

A SURVEY OF CORPORATE GOVERNANCE SYSTEMS IN
SACCO FRONT OFFICE SAVINGS ENTITIES (FOSA)

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ADEMBA CARILUS OSAMBO

A Management Research Project In Partial Fulfilment Of The
Requirement For The Award Of The Degree Of Master Of
Business Administration, University Of Nairobi

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DECLARATION

This Management Research Project is my original work and has not been submitted for a degree in any other University.

Signed.....


ADEMBA CARILUS OSAMBO

Date..... 24/11/2006

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

Signed.....
 Date..... 29/11/2006

JACKSON MAALU

Supervisor, Faculty of Commerce

University of Nairobi

DEDICATION

ACKNOWLEDGMENT

First, I wish to ardently thank my supervisor, Jackson Maabu, for his tutelage throughout this study. To my beloved wife Esther, sons, Brian, Roman and daughters June, and Silvia. Your understanding, encouragement and appreciation of my work enabled me to soldier on with this undertaking.

Following up the SACCOs and for putting up this report together. I am grateful to all the respondents from the Cooperative community who participated in this research, whose cooperation, understanding and patience ameliorated the exercise.

Special thanks go to my best friend and wife, Esther, sons Brian, Roman, my daughters June and Sylvia without whose support I could have not achieved this feat. Esther always urged me on when times were difficult and gave me the moral support at my greatest hour of need.

I am honor-bound to all my lecturers and fellow students in the MBA program, for rendering an enriching experience to share and produce knowledge. Last but not least, I wish to express my profound gratitude to all my friends for their encouragement during the course of my study.

I will forever be grateful to my research partner for her assistance.

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First, I wish to ardently thank my supervisor, Jackson Maalu, for his tutelage throughout this study. I also bestow my distinguished appreciation to my Personal Assistant Jemimah, who diligently assisted me in data collection, for the time expended in following up the SACCOs and for putting up this report together. I am grateful to all the respondents from the Cooperative community who participated in this research, whose cooperation, understanding and patience ameliorated the exercise.

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I will forever be indebted to my research assistant for data analysis.

TABLE OF CONTENTS

4.3.7	LEGAL/ETHICAL ISSUES	30
4.3.8	AUDITORS AS TOOLS OF TRANSPARENCY	32
4.3.9	FRAUDS IN FOSAs	34
4.3.10	THE FOSA MANAGER AS AGENT OF CORPORATE GOVERNANCE	35
4.3.11	SUPPORT BY BOARDS TO THE EDSA MANAGER	37
DECLARATION		I
DEDICATION		II
ACKNOWLEDGEMENT		III
LIST OF TABLES		IV
LIST OF FIGURES		V
LIST OF ABBREVIATIONS		VI
ABSTRACT		VIII
CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		48
CHAPTER 1: INTRODUCTION		1
1.1	BACKGROUND	1
1.2	STATEMENT OF THE PROBLEM	7
1.3	OBJECTIVES OF THE STUDY	10
1.4	SIGNIFICANCE OF THE STUDY	10
CHAPTER 2: LITERATURE REVIEW		12
2.1	OVERVIEW	12
2.2	APPOINTMENT OF DIRECTORS	15
2.3	REMUNERATION OF DIRECTORS	16
2.4	COMPOSITION AND SIZE OF THE BOARD	17
2.5	FINANCIAL OPERATIONAL AND GOVERNANCE REPORTING	17
2.6	RELATIONSHIP BETWEEN BOARD AND MANAGEMENT	18
2.7	CODE OF BEST PRACTICE	20
CHAPTER 3: RESEARCH METHODOLOGY		22
3.1	RESEARCH DESIGN	22
3.2	POPULATION OF STUDY	22
3.3	SAMPLE SELECTION	22
3.4	DATA COLLECTION	22
3.5	DATA ANALYSIS	23
CHAPTER 4: DATA ANALYSIS, FINDINGS AND DISCUSSIONS		24
4.1	INTRODUCTION	24
4.2	RESPONDENTS PROFILE	24
4.3	GOVERNANCE SYSTEMS IN FOSAs	25
4.3.1	FOSA MEMBER OBJECTIVE EXPECTATIONS	25
4.3.2	FOSA AND MEMBERS RELATIONSHIPS	26
4.3.3	FOSA BOARD AND AGENCIES RELATIONSHIPS	27
4.3.4	FULL REPORTING BY FOSAs	27
4.3.5	THE FOSAs STRATEGIC PLANS	28
4.3.6	BOARD INVOLVEMENT IN FOSA PERFORMANCE REVIEW PROCESS	29

4.3.7	LEGAL/ETHICAL ISSUES	30
4.3.8	AUDITORS AS TOOLS OF CORPORATE GOVERNANCE.....	32
4.3.9	FRAUDS IN FOSAs	34
4.3.10	THE FOSA MANAGER AS AGENT OF CORPORATE GOVERNANCE	35
4.3.11	SUPPORT BY BOARD TO THE FOSA MANAGER	37
4.3.12	BOARD INVOLVEMENT IN MANAGEMENT.....	38
4.3.13	RECRUITMENT OF THE FOSA MANAGER	39
4.3.14	BOARD/ MANAGEMENT COMMITTEE MEETINGS	40
4.3.15	FREQUENCY OF FOSA COMMITTEE MEETINGS	42
4.3.16	TRAINING PROGRAMMES FOR FOSA MANAGEMENT COMMITTEES	43
4.3.17	INDIVIDUAL BOARD MEMBER CONTRIBUTION.....	44
4.3.18	GENERAL COMMENTS BY THE RESPONDENTS	45
CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS		48
5.1	INTRODUCTION	48
5.2	SUMMARY OF FINDINGS.....	48
5.3	CONCLUSIONS AND RECOMMENDATIONS	51
5.4	LIMITATIONS OF THE STUDY	52
5.5	SUGGESTIONS FOR FURTHER RESEARCH.....	52
REFERENCES		53
Table 4.8: Those With Audit Committees.....		33
Table 4.9: Frauds Discovery.....		34
Table 4.10: Definition of Manager's Job Description		36
Table 4.11: Support by Board To the FOSA Manager		37
Table 4.12: Board Involvement in Management.....		38
Table 4.13: Recruitment of the FOSA manager.....		39
Table 4.14: Board Management Committee Meetings		41
Table 4.15: Frequency of FOSA Committee Meetings.....		42
Table 4.16: Training Programmes For FOSA Management Committee		43
Table 4.17: Individual Board Member Contributions		45

LIST OF TABLES

Table 4.1: FOSA Member Objective Expectations	26
Table 4.2: FOSA And Member Relations	26
Table 4.3: Board Agency Relations	27
Table 4.4: Strategic Planning, Quality, Content and Issues	29
Table 4.5: Board Involvement in Performance Reviews.....	30
Table 4.6: Legal/ Ethical Issues	31
Table 4.7: Number of Years With Auditors.....	32
Table 4.8: Those With Audit Committees.....	33
Table 4.9: Frauds Discovery	34
Table 4.10: Definition of Manager's Job Description	36
Table 4.11: Support by Board To the FOSA Manager	37
Table 4.12: Board Involvement in Management.....	38
Table 4.13: Recruitment of the FOSA manager.....	39
Table 4.14: Board Management Committee Meetings	41
Table 4.15: Frequency of FOSA Committee Meetings.....	42
Table 4.16: Training Programmes For FOSA Management Committee	43
Table 4.17: Individual Board Member Contribution	45

LIST OF ABBREVIATIONS

LIST OF FIGURES

Figure 4.4: Strategic Plans- Quality and Content.....	29
Figure 4.6: Legal Ethical Issues.....	31
Figure 4.7: Auditors	32
Figure 4.9: Fraud Discovery	35
Figure 4.10: Definition of Manager’s Job Description	36
Figure 4.11: Support by Board To the FOSAs Manager	37
Figure 4.12: Board Involvement in Management.....	38
Figure 4.13: Recruitment of the FOSA manager	40
Figure 4.14: Board Management Committee Meetings	41
Figure 4.15: Frequency of Committee Meetings.....	42
Figure 4.16: Training Programmes For FOSA Management Committee.....	44
Figure 4.17: Individual Board Member Contribution	45

APPENDICES

Appendix1: LETTER OF INTRODUCTION.	62
Appendix: 2: QUESTIONNAIRE.....	63
Appendix: 3: LIST OF RESPONDENTS.....	68

LIST OF ABBREVIATIONS

Abbreviations	Meaning
AGM	Annual General Meeting
BOD	Board of Directors
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMA	Capital Market Authority
FOSA	Front Office Savings Entities
FASB	Financial Accounting Standards Board
KCB	Kenya Commercial Bank
KCC	Kenya Cooperative Creameries
KNFC	Kenya National Federation of Cooperatives
KPCU	Kenya Planters Cooperative Union
KRA	Kenya Revenue Authority
KUSCCO	Kenya Union of Savings and Credit Cooperatives
NSE	Nairobi Stock Exchange

OECD	Organization for Economic Cooperation and Development
PSCGT	Private Sector Governance Board
SACCO	Savings and Credit Cooperative Society
UK	United Kingdom
USA	United States of America

ABSTRACT

Corporate governance as practiced by SACCOS did not factor in the management of Front Office Savings Accounts (FOSAs), which, within a span of 15 years have tremendously grown in numbers, products and member deposits held. FOSAs are now a common feature in both urban and rural SACCOs competing directly with commercial bank accounts and financial institutions. Not much research has been made on the corporate governance of FOSAs except general guidelines associated with SACCOS as in Oyoo (2002) and Ongore (2001).

FOSAs have been associated with a history of poor governance by their boards and management committees. The cooperative principles and values have been lost as the trustees put their priorities before that of members Wangombe (2003). There is no clear distinction between the roles of directors and management, which often results into conflict of interest. Majority of the board members and management teams have also been found to be lacking financial management skills necessary for running the complex FOSA services, which are essentially banking in nature. This has been blamed on the democratic nature for electing office bearers. As in their mother SACCOs, most FOSAs have also not incorporated codes of best practice as a guiding principle of governance and where they exist, they are rarely used.

Based on the above, the study was conducted with the objective to establish and explain the governance systems within SACCO Front Office Savings Accounts. A questionnaire was administered to 50 FOSAs, of which 37 were fully completed.

The study found out that FOSA objectives reflects the objectives of their members and that FOSA member relation being Good. The Board relationships with the monitoring agencies were also found to be very good. It also found out that FOSAs have strategic plans of sufficient quality and content, which are reviewed against business plans. The Board of the management of FOSA's were also found to be monitoring their activities on a regular basis.

The study found out that the FOSA's legal and ethical requirements are met satisfactorily and only 46% had signed code of ethics. It was also noted that the FOSAs, which experienced frauds, were the same that neither had a signed code of ethics nor an audit committee. While majority knew who recruited the FOSA managers, there were some who did not know how the FOSA Manager was recruited.

The study also found out that the respondents knew the problems afflicting FOSA such as inadequate knowledge on FOSA operations, lack of office facilities, minimal IT skills, lack of long term lending, defection by members, competition from other financial institutions etc. Their solutions were also proposed as follows, training in all necessary areas, proper market intelligence, networking of FOSA and Back Office etc.

The study recommended proper legislation, greater involvement of the board in the management of the FOSAs, entrenchment of code of ethics to minimize frauds. Indeed it should be a requirement of that all FOSA must sign a code of ethics.

Nonsense! ✓

The study also recommended a further research to establish ethical and moral conducts of FOSAs, and also a further research to gauge how FOSA individual members and customers view the operations of FOSAs in general.

1.1 Background

1.1.1 Concept Of Corporate Governance

Corporate Governance is a concept that is currently receiving a great deal of attention world wide in both the private and public sectors. Corporate Governance can be defined as the manner in which the power of a corporate entity is exercised in the stewardship of the entity's total portfolio of assets and resources with the objectives of maintaining and increasing shareholder value within the context of the vision and mission of an enterprise. (Private Sector Corporate Governance Trust, 2002).

Governance is concerned with the processes, systems, practices and procedures that govern institutions and the manner in which these rules and regulations are applied and followed and the relationships that these rules and regulations create. Essentially governance addresses the leadership role within the institutional framework. (Private Sector Corporate Governance Trust 2002)

Good corporate governance is founded upon the attitudes, ethics, practices and values of the society. It enhances accountability, power sharing, representation and owner participation. It also defines the sense of right and wrong, fair and just work ethics and encourages social responsibility. (Mazman and Mena, 2004).

CHAPTER 1: INTRODUCTION

1.1 Background

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Good governance ensures that the varying interests of stakeholders are balanced and decisions are made in a rational, informed and transparent fashion and those decisions made contributions to overall efficiency and effectiveness of the organization.

Corporate governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow and strive in order to maximize shareholder value while being conscious of the interests of other stakeholders and the Society (Grant Thornton, Trends in corporate governance).

Principles of corporate governance includes; definition of authority and duties of members, appointments to the Board and top management, the nature of the organizational structure, corporate performance, viability and financial sustainability, corporate compliance with relevant laws and authorities, corporate communication and accountability to members. Others include; the balance of power, internal control procedures, assessment of the Board of Directors performance, corporate culture, social responsibility, recognition and utilization of professional skills and competencies and the relationship between the Board and Management (Centre for Corporate Governance Trust, 2002).

Governance In A SACCO Front Office

Co-operatives play an important role in the development of an economy. By the end of 2002, there were about 940 million people around the world who were members of co-operatives and the sector provided over 100 million jobs worldwide. Co-operative members, for instance, make about 40% of the population of the USA, 33% of Norway and 29% of Argentina. Co-operative businesses are among the largest and most successful in the world. Fourteen of them were listed in the Fortune Magazine to be among the 500 largest corporations (GOK, 2004).

Co-operatives transcend many sectors of the economies of countries in the world. Largest concerns are mainly in agricultural marketing, consumer and financial services. In the USA for instance, agricultural marketing co-operatives serve over 4 million members and their turnover was in excess of US\$93 billion. Savings and Credit Co-operatives continue to be significant in the financial sector of most countries. By 2000, the number of active people who were members of savings and credit co-operatives/credit unions was in excess of 105 million people. The largest proportions of population being members of credit unions are found in Canada 49% and in the USA 35%. Credit Mutuel in France and Rabobank in the Netherlands are leading Entities in their countries globally. (Government of Kenya (2004) Task Force Report on the SACCO Bill, Ministry of Co-operative Development and Marketing)

In Kenya, Co-operative membership is estimated at 5.7 million people representing about 17% of the total population. The actual impact of Co-operatives on the people in the communities goes far beyond the 5.7 million members. Including family members and other dependants, it is reasonable to say that outreach comes close to 21 million people or 63% of the country's population that derive their livelihood,

directly or indirectly from the co-operative based economic activities. Indeed, Kenya is ranked the 7th leading nation in co-operative activities in the world and the leading one in Africa. By 2002, Kenya boasted of over 4,100 Savings and Credit Co-operatives Societies (SACCOs) with about 3200 or 78% of them being active. The Kenyan SACCO movement is currently the largest in Africa having total assets estimated at Kshs. 80 billion and members' deposits (both share capital and savings) of Kshs. 105 billion.

Co-operatives contribute 40% of the country's national savings (GOK, 2003).

Savings and Credit Co-operatives are member-owned financial institutions that offer Savings and Credit services to their members. In response to the changes in the external environment and in an effort to provide better services to its members, SACCOs introduced the Front Office Savings Entities (FOSA). This is basically a banking function of a Cooperative, which emerged as a result of dissatisfaction with the services of Commercial Entities. Commercial Entities have high transaction charges, high minimum bank balances and are majorly located in urban areas making them inaccessible to the majority of SACCO members.

As at 31st December 2003 there were 150 SACCOs with full-fledged Front Office Savings operations estimated to hold more than 30 billion member savings (KUSCCO 2004).

Promotion of thrift among members; provide members with credit facilities at affordable terms; promote an initiative among members the pooling together of their

extra financial resources under one roof which would otherwise have been kept in other financial institutions.

FOSA also acts as channels through which members are paid their salaries. Circumvent the effects of delayed remittance, partial remittance and non-remittance of check offs from the employers. Employers had become notorious in withholding members' deduction especially local authorities and parastatals.

Basically FOSA provide banking services to its members just like Entities and financial institutions. They provide members with basic banking facilities such as safety for their savings, bankers cheques, ATM facilities, payment of dues, safe custody of valuables, money transfers, credit cards, overdraft and advances and Promote accessibility to bigger long term loans to members for long term investments.

The emergence of FOSA has totally changed the way SACCOs do business. It acts as a one-stop shop for all the financial services that SACCO members need at affordable rates. This has led to product diversification convenience and higher returns to members.

Control in the management of cooperatives is in the hands of the general meeting of members in which each member has a right to attend and vote. A Management Committee whose members are elected by the general meeting of the Society oversees Day to day operation. Apart from the general meeting, the committee is the main policy making body for the society. The Management Committee employs a

manager who runs the society through limited delegation from the Committee (Murungi K. and Maina D. 2004).

The Management Committee consists of between 9 and 12 members elected during annual general meetings and are divided into different functional sub-committees: Executive Committee, Credit Committee, Education Committee, and FOSA Committee

The management of a SACCO front office is entrusted in the hands of a FOSA committee whose duties and responsibilities is to direct and govern the Society's front office in accordance with the laid down regulations. Specifically, the committee is charged with the following duties and responsibilities: To accomplish the objectives of the SACCO Society in relation to the objectives set out for the FOSA, approval of the admission and withdrawal of members from the front office, responsible for the daily operations of the front office, ensure maintenance of accurate and up-to-date member savings account records and ensure the members savings and all other funds are safe guarded. Others are to determine the terms and conditions of lending and savings, monitoring the recovery of loans granted to members, preparation and presentation of regular financial reports of the FOSA to the management committee, implementation of resolutions of the annual general meetings, special general meetings and the management committee, research on new products and services that may be accorded to members, delegation of duties to the FOSA manager and ensure that the manager gives an account for the delegated tasks and maintenance of banker-customer relations.

1.2 Statement Of The Problem

The SACCO Front Office Savings entities are a recent development in Kenya. Within a span of 15 years their growth has been tremendous in numbers, product diversification and member deposits held. Front Office Savings Entities are now common features in both urban and rural areas competing directly with Commercial Bank Entities and financial institutions. In a number of areas such as Kisii, Nyamira, Taita Taveta, Nandi, Muranga, Nyeri, Homa Bay, Kilifi etc. these Front Office Savings Entities have led to the closure of most Commercial Entities and financial institutions.

Not much research has been made on the corporate governance of Front Office Savings Entities in this country. The Centre for Corporate governance Trust made general guidelines on the SACCO governance. Others like Oyoo (2002), Ongore (2001) looked at the governance of SACCOs generally and not specifically their banking section.

The SACCOs and front offices have been associated with a history of poor governance by the Boards and management. The Cooperative principles and values have been lost as the trustees put their priorities before that of members.

Most cooperative leaders have been associated with lack of professionalism in handling critical issues that affect their Front Office activities. Investments have been made without due regard to the member interests.

There is no clear distinction between the roles of Directors and Management, which often results into conflict of interest. The success of any FOSA depends on the

teamwork between the management and their boards. In most cases the Board wants to perform the duties of management.

Today's cooperative enterprises are much larger and more complex. On the other hand, the board and management are expected to be more informed, especially in financial management. This in most cases is lacking putting the FOSA business at a bigger risk.

Good governance should address the internal democratic process such as the roles of delegates representing members in the Annual Delegates Meetings and the election of the Central Management Board. It should define the responsibilities and accountability of the various units providing guidelines for financial responsibility, continuity issues like strategic plans, annual business plans and budget monitoring process, performance evaluation, succession plans among others. These critical issues are largely ignored or weakly addressed in the management of Front Office Savings entities.

There is often conflict on most policy decisions made by the board. The remuneration of Board members, travel allowances, medical etc are determined by themselves. This brings the issue of conflict of interest, which in most cases is in favour of the Directors.

The principle of democratic control requires that the affairs of a Cooperative be administered by the members through persons elected or appointed in a manner agreed by themselves and accountable to them. The Directors are therefore, trustees

and agents when acting for the members having been elected or appointed by the members as required. In a number of cases, such elections are never fair due to power struggle. This ends up with Board members whose interests are not in line with the FOSA objectives and goals.

Although the Kenya government has recognized the role of Front Office Savings Entities and SACCOs in the national development, we are yet to witness a firm commitment in the promotion, governance and regulation of these enterprises. According to the current legislation, SACCOs are under the direct supervision of the Ministry of Cooperatives and Marketing.

Continuous changes in economic, socio-cultural political and technology have impacted negatively on the management of cooperatives enterprises. Most of these factors are beyond the control of the SACCO members and therefore requires government intervention. Most Front Office Savings Entities and Savings and Credit Co-operatives have not incorporated codes of best practice as a guiding principle of governance and where they exist, they are rarely used.

The procedure of appointment of the Chief Executive Officer, management and staff are unclear leading to lack of professionalism in the management of Front Office Savings Entities activities. In most cases employees are related to the sitting board members and only to be replaced when a new board is elected. This leads to apathy and lack of clear continuity.

There is doubt as to whether the current governance system now practiced in Front Office Savings Entity is capable of safeguarding member deposits now and in the future. With the Central Entities reluctance to supervise these Front Office Savings Entities and a clear lack of government alternative supervision machinery, there is the possibility that this sector could be headed for a crisis. This paper shall establish the nature of governance and what influences the governance systems in Front Office Savings Entities.

1.3 Objectives Of The Study

The study has one objective: To determine the governance systems within SACCO Front Office Savings Entities (FOSA).

1.4 Significance Of The Study

This study may benefit SACCO members, depositors, financial authorities (NSE, CMA, the government, the Central Bank etc), the banking sector executives, financial consultants and the academicians. Further:

One; It will help the government in formulating governance and regulatory policies necessary for this sector and the economy.

Two; The study will enlighten the SACCO members to know the position and direction the leadership is taking in managing their SACCO Front Office.

Three; It will help the FOSA managers and leaders in deciding on the best governance practices they need.

2.1 Overview

Three; To the scholars, this study will serve as a basis for further research into the factors that could influence the growth of the SACCO Front Office Entity.

The private sector initiative in October 1999 to guide corporate governance in Kenya. The principles of good governance were designed as bases to assist individual institutions formulate their own specific and detailed codes of best practice (Private Sector Initiative for Corporate Governance, 1999).

All public institutions are recommended to draw up codes of conduct incorporating the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership (Nolan Committee report, 1992).

Macromery and Kaufman (2002) acknowledge that the corporate balance of power is delicate. The three primary players in the power game are the shareholders, management and the Board of Directors. The interrelationship between them is key to effective governance.

In the early stages of the business, it is possible for the owners to handle the affairs of an organization without seeking the assistance of professional managers. As the organization grows and its operations become more complex, the owners give way to the managers with professional skills to run the organization. This requires a business contract (Sibanda and Nkomo, 2004). This requires

CHAPTER 2: LITERATURE REVIEW

2.1 Overview

The national code of best practice for corporate governance was formally adopted by the private sector initiative in October 1999 to guide corporate governance in Kenya.

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At the early stages of the organization's establishment it is possible for the owners to direct the affairs of an organization without seeking the assistance of professional managers. As the organization grows and its operations become more complex, the owners give way to the managers with professional skills to see the organization through its business complexities (Kibanga and Maina, 2004). This requires

openness integrity and accountability in order for the owners to get value for their money (Cadbury, 1992).

The Board is expected to exercise leadership, enterprise, and integrity and sound judgment in directing the FOSA so as to achieve continuous prosperity. In so doing directors are expected to act in the best interest of the enterprise while respecting the principles of transparency and accountability.

Johnson and Scholes (1999) state that the primary statutory responsibility of the governing body of an enterprise is to ensure that an organization actually fulfills the wishes and purposes of the owners.

Corporate governance is the mechanism that is used to govern directors and managers to ensure that actions they take are consistent with the interests of stakeholders groups (Hill and Jones 2001).

The governance framework determines whom the organization is there to serve and how the purposes and priorities of the organization should be decided. It is concerned with both the functioning of the organization and the distribution of power aimed at different stakeholders. (Johnson and Scholes, 1997)

The collapse of big organizations has cast doubts in the way operations are managed and made accountable. Enron, a trading company collapsed in 2002 after reporting a huge profit due to fraudulent accounting (Kelly, 2002).

In Kenya National Assurance Company Ltd, Kenya Finance Bank, Kenya National Trading Corporations etc collapsed after reporting successive profits in prior years.

In the cooperative circles, the Kenya Planters Cooperative Union (KPCU) auditors produced two separate audited reports to the shareholders, one with a huge profit and the other with a huge loss. (Daily Nation 2002). The disintegration of Kenya Cooperative Creameries, the near collapse of the Kenya National Federation of Cooperatives (KNFC) etc is a clear pointer of governance problems.

2.1.2 Corporate Governance in Kenya.

Consultative Corporate Sector seminars held in November 1998 and March 1999 resolved that Private Sector Initiative for Corporate Governance be established to:

One; Formulate and develop a code of best practice for corporate governance in Kenya,

Two; Explore ways and means of facilitating the establishment of a national apex body (the National Corporate Sector Foundation) to promote corporate governance in Kenya, and to,

Three; to co-ordinate developments in corporate governance in Kenya with other initiatives in East Africa, Africa, the Commonwealth and globally.

On October 8, 1999 the Corporate Sector at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted a national code of best

Osler S.M. (1995). Effective Boards have a shared vision, often developed through practice for Corporate Governance to guide corporate governance in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation, and all collaborate with the Global Corporate Governance Forum, the Commonwealth Association for Corporate Governance, the African Capital Markets Forum, Uganda and Tanzania in promoting good corporate governance.

2.2 Appointment of Directors

The Board is appointed to guide, lead, monitor and conduct all aspects of a company business. The selection process of board members must consider the skill mix and talent required in the running of the enterprise and must fairly represent the diversity of stakeholders.

The process of appointing Directors should ensure the appointment of the best qualified candidates; persons whose skills and experience best meet the skills profile needed for the growth of the enterprise. The process of elected directors can be politicized due to varied interests. Mintzberg and Quinn (1991). Politics is divisive and costly. It burns up energies that could instead go into operations. It can paralyse an organization to that point where the functions of an organization come to a halt and nobody benefits.

Directors should therefore be elected by the shareholders during the Annual General Meeting, through a guided democracy to ensure all the required competencies are included in the persons elected.

Oster S.M. (1995). Effective Boards have a shared vision, often developed through strategic planning, have tolerance for conflict coupled with the ability to control it and have a strong core-working group.

2.3 Remuneration of Directors.

The Board of Directors should set up an independent remuneration committee to determine an equitable remuneration package to avoid conflict of interest. It should ensure that the level of remuneration is sufficient to attract and retain the quality and caliber of Directors needed to run the FOSA successfully.

Disclosure of interests by Directors on first appointment and on a continuous basis is necessary. All Directors should in good faith, disclose to the Board for recording any business or other interest that is likely to create a potential conflict of interest, including business interests, membership in trade, business or other economic organizations, shareholding and gifts, monies, commissions, benefits or other favours extended or received from a party in respect of or in any relation to any business dealings with the Company.

It is important that company's annual reports contain a statement of the remuneration policy and the details of the remuneration and benefits of each director, including family-related benefits.

2.4 Composition and Size of the Board

Good corporate governance practice recommends that an ideal board size should be between five and eleven Directors. (Guidelines on Corporate Governance in Cooperatives in Kenya, 2005).

Oster S.M (1995) says that large boards are usually more conflicted and more involved in operations. They lack focus and are in continuous power struggle.

In addition, it is important to have more independent non-executive Directors on the board. This is because they can provide independent judgment outside experience and objectivity, which are not subordinated to the operational considerations.

2.5

Financial Operational and Governance Reporting

It is the statutory duty of directors, jointly and severally, to cause to be kept proper and accurate books of Entities in respect to all sums of money received and expended by the company, and the matters in respect of which receipt or expenditure takes place; all sales and purchases by the company, and of all the assets and liabilities of the company, as necessary to give with reasonable accuracy at anytime the financial position of the company at that time, and to lay before the company's Annual General Meeting, a profit and a loss account and balance sheet reflecting a true and fair view of the financial health of the company, (PCG 1999).

The board is expected to establish a formal and transparent arrangement with external auditors and ensure there is timely and accurate disclosure to the

shareholding of any information that would materially affect either the value or worth of their investment or earnings there from.

According to Johnson and Scholes (1999), in understanding the political context within which organizations operate, it needs to be acknowledged that information is a key source of power. There must therefore be a clear framework about disclosure of information to various stakeholders. From experiences of Enron trading company, KPCU etc it is important to note that the auditors cannot be fully relied on as the owners' watchdog. What they swear as "true and fair" view may never be true in real sense. (Kelly, 2002)

The Board must ensure that the financial statements comply with the statutory requirements and the international standards of reporting. In the absence of a regulatory authority on Front Office Savings entities most of their financial reports have been said to be compromised and contain only the information that their leaders feel necessary to disclose.

The reports must be sufficient to communicate the required information effectively to all relevant people. This is often lacking in Cooperatives (Maina and Kibanga 2004).

The Board of Directors should indicate in their annual reports the extent to which they have adhered to good corporate governance principles and practices.

2.6 Relationship between Board and Management

The atmosphere within which the Board and Management operate should provide an enabling environment within which good governance and efficient management can

thrive. The Board must take the sole responsibility for the appointment of a competent chief executive officer through a competitive selection process and in accordance with the objectives of the Company.

The competency of the chief executive officer and management determines the success of any enterprise. There is a tendency for top management to draw back to functional work. We can also have top managers perceiving only, those aspects and responsibilities of their function that is compatible with their abilities, experience and temperaments as their role. And if the Board of Directors fails to state explicitly what it considers to be the basic responsibilities and activities of top management, the top managers are free to define their jobs themselves. Therefore important tasks can be overlooked until a crisis occurs. (Johnson and Scholes, 1997).

H. Mintzberg (1991); in a free enterprise, a corporate executive is an employee of the owners of business. He has direct responsibility to its employers. That responsibility is to conduct the business in accordance with their desires while conforming to the basic rules of the Society, both those embodied in law and those embodied in ethical customs.

I. Ansoff and Mc Donnell (1990) say for optimum profitability and effectiveness, the responsiveness of the general management capability must match the turbulence of the firms in the environment for survival.

2.7 Code of Best Practice

Code of best practices are principles that guide planning and operations of a person or entity. They provide an ethical framework in the running of an organizations activities.

Cooperatives worldwide generally operate using the same principles adopted in 1995 by the International Cooperative Alliance. The principles are part of a cooperative statement of identity that also includes the definition of a cooperative and a list of cooperative values.

The objectives of the code of ethics are to set out the values, ethics and beliefs upon which the organization premises its policies and behavior. It sets down and promulgate the basic ethical principles to be observed. It ensures uniformity and builds confidence and integrity of the institution. It is also meant to prevent and resist and development of undesirable practices by laying down standards for personal and corporate behaviour.

At personal level the code of best practice is meant to ensure personal standards and integrity, professional expectation and duty of care to render faithful service, confidentiality and trust, loyalty, fiduciary responsibility and transparency duty to community, compliance with the law and declaration of personal interest and conflict of interest.

At corporate level it means compliance with the law, quality standards and responsibility to customers, transparency and accountability to the institution, conflict

of interest, privacy of records and information. It also describes policy on corruption, bribes, gifts, social responsibility and accountability.

CHAPTER 3: RESEARCH METHODOLOGY

It is expected that the board and management of Companies operate in a dignified manner, consistent with legislation and societal expectations.

Thomas, A. A (1998); only a small minority believed that good ethical behaviour pays in terms of career advancement. A large number of people have firm convictions that unethical managers progress faster.

In Kenya all public officers beginning with the President down to the Councilor must submit their wealth declaration forms. Cooperative Societies Directors and Management are equally required to fill wealth declaration forms. Contained in the forms is a declaration of income, assets and liabilities. The law also sets out a code of conduct that prohibits a wide range of behavior by public officers. Prohibited behaviors includes solicitation of favours using public office, keeping of gifts, using information acquired through public office for personal benefit, sexual harassment, partisan political conduct and different forms of conflict of interest (Daily Nation, 4th February 2002).

In view of this important demand on Board and Management, it's recommended that Boards approve a written code of best practice, setting the ethical and behavioral expectations of both the directors and employees.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The research problem posed was studied using survey design: The survey design was selected, as it is best in the investigation of governance systems within Front Office Savings Entities.

3.2 Population Of Study

The population of study includes 150 SACCOs with Front Office Entities, currently registered and active. The names and addresses of these Front Office Savings Entities are available with the Ministry of Co-operative Development and Marketing.

3.3 Sample Selection

A sample size of 50 SACCOs were chosen for the study. This formed about 33% of the population, which is considered representative. The selection of the sample was through simple random sampling.

3.4 Data Collection

The primary data was collected through structured questionnaires distributed to Front Office Savings Entities chairmen and management.

The questionnaire had both open-ended and closed ended questions. Open-ended questionnaires gave the respondents room to give more information and clearly express themselves while closed questionnaires provide questions whose answers help the researcher to form an opinion and a conclusion.

The telephone mode was used to make appointments with various Front Office Savings Entities Leaders targeted for the study.

A letter of introduction was obtained from the Ministry of Co-operatives to avoid any suspicion and assure the respondent that the exercise is strictly for academic purposes.

3.5 Data Analysis

The completed questionnaires were checked and verified for completion and consistency and then data coded. The results presented for analysis by use of descriptive statistics such as, frequencies, proportions and percentages. The method allows the data to be summarized in a simple, logical manner that enables perspectives and interpretations be easily obtained. It also gives the weights attached to each value of information and therefore easy to understand.

CHAPTER 4: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The objective of the study was to determine the system of governance within FOSAs (Front Office Services). FOSAs, as indicated earlier, are attempts by SACCOs to provide members with basic banking facilities such as safety for their savings, payment of dues eg salaries overdraft and advances. They act as one-stop shop for all the financial services that SACCO members need at affordable rates. As such, there is a general feeling that they are associated with poor governance, lack of professionalism, and no clear distinction between roles of management committee members, no strategic planning and dominance by influential committee members.

It is against the above background that the study looked at governance systems in FOSA. In this chapter, the data from the completed questionnaires were summarized and presented in frequency tables and percentages. Graphs and pie charts have been added for clarity. 50 out of 150 FOSAs were sampled, 82% (41) responded, of which 37 were completed in full giving 74% success rate.

4.2 Respondents Profile

The respondents sampled were from a broad spectrum of management. They were general managers, accountants, operation managers, internal auditors, and board members among others thereby giving a fair view of governance systems in FOSA as a whole. This is reinforced by the average years of experience of the respondents,

which was found to be 5 years, while the average age the FOSAs have been in operation was found to be 6 years. See appendix 3.

The study also found out that the core business of the FOSAs is credit, savings and loan disbursements. It is also clear from the study, that majority of the members of the FOSAs are employed save for commodity SACCOS.

4.3 Governance Systems in FOSAs

4.3.1 FOSA Member Objective Expectations

In this section the respondents were requested to rate their FOSA on various issues using a scale score of: Very poor, Poor, Fair, Good and Very good. They were also asked to answer Yes or No, where applicable.

The study found out that when respondents were asked how well their FOSA objectives reflects the expectations of their members, 13% said it was Fair, 63% said it was Good while the rest 25% said it was Very Good. From the analysis we deduce that objectives of the FOSAs reflect the expectations of their members. The finding also confirms that, the primary statutory responsibility of any governing body of an enterprise is to ensure that an organization actually fulfills the wishes and purposes of the owners (Johnson and Scholes 1999). See table below:

4.3.3 FOSA Board and Agencies relationships

Table 4.1: FOSA Member Objective Expectations

Rating	Frequency	%
Fair	5	13%
Good	23	63%
Very Good	9	25%

Source: Research Data

4.3.2 FOSA And Members Relationships

On FOSA member relation 8% said it was fair, 58% said it was Good while the remaining 33% said it was Very Good. Thus the relationship between the FOSAs and the members can be described as good and very good at 91%. To an extent, this explains their popularity.

Table 4.2: FOSA And Member Relations

Rating	Frequency	%
Fair	3	8%
Good	22	58%
Very Good	12	33%
Total	37	100%

Source: Research Data

4.3.3 FOSA Board and Agencies relationships

The agencies FOSAs relate to include the Ministry of Cooperatives and Marketing, Kenya Revenue Authority (KRA), KUSCCO, Cooperative Bank etc. Their interests are to ensure that the running and management of the FOSAs are in the best interest of their members.

On the FOSA Board relationship with monitoring agencies 8% said it was fair, 63% thought it is good while the remaining 29% said it was very good. This means the board relationship with monitoring agency is good and very good at 92%. This relationship is necessary as the board is expected to provide leadership, enterprise, integrity and sound judgment while at the same time being accountable and transparent.

Table 4.3: Board Agency Relations

Rating	Frequency	%
Fair	3	8%
Good	23	63%
Very Good	11	29%
Total	37	100%

Source: Research Data

4.3.4 Full Reporting by FOSAs

Contrary to the held belief that FOSAs lack proper accounting and are plagued with poor governance all the respondents agreed there was accurate and full reporting on FOSA affairs to the members. While the study establishes that there is full reporting,

this could have been conclusively confirmed had some FOSA members been interviewed. Thus the study has dispelled the generally held view of mismanagement in FOSAs.

Table 4.4: Strategic Planning, Quality, Content and issues

4.3.5 The FOSAs Strategic Plans

This section was meant to establish whether FOSAs have Strategic plans as a governance tool. As to whether the level of strategic planning is of sufficient quality and content, 71% answered yes while the remaining 29% answered no. Asked whether the board reviews the performance of the FOSA against the business plan 92% said yes while 8% said no. On the question about how accurate the strategic plan is understood by the management, out of the 67% responded yes and 33% responded no.

The results means that FOSAs have strategic plans whose contents are well understood. This also confirms that with strategic plans in place, FOSAs are focused business entities with a vision, a mission and objectives. Thus dispelling the notion that they suffer from poor governance systems.

PLAN LEVEL	OUTCOME	PERCENTAGE	YES	NO
Strategic Plans	Management Understanding of Strategic Plans	67%	33%	33%
Strategic Plans	Board Reviews Performance of FOSA against Business Plan	92%	8%	8%

Source: Table 2

4.3.5 Board involvement in FOSA Performance Review Process

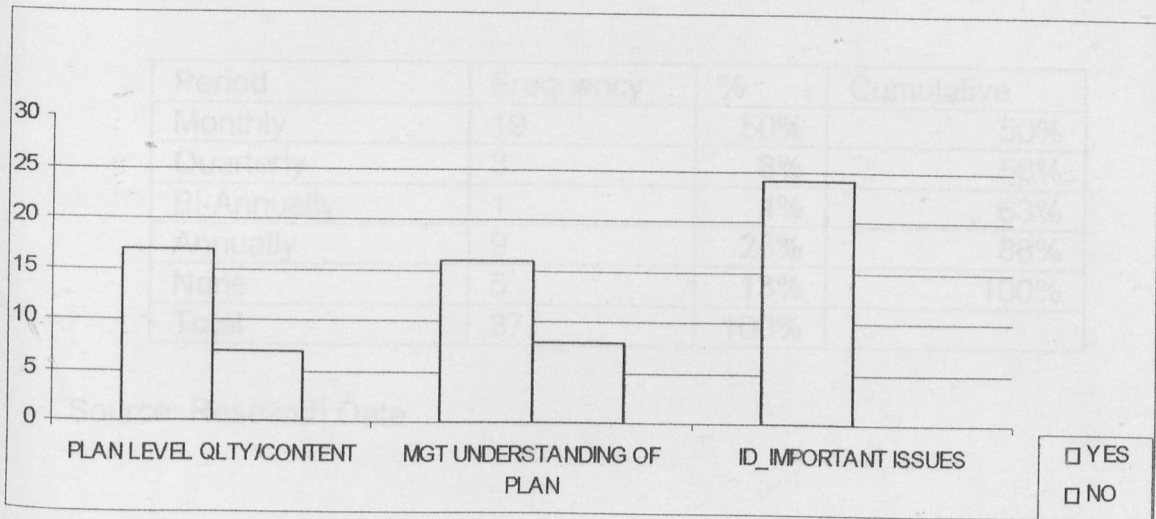
The study also investigated whether the FOSA Board does the performance review of their respective FOSA. This was found to be important, as it would reveal

Table 4.4: Strategic Planning, Quality, Content and Issues

Ranking	Quality and Content of Strategic Plans		Management Understanding of Strategic Plans		Important Issues in Plan	
	Frequency	%	Frequency	%	Frequency	%
Yes	26	71%	25	67%	34	92%
No	11	29%	12	33%	3	8%
Total	37	100%	37	100%	37	100%

Source: Research Data

Figure 4.4: Strategic Plans- Quality and Content



Source: Table 2

4.3.6 Board Involvement in FOSA Performance Review Process

The study also investigated as to whether the FOSA Board does the performance review of their respective FOSA. This aspect was very important, as it would reveal

whether the respective arms of the FOSAs are implementing their spelt out roles and tasks.

From the study 50% of the FOSAs' performance are reviewed monthly, 8% quarterly, 4% biannually, 25% annually, while 13% of the FOSAs go without any review. This can be interpreted that strategic planning is well entrenched in the management of FOSAs.

This dispels the notion that FOSAs' operations are ignored and are not supervised by the board as an important governance tool.

Table 4.5: Board Involvement in Performance Reviews

Period	Frequency	%	Cumulative
Monthly	19	50%	50%
Quarterly	3	8%	58%
Bi-Annually	1	4%	63%
Annually	9	25%	88%
None	5	13%	100%
Total	37	100%	

Source: Research Data

4.3.7 Legal/Ethical Issues

Many believe that Most Front Office Savings Entities and Savings and Credit Co-operatives have not incorporated codes of best practice as a guiding principle of governance and where they exist, they are rarely used. These doubts were disapproved by the study as it found out that most ethical issues are satisfactorily met.

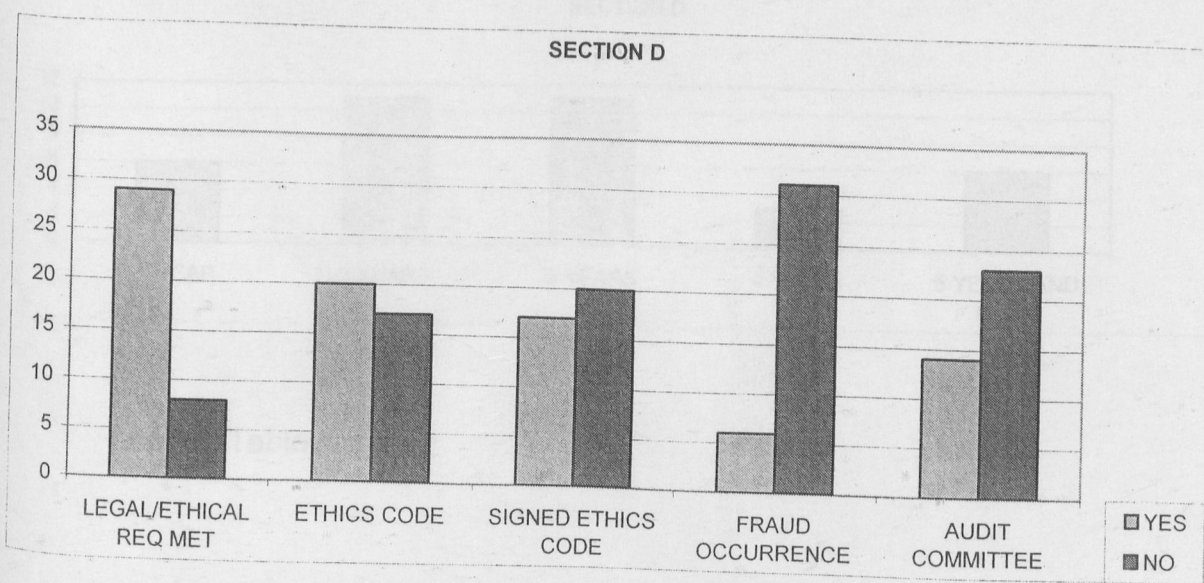
For instance, asked whether all legal and ethical requirements are met satisfactorily 79% said yes while the remaining 21% said no. Asked if the FOSA has a code of ethics 54% answered yes while the remaining 46% answered no. On the question of signing code of ethics by the board and management 46% said yes while the remaining 53% responded no.

Table 4.6: Legal/ Ethical Issues

Items	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
Legal/Ethical Requirement Met	29	79%	8	21%	37	100%
Ethics Code	20	54%	17	46%	37	100%
Signed Ethics Code	17	46%	20	54%	37	100%
Fraud Occurrence	6	17%	31	83%	37	100%
Audit Committee	14	38%	23	63%	37	100%

Source: Research Data

Figure 4.6: Legal Ethical Issues



Source: Table 4.6

4.3.8 Auditors as Tools of Corporate Governance

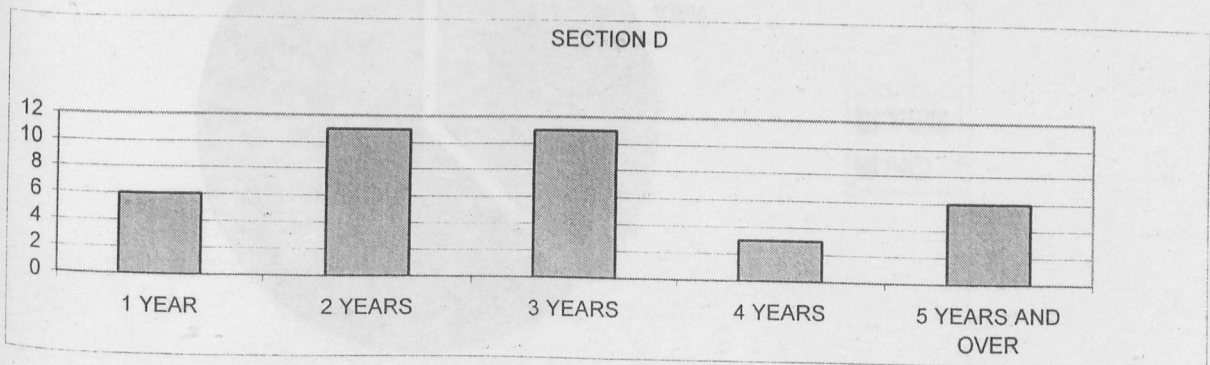
Asked the duration that they had been with the current auditors 75% had stayed with their auditors for periods ranging from 1 to 3 years. See table below.

Table 4.7: Number of Years With Auditors

Number Of Years	Respondents		CUMULATIVE
	Frequency	%	
1	6	17%	17%
2	11	29%	46%
3	11	29%	75%
4	3	8%	83%
5	6	17%	100%
Total	37	100%	

Source: Research Data

Figure 4.7: Auditors



Source: Table 4.7

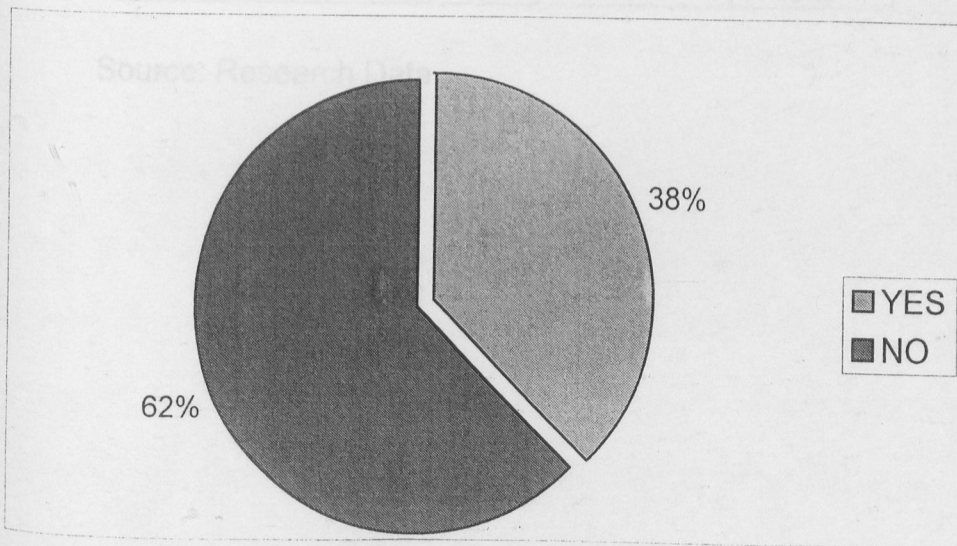
They were also asked if they had an audit committee 63% said No while 38% said they had one. The importance of audit committees is to check compliance with rules and regulations, and above all, allows for the entrenchment of good corporate governance practices in organisations. The very fact that 63% had no audit committees is indeed a worrying trend.

Table 4.8: Those With Audit Committees

Item	Yes		No		Total	%
	Count	Percentage	Count	Percentage		
Audit Committee	14	38%	23	63%	37	100%

Source: Research Data

Figure 4.8: Audit Committees



Source: Table 4.8

4.3.9 Frauds In FOSAs

On the question of frauds 17% said there had been frauds while 83% said no frauds had occurred. Those who said frauds had occurred were asked who had discovered the fraud of which 25% said the FOSA manager, 25% said their bank (KCB), another 25% said the operations manager and another 25% said the staff discovered the fraud. It was also noted that the FOSAs, which experienced frauds, were the same that neither had a signed code of ethics nor an audit committee.

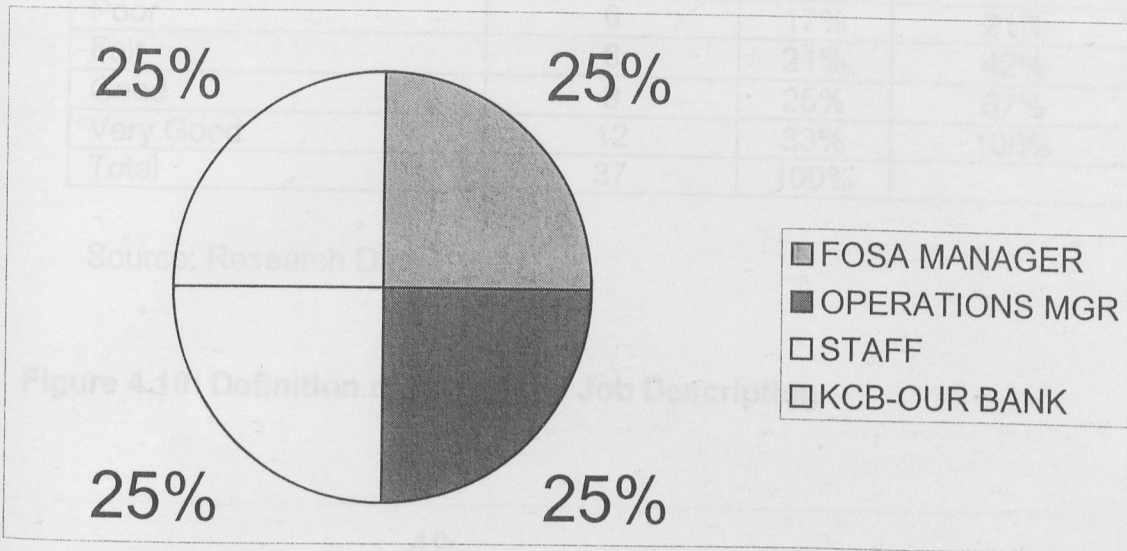
Table 4.9: Frauds Discovery

Frauds Discovered By	Frequency	%	Cumulative
Fosa Manager	1	25%	25%
Operations Mgr	1	25%	50%
Staff	1	25%	75%
KCB-Our Bank	1	25%	100%
Total	4	100%	

Source: Research Data

Table 4.10: Definition of Manager's Job Description

Figure 4.9: Fraud Discovery



Source: Table 4.9

4.3.10 The FOSA Manager As Agent of Corporate Governance

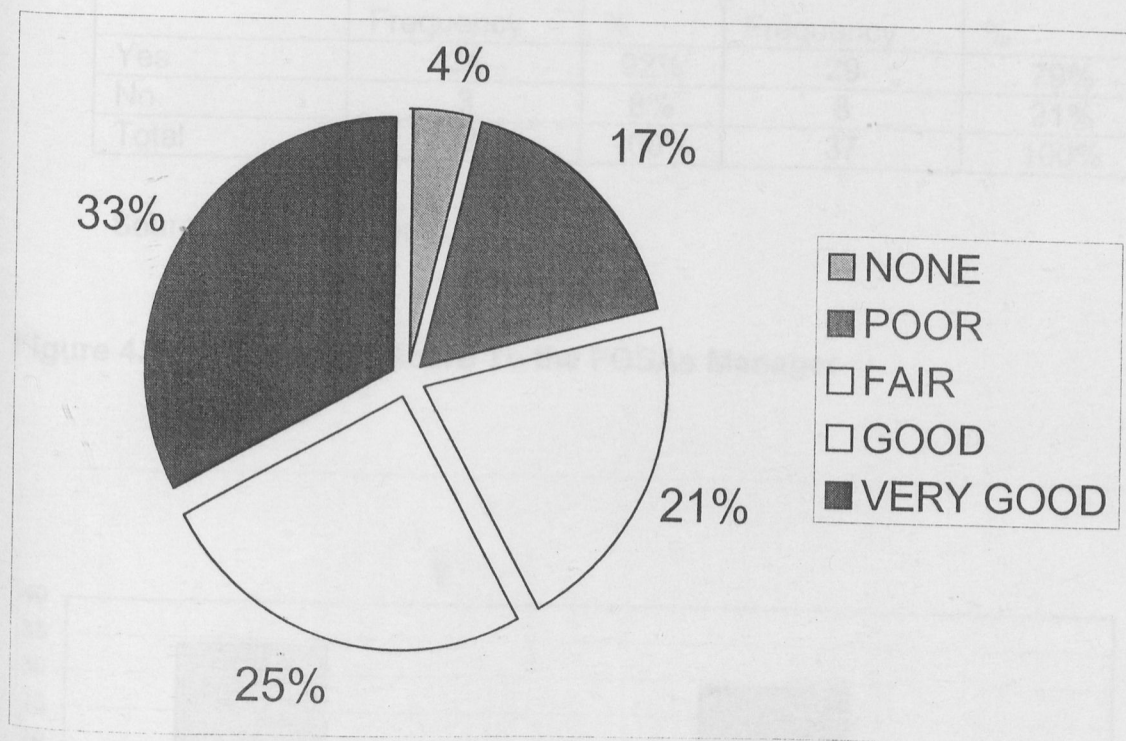
The atmosphere within which the Board and Management operate should provide good governance for efficient management to thrive. The Board must take the sole responsibility for the appointment of a competent chief executive officer through a competitive selection process. The study found out that most FOSA practice good governance. For instance when asked how well the Manager's job description is defined, 17% said it was Poor, 21% said it was Fair, 25% said it was Good while the remaining 33% said it was Very Good.

Table 4.10: Definition of Manager's Job Description

Items	No of Respondents	%	Cumulative
None	2	4%	4%
Poor	6	17%	21%
Fair	8	21%	42%
Good	9	25%	67%
Very Good	12	33%	100%
Total	37	100%	

Source: Research Data

Figure 4.10: Definition of Manager's Job Description



Source: Table 4.10

4.3.11 Support by Board To the FOSA Manager

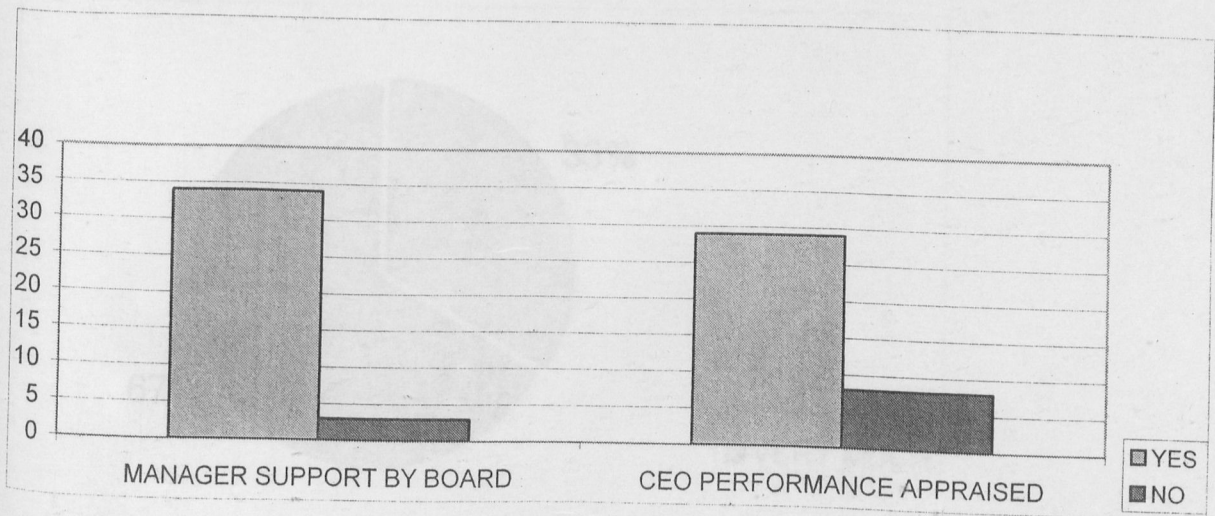
All (92%) except 8% agreed that the Board satisfactorily supported the manger. 79% agreed that the manager's performance was monitored and appraised satisfactorily while remaining 21% did not. All these go to confirm good corporate governance in the management of FOSAs.

Table 4.11: Support by Board To the FOSA Manager

Items	Manager Support By Board		CEO's Performance Appraised	
	Frequency	%	Frequency	%
Yes	34	92%	29	79%
No	3	8%	8	21%
Total	37	100%	37	100%

Source: Research Data

Figure 4.11: Support by Board To the FOSAs Manager



Source: Table 4.11

4.3.12 Board Involvement in Management

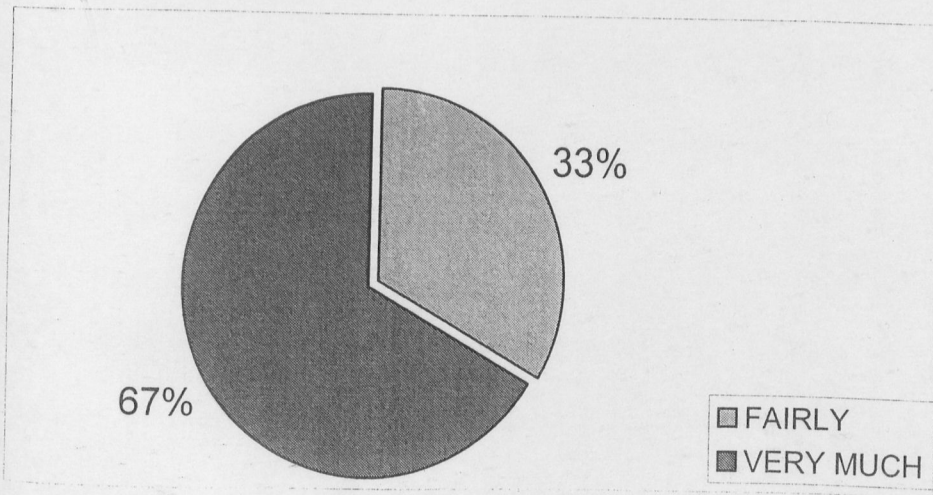
Asked to what extent, in their opinion, the board was involved in the management, 67% said Very Much involved and the remaining 33% said Fairly involved as can be seen in the table below. Over involvement of the board in the management, may lead to interference with daily operations of the FOSAs. Good governance requires that each party only exercise their due mandates.

Table 4.12: Board Involvement in Management

Ranking	Board Involvement In Management	
	Frequency	%
Fairly	12	33%
Very Much	25	67%
Total	37	100%

Source: Research Data

Figure 4.12: Board Involvement in Management



Source: Table 4.12

4.3.13 Recruitment of the FOSA Manager

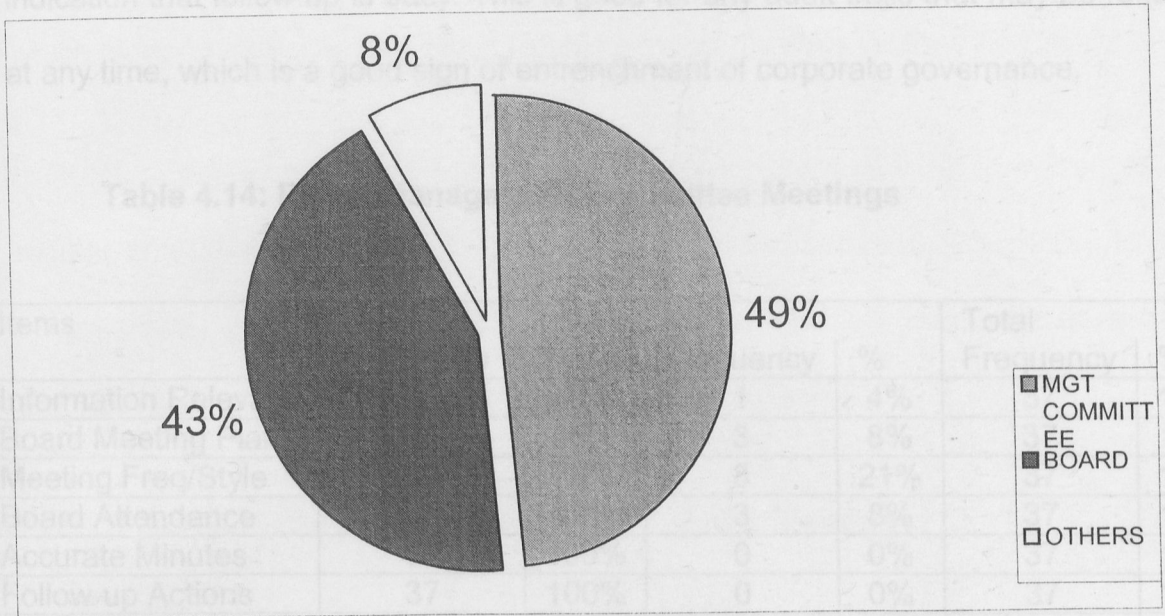
On who recruits the FOSA Manager, 49% said it was the Board while 43% said the Management Committee, and 8% did not know who recruited the FOSA Manager. The very essence that the board and the management committee recruit the FOSA manager can be interpreted that indeed there is fair play in recruitments. The board or the management committee is expected to inject professionalism in the recruitment and therefore shunning nepotism and narrow interests. To a large extent, this confirms good corporate governance in the FOSAs.

Table 4.13: Recruitment of the FOSA manager

Recruited By	Frequency	%
Mgt Committee	18	49%
Board	16	43%
Others	3	8%
Total	37	100%

Source: Research Data

Figure 4.13: Recruitment of the FOSA manager



Source: Table 4.13

4.3.14 Board/ Management Committee Meetings

This section dealt with various issues concerning Board/ Management Committee meetings. This questions required Yes or No answers where applicable. The following were the responses.

96% agreed the information supplied to the Board was appropriate and relevant. 92% said preparation and planning of Board meetings was satisfactory. 79% said the frequency and style of meetings was appropriate while the remaining 21% said it was not. 92% said the Board attendance and participation was working well.

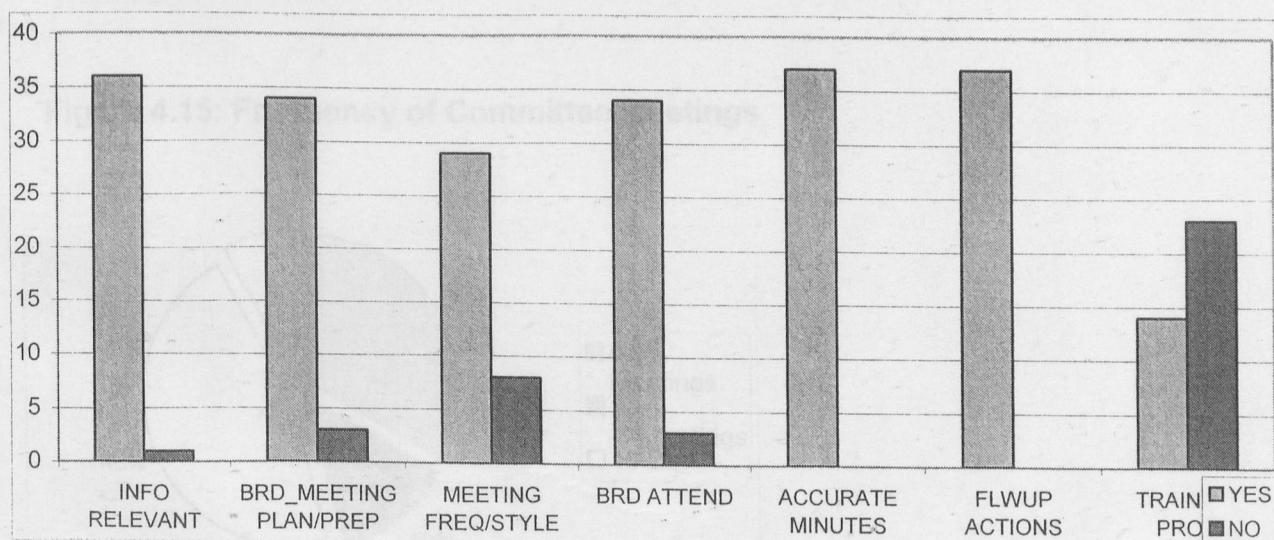
All agreed accurate and timely minutes were made and maintained and that follow up on necessary actions and or reports to the Board on actions taken. The very fact that minutes exists of important board and management committee decisions, is an indication that follow up is easy. This is good for any audit trails that may be required at any time, which is a good sign of entrenchment of corporate governance.

Table 4.14: Board Management Committee Meetings

Items	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
Information Relevant	36	96%	1	4%	37	100%
Board Meeting Plans	34	92%	3	8%	37	100%
Meeting Freq/Style	29	79%	8	21%	37	100%
Board Attendance	34	92%	3	8%	37	100%
Accurate Minutes	37	100%	0	0%	37	100%
Follow-up Actions	37	100%	0	0%	37	100%
Training Program	14	38%	23	58%	37	96%

Source: Research Data

Figure 4.14: Board Management Committee Meetings



Source: Table 4.14

4.3.15 Frequency of FOSA Committee Meetings

They were also asked approximately how many meetings they had held in the last one year. Those who had 8 -12 meetings were 33%, 13% had 13-17 meetings, 46% which were the majority had 18-22 meetings and only 8% said they had 26 meetings.

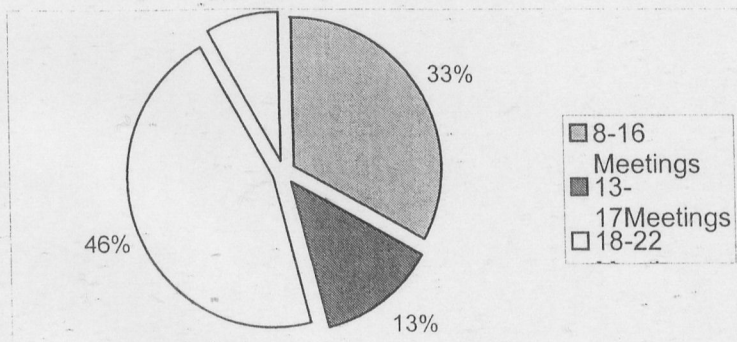
It is instructive to note that good corporate governance can be exercised through regular and timely meetings. The meetings afford the committee members to follow up previously agreed issues, questioning of areas of week corporate governance, and above all, all decisions are participatory and democratic.

Table 4.15: Frequency of FOSA Committee Meetings

Meetings Per Year	Frequency	%
8-12	12	33%
13-17	5	13%
18-22	17	46%
26	3	8%
TOTAL	37	100%

Source: Research Data

Figure 4.15: Frequency of Committee Meetings



Source: Table 4.14

4.3.16 Training Programmes for FOSA Management Committees

Asked whether they had a training program for the FOSA Management Committee and Staff 38% said yes while the remaining 62% said No. Regular training is necessary for acquisition of new and relevant knowledge.

The study shows that majority of the FOSAs (at 62%) did not have training programme for their management committees, a trend that should be reversed. There is no better way to entrench good corporate governance than through regular training where new ideas and best practices in the industry are shared.

Table 4.16: Training Programmes For FOSA Management Committee

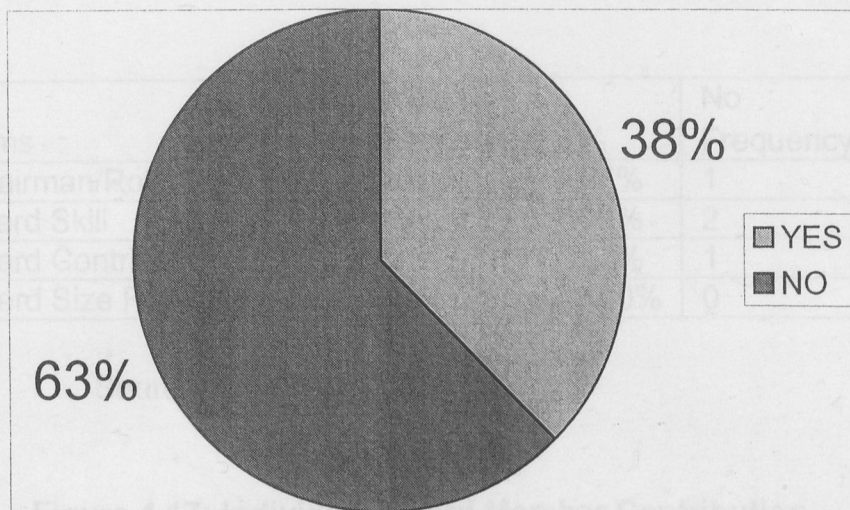
Training Program	Frequency	%
Yes	14	38%
No	23	62%
Total	37	100%

Source: Research Data

of the members. This is good for effective corporate governance as decisions of the committee are democratic.

Figure 4.16: Training Programmes For FOSA Management Committee

Table 4.17: Individual Board Member Contribution



Source: Table 4.16

4.3.17 Individual Board Member Contribution

This section dealt with individual Board member contribution. Asked whether the chairman was carrying out his role satisfactorily 96% said Yes, while 4% said no. 92% said the board members had particular skills, which were recognized and made use of, the other 8% said the board member skill were neither recognized nor made use of.

4.3.18 General Comments by the Respondents

96% said the board contributions were adding value to the FOSA business, while 4% thought they do not add any value. All (100) agreed that the size of their board is fine. From the study, it is clear that no one person wields so much power at the expense of the management of the FOSA. These comments are given below.

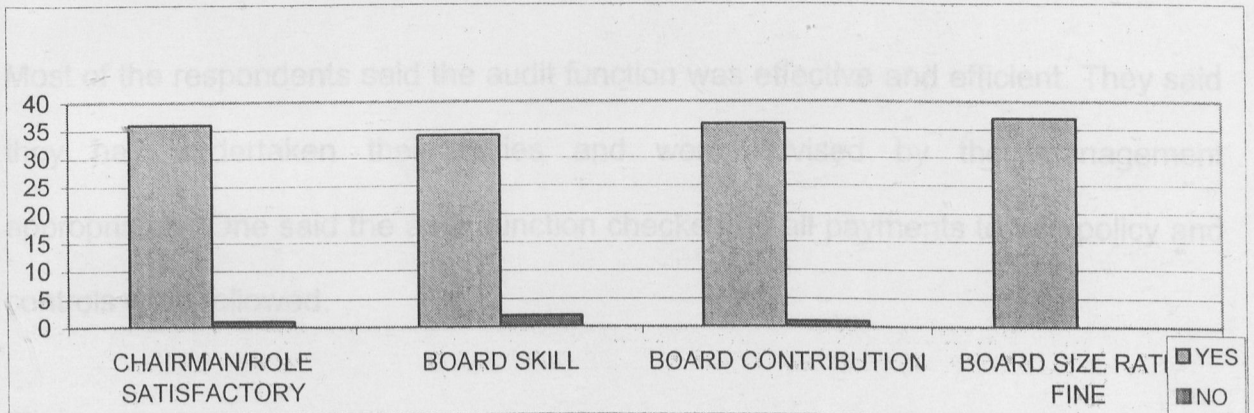
of the members. This is good for effective corporate governance as decisions of the committee are democratic.

Table 4.17: Individual Board Member Contribution

Items	Yes		No		Total	
	Frequency	%	Frequency	%	Frequency	%
Chairman/Role Satisfactory	36	97%	1	3%	37	100%
Board Skill	34	92%	2	8%	37	100%
Board Contribution	36	97%	1	3%	37	100%
Board Size Rated Fine	37	100%	0	0%	37	100%

Source: Research Data

Figure 4.17: Individual Board Member Contribution



Source: Table 4.17

4.3.18 General Comments by the Respondents

The respondents were required to briefly comment on the effectiveness of the management committee, FOSA committee, audit function and various aspects of the management of the FOSA. Their comments are given below:

Most of the respondents agreed that the management committee is effective and efficient. This was because they are well trained and are able to understand the financial reports. For the respondents in societies with FOSA committees they said they perform satisfactorily and understand their work. They also go through FOSA reports in detail before reporting to the board on a monthly basis. Other respondents said their FOSA committee needed more training.

As for supervisory committee, it was also said to be very effective and efficient. They were also said to meet monthly and bring reports often. One said their supervisory committee doubled as the FOSA committee causing them to be less efficient. They suggested a separation of the two. One said they also have joint meetings with CMC (Central Management Committee).

Most of the respondents said the audit function was effective and efficient. They said they had undertaken their duties and were advised by the management appropriately. One said the audit function checked on all payments to see policy and controls were followed.

The respondents agreed their management committee is effective, efficient, cohesive and supportive at all levels. They said the management had worked hard to ensure the achievements so far realised. They were also asked what problems they saw affecting the Management of their FOSA and in their opinion how these problems could be solved.

The Respondents also indicated a number of problems that face FOSAs such as inadequate knowledge on FOSA operations, lack of office facilities that allow FOSA to carry out the full operations, minimal IT skills, lack of long term lending, defecting by members who leave service prematurely, inadequate training, high withdrawing rates, lack of remittance of member deductions for the society, which curtails profitability and good services to members. Other problems were competition from other financial institutions, poor Cash flow, vouchers (IOUs) by committee and some senior staff, lack of professionalism, under qualified staff, low number of customers, current legislation, low savings, high interest on borrowed funds, poor Investment policy, lack of Networking of FOSA and Back Office, members are spread throughout the country, lack of customer care, executive committee doubling up as FOSA committee members.

The respondents also suggested solutions to some of the problems identified above as follows: Training in all necessary areas, getting offices and personnel, establishment of a Micro financing arm, policy set up, proper market intelligence, government to come up with minimum requirements/ standards of operations and qualifications of professionals, aggressive marketing of FOSA, promotion and sensitization, amendment of the current legislation to allow FOSA to recruit members from the public, provision of cheap sources of funds, improvement of service delivery, installing of ATMs and assets, opening more branches/ service centers. Others include building own institutional capital, networking of FOSA and Back Office, networking all AFCO shops with the SACCO, maximizing income.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary of findings on corporate governance systems in FOSA, conclusions, recommendations, limitations and suggestions for further research are presented. As indicated earlier FOSAs are a creation of environment. They were introduced to provide better banking services to their members especially as avenues not only to channel salaries to circumvent effects of delayed remittances, partial remittances or non remittances of check offs from the employers.

Contrary to the generalization that FOSAs are associated with weak governance issues, the paper found out many of them have indeed employed good corporate governance systems as summarized below.

5.2 Summary of Findings

The study found out that over 88% indicated that the FOSA objectives reflects the objectives of their members and over 91% found the FOSA member relation being Good and Very Good. The Board relationships with the monitoring agencies were also found to be very good. Thus FOSAs have strong governance systems.

The study found out that the FOSAs had strategic plans of sufficient quality and content (71%) and that they are reviewed against business plan (92%). It was also found that the management understands the content of the strategic plans, which they review monthly, quarterly bi-annually and yearly. The Board of the FOSAs was also found to be monitoring the activities on a regular basis (67%). This dispels the notion that FOSA's are weak institutions without clear visions, plans and missions.

The study found out that the FOSAs legal and ethical requirements are met satisfactorily at 79% and 46% had signed code of ethics. This is a worrying trend. The study also found out that 75% of the FOSAs had stayed with the current auditors for periods ranging from 1 to 3 years (Table 7).

The frauds committed were mainly perpetrated by weak FOSAs. It was also noted that the FOSAs, which experienced frauds, were the same that neither had a signed code of ethics nor an audit committee.

The study found out that despite 62% saying that the Manager's job description is well defined, 38% said it was poor and fair. There is need to reevaluate further the job descriptions so as to minimize ambiguities. While majority knew who recruited the FOSA managers, there were 8% who did not know who recruited the FOSA Manager.

The study found out that the information supplied to the Board was appropriate and relevant (96%), there was adequate preparation and planning of Board meetings and that board meetings were well attended and working on well. All agreed accurate and

timely minutes were made and maintained and that follow up on necessary actions and or reports to the Board on actions taken. However 62% thought FOSAs are wanting when it comes to training programs for the Management Committee and Staff 38% said yes while the remaining 62% said No.

Majority (96%) thought the chairman was carrying out his role satisfactorily, 92% thought the board members had particular skills and 96% said the board contributions were adding value to the FOSA business.

The respondents indicated that the management committee is effective and efficient, the FOSA committees performance are satisfactorily supervisory committee was also said to be very effective and efficient. The audit function was also effective and efficient.

The respondents also knew the problems afflicting FOSA as enumerated above and how to sort them out. For instance, inadequate knowledge on FOSA operations, lack of office facilities that allow FOSA to carry out the full operations, minimal IT skills, lack of long term lending, defection by members, competition from other financial institutions etc. Their solutions were also proposed as follows, training in all necessary areas, proper market intelligence, govt. to come up with minimum requirements/ standards of operations and qualifications of professionals, networking of FOSA and Back Office etc.

5.3 Conclusions and Recommendations

The study indicates clearly that FOSAs objectives reflect the objectives of the members. There is therefore the need to legislate on their status to give their operations full meaning.

It is also recommended that though the Board of directors are keeping a breast of what is happening in their FOSA, greater involvement is still needed. There is also need to entrench minimum number of meetings that the board should hold as others were having more meetings than is necessary.

While the legal and ethical requirements are met frauds committed were mainly perpetrated by weak FOSAs. It was also noted that the FOSAs, which experienced frauds, were the same that neither had a signed code of ethics nor an audit committee. It is recommended that code of ethics should be signed by all FOSAs.

There is also need to have a minimum job description for FOSA managers so that the ambiguities are minimized as found in the study. The job description will also form a basis for recruitment of the FOSA Manager.

On the problems afflicting the FOSA, the respondents suggested solutions. This means, given a forum, then most of the problems can be ironed and sorted out.

5.4 Limitations of the Study

Given the resource constraint, the follow up was tedious and out of the sample size 50 FOSAs 37 returned fully completed questionnaires. Had resources been enough, the whole population of 150 FOSAs could have been surveyed. Thus the research findings cannot be used to make generalization for the whole sector.

Another limitation is that, had resources been available, the individual FOSA members and customers could have been studied as a check to what the management is saying on the governance systems of FOSAs.

5.5 Suggestions For Further Research

A study should be carried out to establish ethical and moral conducts of FOSAs. Furthermore, a study to gauge individual members views on management of the FOSA's is recommended. Such a study, would complement this paper that studied the governance systems of the FOSAs from management's perspective.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Dear Respondent,

I am a finalist at the University of Nairobi pursuing a master of Business Administration degree. In partial fulfillment of the requirement of this degree, I need to carry out a research project on governance systems in SACCO Front Office Entities (FOSA) in Kenya.

The focus of the study is to establish whether SACCO Front Office Entities (FOSAs) practice corporate governance.

I kindly request you to provide the required information to the best of your knowledge by filling out the questionnaire. The information is strictly for academic purposes and will be treated in the strictest confidence. Your name and that of your organization will not be mentioned in the report without your prior permission.

Yours faithfully,

Carilus Ademba

SECTION C: THE FOSA STRATEGIC PLANS

Is the level of strategic planning of sufficient quality and content?

APPENDIX 2: QUESTIONNAIRE

SECTION A: ORGANIZATION AND RESPONDENT PROFILE

Please answer the following questions

1. Name of Co-operative
2. Title of Respondent
3. Year of experience in the FOSA
4. How old is your FOSA
5. What do you consider to be your core business
6. From where do you draw your membership?.....
7. What is your current membership

SECTION B: SHAREHOLDERS/MEMBERS

Use a scale score of

1	Very poor
2	Poor
3	Fair
4	Good
5	Very good

Yes or No where applicable

1. How well does your FOSA objectives reflect the Members expectations?
1 () 2 () 3 () 4 () 5 ()
2. Is there full and accurate reporting on FOSA affairs to the members?
Yes () No ()
3. How well is your FOSA relating with your members?
1 () 2 () 3 () 4 () 5 ()
4. How is the board's relationship with monitoring agencies?
1 () 2 () 3 () 4 () 5 ()

Please specify

How long have you been with your current auditors? Please specify

SECTION C: THE FOSA STRATEGIC PLANS.

1. Is the level of strategic planning of sufficient quality and content?
Yes () No ()
2. How accurate is the strategic plan understood by the management?
Yes () No ()
3. Does the Board review the FOSAs performance against the business plan?
Yes () No ()
If yes how Often ()
Yes () Monthly No ()
Yearly ()
In 3 years ()
In 5 years ()
Others (specify) ()
4. How satisfactory in the Board monitoring your business?
1 () 2 () 3 () 4 () 5 ()

5. Are the important issues being identified?
Yes () No ()
6. How well are these issues analyzed discussed and implemented?
1 () 2 () 3 () 4 () 5 ()

SECTION D: LEGAL/ETHICAL ISSUES

1. Are all legal/ethical requirement met satisfactorily?
Yes () No ()
2. Does the FOSA have a code of ethics?
Yes () No ()
3. Are the code of ethics signed by the Board and Management?
Yes () No ()
4. Has any fraud occurred in your FOSA this year?
Yes () No ()
5. If yes who discovered the fraud?
Please specify
6. How long have you been with your current auditors? Please specify
.....

7. Do you have an audit committee?

Yes () No ()

SECTION E: THE CEO/MANAGER

1. How well is the Managers job description defined?

1 () 2 () 3 () 4 () 5 ()

2. Is the Manager satisfactorily supported by the Board?

Yes () No ()

3. Is the CEO's performance monitored and appraised satisfactorily?

Yes () No ()

4. To what extent in your opinion is the Board involved in the Management?

Very Much ()

Fairly ()

Not involved ()

5. Who recruits the FOSA Manager?

(Specify)

SECTION F: BOARD/MANAGEMENT COMMITTEE MEETINGS

1. Is the information supplied to the Board appropriate and relevant?

Yes () No ()

2. Is preparation and planning of Board meetings satisfactory?

Yes () No ()

3. Is the frequency and style of meetings appropriate?

Yes () No ()

4. Is Board attendance and participation working well?

Yes () No ()

5. Are accurate and timely minutes made and maintained?

Yes () No ()

6. Is there follow up on necessary actions and or reports to the Board on actions?

Yes () No ()

7. Approximately how many management committee meetings were held last year?

8. Do you have a training programme for the FOSA Management Committee and staff?

Yes ()

No ()

SECTION G: INDIVIDUAL BOARD MEMBER CONTRIBUTION

1. Is the chairman carrying out his role satisfactorily?

Yes ()

No ()

2. Is there recognition and use of individual Board Members particular skills?

Yes ()

No ()

3. Is the Board contribution adding value to the FOSA business?

Yes ()

No ()

4. What is your rating of the size of your Board?

Too low ()

Is fine ()

Too large ()

Any other (specify)

SECTION H: OVERALL.

Briefly comment on the effectiveness of the following:

a. The Management Committee

.....
.....

b. The FOSA Committee

.....
.....

c. The Supervisory Committee

.....
.....

d. The Audit Function

.....
.....

e. The Management

.....
.....

f. What problems do you see that affect the Management of your FOSA?

.....
APPENDIX 3 LIST OF RESPONDENTS

g. In your opinion how can these problems be solved?

.....							
No	Name	Position	Age	Sex	Services	Organization	Amount
1	WILELE	VICE CHAIR	5	5	ADVANCES SAVINGS	KUSCOO, SUPERFREIGHT, KITCHEN PRIDE, BORO KENYA, KINCOO, KACA, BORO PRIDE	250
<u>THANK YOU FOR YOUR COOPERATION</u>							
3	UKULIMA	GENERAL MANAGER	7	7	SAVINGS AND CREDIT BANKING SERVICES	CIVIC SERVICE & PARASTATA 2	35,284
4	MARAYINI	MEMBER ASST. MANAGER	5	5	BANKING SERVICES	WAKULIMA MKT	638
5	PENYA-CANBERS	MANAGER	1	7	SAVINGS AND CREDIT ADVANCES AND FIXED DEPOSITS	DELMONTE LTD	4,800
6	NACIJO SAGGO	MANAGER	9	31		CITY COUNCIL	35400
7	RURUPIS	GENERAL MANAGER	5	9	N/A	FARMERS	3,100
8	MASAKI KADIBI	OPERATIONS MANAGER	6	5	SAVINGS AND LOANS	N/A	1,700
9	SOUTH MENT TEA GROWERS	INTERNAL AUDITOR	10	10	SAVINGS AND CREDIT	TEA FARMERS	6,535
10	LAND TEACHERS	MANAGER	4	4	PROCESSING SALARIES	TEACHERS AND CIVIL SERVANTS	900
11	CHAI	MARKETING FOCAL MANAGER	1	2	SAVINGS AND CREDIT	TEA FARMERS	10,000
12	WANAHOCHE	MANAGER	2	2	ADVANCES	PLOTS	1,835
13	THIKA TEACHERS KENYA	ACCOUNTANT	4	4	SAVINGS AND LOANS	TEACHERS	2,381
14	CHAI	ACTING MGR	1	2	SAVINGS AND CREDIT	DELMONTE	4,800
15	JOHN TEACHERS CO OP	MANAGER	1	7	SAVINGS AND LOANS	TEACHERS, CIVIL SERVANTS, BUSINESS COMMUNITY	7,000
16	SIO KWA SIO MULTIPARTY	MANAGER	2	2	SAVINGS AND CREDIT	COMMON BOND	305
17	MUMIANA TEA GROWERS	GENERAL MGR	20	8	SAVINGS AND CREDIT	HORTICULTURAL FARMERS	3,000
18	TEACHERS SACCO	MANAGER	8	8	SAVINGS AND CREDIT	TEACHERS	5,000
19	BURAT SACCO	MEMBER	7	7	SAVINGS AND CREDIT	TEACHERS - CIVIL SERVANTS	5,100

APPENDIX 3: LIST OF RESPONDENTS

NO	SACCO NAME	RESPONDENT'S TITLE	YRS OF EXPERIENCE	AGE OF FOSA	CORE BUSINESS	MEMBERSHIP FROM	MEMBERSHIP
1	KILELE	VICE CHAIR	5	5	ADVANCES	KUSCCO, SUPERFREIGHT, KITCHEN PRIDE, IBERO KENYA	350
2	KILELE	MEMBER	1	1	SAVINGS AND CREDIT	KUSCCO, KACA, KITCHEN PRIDE	200
3	UKULIMA	GENERAL MANGER	7	7	SAVINGS AND CREDIT	CIVIL SERVICE & PARASTATALS	33,284
4	MARAFIKI	MEMBER	5	5	BANKING SERVICES	WAKULIMA MKT	635
5	KENYA CANNERS	ASST. MANAGER	1	2	SAVINGS AND CREDIT	DELMONTE LTD	4,600
6	NACICO SACCO	MANAGER	9	31	ADVANCES AND FIXED DEPOSITS	CITY COUNCIL	8,000
7	RUKURIRI	GENERAL MANAGER	3	9	N/A	FARMERS	3,550
8	MASAKU TRADERS	OPERATIONS MANAGER	6	6	SAVINGS AND LOANS	N/A	1,700
9	SOUTH IMENTI TEA GROWERS	INTERNATIONAL AUDITOR	10	10	SAVINGS AND CREDIT	TEA FARMERS	6,535
10	LAMU TEACHERS	MANAGER	4	4	PROCESSING SALARIES	TEACHERS AND CIVIL SERVANTS	900
11	CHAI	MARKETING MGR	1	2	SAVINGS AND CREDIT	TEA FARMERS	10,000
12	WANANDEGE	FOSA MANGER	2	2	ADVANCES	PILOTS	1,635
13	THIKA TEACHERS	ACCOUNTANT	4	4	SAVINGS AND LOANS	TEACHERS	2,281
14	KENYA CANNERS	ACTING MGR	1	2	SAVINGS AND CREDIT	DELMONTE	4,600
15	KILIFI TEACHERS CO OP	MANAGER	7	7	SAVINGS AND LOANS	TEACHERS, CIVIL SERVANTS, BUSINESS COMMUNITY	7,000
16	SISI KWA SISI MULTIPURPOSE	MANAGER	3	3	SAVINGS AND CREDIT	COMMON BOND	305
17	MUNGANIA TEA GROWERS	GENERAL MGR	20	9	SAVINGS AND CREDIT	HORTICULTURAL FARMERS	6,000
18	EMBU TEACHERS SACCO	MANAGER	8	6	SAVINGS AND CREDIT	TEACHERS	5,200
19	ELIMU SACO	MEMBER	7	7	SAVINGS AND CREDIT	TEACHERS, CIVIL SERVANTS	5,700

20	MATER SACCO	MANAGER	5	5	SAVINGS AND CREDIT	COMMON BOND	495
21	AFCO SACCO	MANAGER	8	9	ADVANCES	AFCO	652
22	JAMII SACCO	FINANCE & ADM MGR	3	9	SAVINGS	OPEN BOND	6,000
23	COMOCO SACCO	ACCOUNTANT	4	8	SAVINGS AND CREDIT	MOTOR INDUSTRY	1,700
24	WANAANGA SACCO	ACCOUNTANT	2	3	SAVINGS AND LOANS	CIVIL NON_CIVIL SERVANTS	2,000
25	Moi University	FOSA Supervisor	7	8	SAVINGS AND LOANS	Lectures, Hospital	3375
26	Bonde La Kerio	Manager	4	4	SAVINGS AND LOANS	KVD staff	542
27	Bungoma Teachers SACCO	I.Auditor	2	8	SAVINGS AND LOANS	Teachers/Kenya	5684
28	MEK SACCO	Bookkeeper	3	7	SAVINGS AND LOANS	Kisumu Municipal	1550
29	Nyamira Teachers	Accountant	5	8	SAVINGS AND LOANS	Teachers	2541
30	Maseno University	MANAGER	2	8	SAVINGS AND LOANS	Teachers	1552
31	Busia Teachers	MEMBER	5	7	SAVINGS AND LOANS	Teachers	2135
32	Kuria Teachers	MANAGER	1	6	SAVINGS AND LOANS	Teachers	3215
33	Suba Traders	MANAGER	8	7	SAVINGS AND LOANS	Traders	1215
34	Kilifi Teachers	FINANCE & ADM MGR	5	8	SAVINGS AND LOANS	Teachers	1684
35	Kwale Teachers	ACCOUNTANT	4	8	SAVINGS AND LOANS	Teachers	1354
36	Soniga	ACCOUNTANT	4	6	SAVINGS AND LOANS	Sony Sugar	1345
37	Kisumu Teachers	Accountant	5	3	SAVINGS AND LOANS	Teachers	2361
	TOTAL		181	244			141875
	AVERAGE		5	7			3834