 years, 28.6% had been with the organization between 3 and 5 years, 17.9% had been with the organization for less than 3 years while only 3.6% had been with the organization for 6 to 8 years.

4.6 TYPES OF LOAN GIVEN

In this category, the interest was on the type of loans offered by the SACCO.

Table 6 Types of loan given

Types of loan	Frequency	Percent
Development loans	1	3.6
School fees loans	1	3.6
Development loans, school fees loans and emergency loans	26	92.9
Total	28	100.0

The above table shows that majority of the SACCOs involved in the study comprising of 92.9% had a combination of development loans, school fees loans and emergency loans. The other 3.6% of the population offered only development loans and another 3.6% offered only school fees loans. Other loans offered by SACCOs who were involved in the study include; holiday loans, instant loans, insurance loans, medical loans, fire loans and welfare loan.

4.7: PROBLEM OF NON-REMITTANCE

This section sought to find out if the SACCOs involved in the survey *experienced the problem of remittance.*

Table 7: Problem of remittance

Response rate	Frequency	Percent
Yes	18	64.3
No	10	35.7
Total	28	100.0

It can be seen from the above *table that 64.3% of the SACCOs involved in* the survey had experienced the problem of remittance while 35.7% did not experience the problem of remittance. Those who experienced the problem of remittance mentioned the cause as being due to change of workstations, staff being discouraged from joining SACCO and remittance taking more than 2 months. Other reasons for non remittance mentioned by respondents include; downfall of members, members stopping remittance, poor business and poor member education.

4.8: EFFECTS OF NON-REMITTANCE

This research also sought to find out the effect of non remittance to the SACCO. The first problem that arises due to non-remittance is denied revenue. The SACCO will not access the money in time and this will directly affect the meeting of loan demands as well as paying SACCOs' employees. Other effects mentioned by the respondent include withdrawals of members from the Sacco, loan defaulting as the employer gives the Sacco last priority during deductions thus members are not able to repay their loans. Problems such as serious liquidity positions also arise such that they are not able to meet their objectives as legal institutions.

4.9: GOVERNMENT CONSIDERATION OF SACCO'S ROLE IN ECONOMIC DEVELOPMENT

In this section the interest of the researcher was finding out if the government considered the role of SACCOs in economic and social development as being important.

Table 8: Government consideration of SACCO's role in economic development

Response rate	Frequency	Percent
Yes	28	100.0
No	0	0
Total	28	100.0

It can be seen from the above table that all the respondents involved in the survey agree that the government of Kenya considered the important role played by SACCOs in economic and social development.

4.10: REASONS WHY GOVERNMENT PUTTING IMPORTANCE ON SACCOS

In this category, the interest of the researcher was finding out what were the reasons why the government attached so much importance on SACCOs.

Table 9: Reasons why government putting importance on SACCOs

Reasons	Frequency	Percent
Economic development	2	7.1
Empowering members economically	4	14.3
Eradication of poverty	1	3.6
Improving living standards	10	35.7
Low income people access credit	1	3.6
Saving opportunities through mobilization of funds	2	7.1
Total	28	100.0

The most dominant reason advanced by respondents was that SACCOs helped in improving living standards of its members; another reason was that SACCOs empowered its members economically. These reasons were seen as the main reasons as to why the government put a lot of importance on SACCOs. Other reasons that were advanced include;

SACCOs role in economic development, provision of saving opportunities through mobilization of funds, enabling low income people access credit as well as eradication of poverty.

4.11 FUNCTION ENJOYED BY THE SACCO FROM COMMISSIONERS FUNCTION

In this section the respondents were asked to state three functions of the Commissioner they enjoyed as a SACCO.

Table 10: Function enjoyed by the SACCO

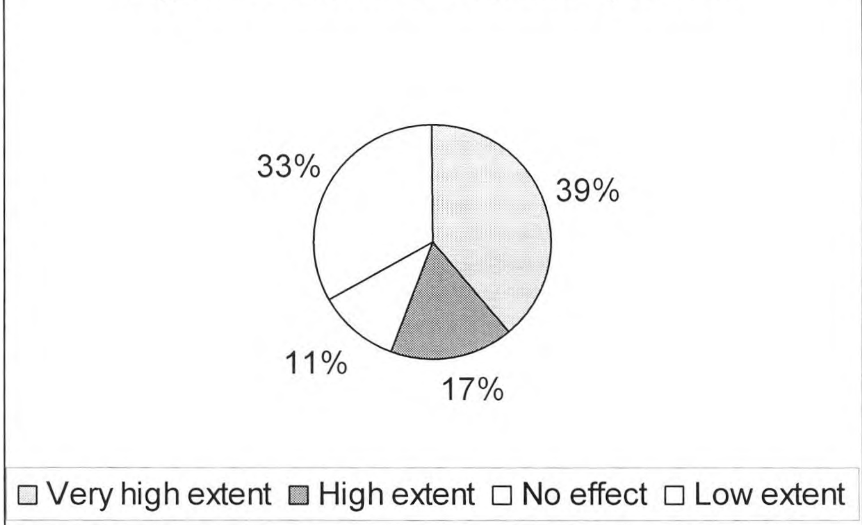
Functions	Frequency	Percent
Advisory and consultancy , advising minister and inquiry and inspection	3	10.7
Advisory and consultancy, inquiry and inspection and planning and developing SACCO bill	2	7.2
Registration, Advisory and consultancy and advising minister	5	17.9
Registration, Advisory and consultancy and inquiry and inspection	18	54.2
Registration, Advisory and consultancy and Mobilization of resource through statutory reserve fund	1	3.6
Total	28	100.0

It can be seen from the above table that the majority of the SACCOs involved in the survey comprising of 54.2% were involved in registration, advisory and consultancy and inquiry and inspection. On the other hand 17.9% were involved in registration, advisory and consultancy and advising minister, 10.7% were involved in advisory and consultancy, advising minister and inquiry and inspection. The proportion of SACCOs involved in advisory and consultancy, inquiry and inspection and planning and developing SACCO bill comprised of 7.2% of the total population while 3.6% of the SACCOs involved in the survey were involved in registration, advisory and consultancy and mobilization of resource through statutory reserve fund.

4.12: EXTENT OF NON-REMITTANCE PROBLEM AFFECTING THE SACCO

This section sought to find out the extent to which the problem of remittance affected the SACCO.

Figure 11: Extent of remittance problem



It can be seen from the above table that 39% of the respondents reported that the problem of non remittance affected the SACCO to a very high extent, 33% reported it to affect the SACCO to low extent, 17% to high extent while 11% reported it not to affect the SACCO.

4.13: RESOLVING THE PROBLEM OF REMITTANCE

In this section the researcher was interested in what the SACCO was doing to resolve the problem.

Table12: Resolving the problem of remittance

Resolving the problem	Frequency	Percent
Commissioners intervention	5	29.4
Commissioners intervention and legal redress	2	11.8
Legal redress	2	11.8
Mutual agreement	6	35.3
Mutual agreement, commissioners intervention and legal redress	2	11.8
Total	17	100.0

Mutual agreement was the choice for resolving the problem to 35.3% of the SACCOs involved in the survey, 29.4% sought for commissioner's intervention. The other SACCOs sought a combination of the above factors as shown in the table above.

4.14 COMPETITIVE STRATEGIES

This section sought to find out the extent of use of competitive strategies by SACCOs to remain competitive.

Table 13: Competitive strategies

Strategy	Very high extent		High extent		No effect		Low extent		Very low extent	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
New products	9	47.4	2	10.5	6	31.6	2	10.5	0	0
New market	10	35.7	2	7.1	4	14.3	3	10.7	0	0
Product development	11	39.3	7	25.0	2	7.1	2	7.1	0	0
Diversification	3	10.7	4	14.3	5	17.9	6	21.4	2	7.1

Product development was used to a very high extent by 47.4% of the SACCOs involved in the study, while 31.6% did not use it at all. New market development was to a very high extent by 35.7% of the SACCOs involved in the survey, while 10.7% used it to a low extent. On the other hand product development was used to a very high extent by 39.3% of the total population while 25% used it to high extent while diversification was used to a low extent by 21.4% of the total population.

4.15 PRESENCE OF LONG TERM POLICIES

This section sought to find out if the SACCOs had long terms policies and whether they planned for using the resources to support its long term competitive strategy.

Table 14: Presence of long term policies

Response rate	Frequency	Percent
Yes	21	87.5
No	3	12.5
Total	24	100.0

It can be seen from the above table that majority of the SACCOs involved in the survey had long term policies comprising of 87.5% while 12.5% did not have these long term policies.

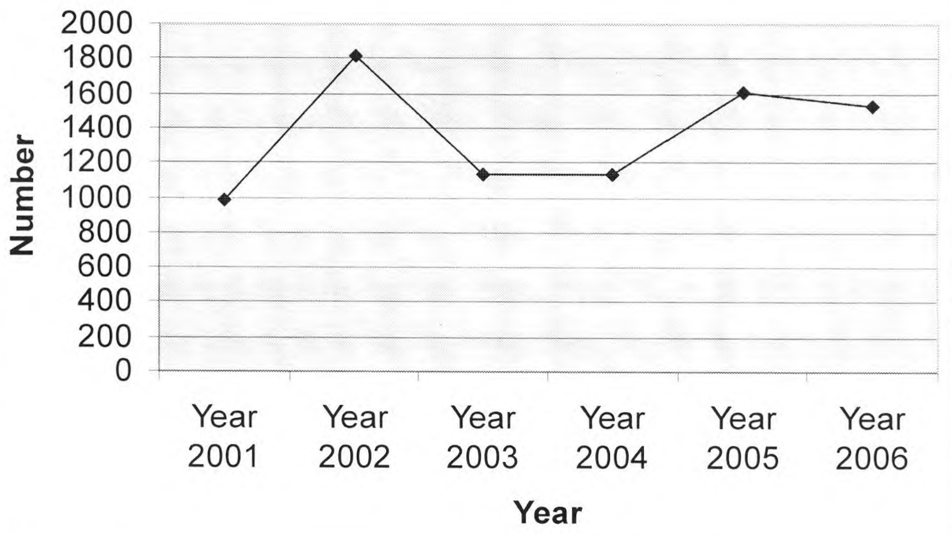
4.16 MAJOR CONTRIBUTION OF MANAGEMENT COMMITTEE

This section sought to find out the major contributions of management committee to the issue of non-remittance. The respondents mentioned several contributions including: avoiding issuance of non guaranteed loans, consultations with members, efficient in running the SACCO, follow up of employees, holding meetings twice a month, informing the Commissioner of Cooperatives, lobbying with various employees, meeting with employer, setting targets, talking to employers, member education, charge penalties and follow guarantees.

4.17 SACCO PERFORMANCE

This section was sought to find out SACCO performance using various parameters. This includes number of members, current ratio, working capital ratio and income.

Figure 16: SACCO membership

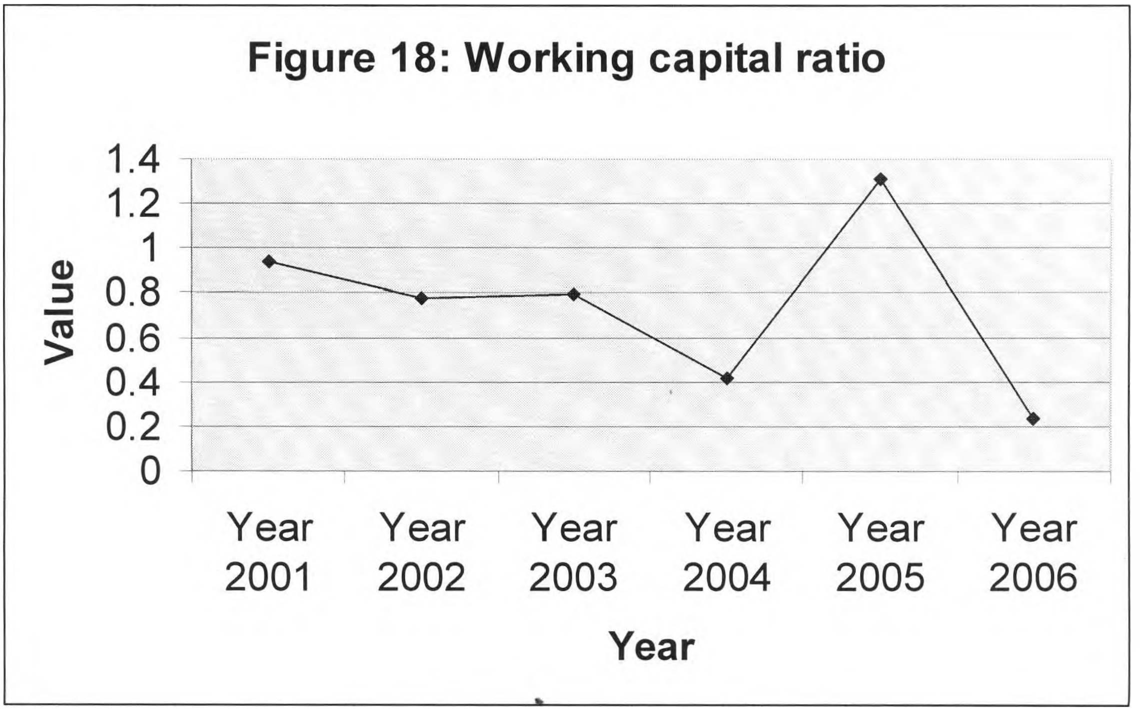


It can be seen from the above line graph that the number of members in SACCOs improved in year 2002, declined in year 2003 remained constant in year 2004, then improved in year 2005 before declining again in year 2006.

Table 17: Current ratio

Year	Current ratio
2006	1.473796
2005	11.7116
2004	8.8624
2003	6.248347
2002	7.325
2001	8.645667

It can be seen from the above table that the average current ratio for the SACCOs involved in the survey declined from 2001 to year 2003, and in the years 2004 and 2005 the ratio improved before falling down again in 2006.



It can be seen from the above table that the average working capital ratio for the SACCOs involved in the study kept on falling from year 2001 to year 2004. It then rose up in year 2005 before finally falling again in year 2006.

Table 19: Income movements

Year	Income level
2006	11910853
2005	11705206
2004	8367859
2003	11626321
2002	5748948
2001	3930186

It can be seen from the above able that the average income levels of the SACCOs involved in the survey kept on increasing from year 2001 to 2003. In year 2004 the income level fell but picked up in year 2005 and again in year 2006 it increased marginally.

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSIONS

This chapter provides a summary of the findings, conclusions and recommendations into the effects on non remittance of members' deductions by employers to SACCOs in Nairobi.

5.1 SUMMARY OF FINDINGS

The findings indicate that majority of the SACCOs involved in the survey had been in operation for over 20 years. This therefore means that these firms had been in a position to experience the workings of the industry. The designations of the respondents were mainly managers and accountants. These two categories of persons have experience in terms of non-remittance and were therefore suitable in providing response to the questions posed. Most of the respondents involved in the study had been with the organization for over 8 years meaning that they had experienced the challenges faced by the organization hence improving the validity of the results.

The major types of loans offered by SACCOs include; development loans, school fees loans and emergency loans. Other loans that were offered by these SACCOs include holiday loans, instant loans, insurance loans, medical loans, fire loans and welfare loan. Most of the SACCOs involved in the surveyed agreed that they were facing the problem of remittance. These *problems were experienced due to change of workstations, staff being discouraged from joining SACCO* and remittance taking too long. These problems lead in turn to delays in loan disbursement and financial problems to the SACCO such as paying salaries to the employees. These findings are in agreement with the findings of Maina and Kibanga (2004) and Helm (1968).

All the respondents involved in the survey agreed that the government of Kenya considered the important role played by SACCOs in economic and social development. The reasons as to why the governments considered the importance of SACCOs include: the fact that SACCOs helps in improving living standards of its members, empowering its members economically and provision of saving opportunities through mobilization of funds. The major functions enjoyed by most of the SACCOs from the functions of the Commissioner for Co-operative Development according to the study were registration, advisory and consultancy and inquiry and inspection.

The study also sought to find out how the problem of remittance was being resolved. The ways used by majority of the SACCOs include; mutual agreement, commissioner's intervention and legal redress. Other contributions by management committee included: avoiding issuance of non guaranteed loans, consultations with members, efficient in running the SACCO, follow up of employees, holding meetings twice a month and informing the Commissioner of Cooperatives,

The research also wanted to know the competitive strategies that SACCOs had adopted in order to remain competitive. Those strategies that were used to a high extent by most of the SACCOs involved in the survey include; new product development, acquisition of new market and product development. Most of the SACCOs involved in the survey had developed long term policies for using resources of the SACCO in supporting long term competitive strategy.

This study also sought to find out SACCO performance using various parameters. This includes number of members, current ratio, working capital ratio and income. In most of these performance measures, Sacco's performance improved in years 2001 to 2003, recording the lowest performance in year 2004, improving in year 2005 but falling in performance again in year 2006.

5.2 CONCLUSIONS

SACCOs are formed for the purpose of improving the economic and social situation of its members, (Schaars, 1980). However the problem of non remittance affects the operations of the SACCO. This study found out that most of the SACCOs involved in the study had experienced the problem of non remittance. This problem had affected their performance in terms of membership, current ratio, working capital ratio and income levels.

The cause of non-remittance arises from change of workstations, staff being discouraged from joining SACCO and delay in remittance. Other reasons for non remittance include; downfall of members, members stopping remittance, poor business, and poor member education. The problem of non remittance leads to the SACCOs inability to process loans to others, they are also unable to pay salaries and give dividends. This is because the SACCO will not have adequate money to undertake all these activities.

There are various ways of solving the problem of remittance. This may include mutual agreement between the SACCO and the defaulting members, seeking for Commissioner of Cooperatives intervention and in extreme cases seeking legal redress. Other measures would be for cooperative managers to be proactive in changes that are expected to take place instead of being reactive. This would enable such firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments. In this case measures to prevent or mitigate the effects of non remittance would include; avoiding issuance of non guaranteed loans, consultations with members, efficient in running the SACCO, follow up of employees, holding meetings twice a month, informing the Commissioner of Cooperatives and lobbying with various employees

The essence of strategy also comes in handy for SACCOs in dealing with the challenges that affect. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition. Marketing strategies are therefore for firms to expand their business. The strategies that have been adopted in the industry include product improvement, identification of new markets and product development.

5.3 LIMITATIONS OF THE STUDY

Care must be taken to generalize the results of this study as there were some limitations. First this study included only a small portion of the total population. Even though the sample was assumed representative this may not be the case and thus the study fails to be comprehensive enough. The other limitation of the study is that very few writers have documented about non-remittance. In this case, getting information on the literature part of the study proved difficult to the researcher.

5.4 RECOMMENDATION

For managers of SACCOs, the need to address the challenge of non remittance is inevitable and is needed very fast. This is because this challenge is affecting not only the performance of SACCOs but also their survival. There is needed to be proactive to prevent the escalation of such a problem. Several measures identified were seeking the intervention of the Commissioner of Cooperatives, mutual agreement, not advancing loans without guarantees, contacting employers and keeping up to date on employees' information. There is also the need to develop strategies that would suit the needs of the industry. This includes product development diversification, market penetration and new product development. This would especially be useful when banks and other microfinance institutions encroach on the territory of SACCOS.

5.5 SUGGESTIONS FOR FURTHER STUDY

The current research focused mainly on Nairobi area. The reason being that it is was most convenient for the researcher to carry out the research in Nairobi. Despite the fact that Nairobi contains a high concentration of SACCOs in the country, a research needs to be focused on other areas apart from the capital city. This would ensure that comprehensive findings are found that would aid policy makers in decision making.

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APPENDIX

QUESTIONNAIRE

Section A:

Respondent Profile

1. Name of the Sacco ______________________________
   ____
2. Number of years the Sacco has been in operation
   ____
3. Designation
   ____
4. Gender

   Male Female

5. How long have you been in the Sacco

   - 0-2 years
   - 3-5 years
   - 6-8 years
   - Over 8 years

6. Types of loan given

(a) Development loans

(b) School fees loans

(c) Emergency loans

(d) Others (specify)____________________

7. Does your Sacco face any challenges as a result of non-remittance.

   ❑ Yes No

(a) What is the cause of this problem?

(i) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

Other specify ______________________________

(b) What effects does it have to the Saccos

8. Do you think Kenya considers the role of Saccos to the economic and social development as important?

   Yes No

   If yes, why do you think Kenya has put a lot of importance to the role of Saccos to economic and social development?

____

9. With reference to the functions of the commissioner for co-operative development under the co-operative law, please give three major functions that your Sacco has enjoyed. (Please tick three below)

Functions

(i) Registration

(ii) Advisory and consultancy (education and training) services

(iii) Advising the co-operative minister or development of the co-operative sector and adherence to government policy

(iv) Inquiry and inspection

(v) Planning and development of Sacco bill

(vi) Mobilization of resources through the statutory reserve fond for research

Others specify ______________________________

____

Section B:

Responses

1. Does your Sacco experience the problem of non-remittance?

   Yes No

2. If yes, to what extent does it affect your Sacco

   (Please tick)

   - Very high extent
   - High extent
   - No effect
   - Low extent
   - Very low extent

3. What has your Sacco done about it?

   (Please tick)

   - Commissioners intervention
   - Mutual agreement
   - Legal redress
   - Others specify ______________________________

4. Given the above challenges in the co-operative movement in Kenya, to what extent has your Sacco used the following tactics to remain competitive? (Write either very high extent or high extent or no effect or low effect or very low extent)

Strategy

(i) New product (market penetration) -FOSA

(ii) New market (breaking the common bond to allow membership from other institutions)

(iii) Product development (loan portfolio)

(iv) Diversification (FOSA, real estate)

3(i) Do you have long term policies and plan for using the resources of your Sacco to support its long-term competitive strategy.

Yes No

(ii) What is the major contribution of the management committee to the issue of non-remittance?