THE EFFECT OF REGULATION S ON ENHANCING INVESTMENT IN PUBLIC TRANSPORT SACCOS IN NAIROBI COUNTY

BY

PETER KAMAU WAGEREKA

D61/60380/ 2010

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

NOVEMBER- 2013

DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University or any other award.

Signature:……………………………………. Date: ………………………………

Peter Kamau Wagereka
D61/60380/2010

This Research Project has been submitted for examination with my approval as supervisor of University of Nairobi

………………………………… **Date** ………………………………

Mr. Joseph Barasa
Lecturer
Department of Finance and Accounting
University of Nairobi

ACKNOWLEDGEMENT

I am grateful to Mr Joseph barasa for his guidance and advice which kept me on track throughout the Proposal and Project Report writing. My thanks go to staff of the Ministry of Cooperative Development and Marketing, Staff of Sacco Societies Regulatory Authority, staff at the Kenya Institute of Management Library who were handy in my proposal and project work. My thanks also go to the staff of University of Nairobi Library who on various occasions spared time off their busy schedule to enable me locate various research articles in the otherwise busy library. I acknowledge the contribution of my wife, Monica Wambui for her constructive criticism of my work and helping me refine this project report to what it is. Am also grateful to Arnold Karani Njiru who has been handy in editing this project report. My gratitude goes to Michael Karanja for his commitment and support during data collection and compilation of this report.

DEDICATION

To my wife Monica Wambui Kamau, daughters Joy Wambui Kamau, Mary Wanjiru Kamau and son Stephen Wagereka Kamau for their continued support and constant encouragement in my study.

ABSTRACT

This study will seek to find out the effects of regulations on enhancing investments in public transport Saccos in Nairobi County. The study will also seek to find out recent changes in operation of public transport in Kenya for example new vehicles on the road, new safety rules and the registration of co-operative societies to replace the Matatu Welfare Associations in a new development which started from early 1990's.

Cooperatives are economic units by which members mobilize their financial resources through savings. It is estimated that this sector contributes about 20% to the gross Domestic Product. Although this sector is considered both economically and socially important, sectoral report indicates that nearly 2% of savings and Credit Cooperative Societies (SACCOs) collapse every year and about 6% of registered members withdraw their membership annually. Some SACCOs pay dividends which are as low as 3.5%. It is not clear why there is a deteriorating trend in most of the societies despite government's financial regulations being in operation since 2004 that were meant to help SACCOs achieve sustainability through growth and financial stability. The objective of this study was to assess the effect of government's financial regulations on investment performance in SACCOs in Nairobi County. The study adopted descriptive research design and purposive sampling method.

The research adopted a self administered questionnaire which was used to collect quantitative data. The study units comprised 104 sacco societies of public transport in Nairobi County. The questionnaire was designed based on a Five Lickert scale. However, only 95 Saccos were actively in operation. The other 9 were either dormant or inactive. Therefore, 87 Saccos were randomly sampled and studies.

The findings show that government financial regulations have been moderately regulated with a weighted mean of 2.805. Concerning the approval of maximum borrowing powers by members, a weighted mean score of 3.816 on the scale was posted. It is therefore expected that with this large extent of implementation of this regulation, Saccos will have a strong financial stability since they will have fewer loans to service. The study also found out that performance of Saccos in terms of efficient and prompt disbursement of loans is quite wanting with a weighted mean score 2.0919. Key recommendations were to the Ministry of Co-operative Development to mobilize resources to educate the members and management committees of the societies for better performance, and adherence to the regulations laid down by the government.

TABLE OF CONTENTS

LIST OF FIGURES AND TABLES

ABBREVIATION

ACCOSCA	African Confederation of Cooperative Savings and Credit Association
BOSA	Back Office Service Activity
DGF	Deposit Guarantee Fund
FOSA	Front Office Savings Activity
KIE	Kenya Industrial Estate
KREP	Kenya Rural Enterprise Program
KUSSCO	Kenya Union of Society and Credit Co-operatives
MoCDM	Ministry of Cooperative Development and Marketing
NGO	Non Governmental Organization
OMOV	One Man One Vote
SACCOS	Savings and Credits Cooperatives
SSA	Sacco Societies Act
SASRA	Sacco Societies Regulatory Authority
SEFCO	Small Enterprises Finance Company
TLB	Transport Licensing Board

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Investment plays an important role in sustaining growth and development of any country. High rates of investments depend on l [illegible] ing (Pelrine & Kabatalya, 2005). Many scholars have written on this sub [illegible] ort has been made in determining the effect of regulation on enhancing investment in public transport in savings and cooperative societies (SACCOs) on members' investment. According to Lipsey and Chrystal (1995) a high saving economy accumulates assets faster and thus grows faster than a low saving economy. SACCOs link borrowers and savers (Tache, 2006). The savers pool their money as savings and shares against which they borrow in form of loans. SACCOs are not- for- profit- organizations as their basic purpose is to help members save (Kyendo, 2011). Bailey (2001) defines SACCOs as cooperatives which provide their members with convenient and secure means of saving money and obtaining credit at affordable interest rates. Tache (2006) has shown that SACCOs were invented in south Germany in 1846 by two community business leaders: Freidrich and Herman. The two are the founding fathers of SACCO movement. In Italy, Luigi Luzzatti established saving and credit cooperatives which combined the principles established by the two business leaders.

The SACCO movement spread all over Europe, Northern America, Latin America, and Asia from 1900 to 1930 and thereafter to Ghana by a catholic Bishop. Towards the end of 1950s African farmers promoted and registered cooperatives for cash crops like pyrethrum and coffee. Mudibo (2005) suggests that cooperatives have played a prime role in the development of the economies of Kenya, Uganda and Tanzania. According to the Republic of Uganda report of 2008, cooperative movement in Uganda was started in 1913 to involve Ugandans in domestic and export marketing. SACCOs emerged in Kenya in the years 1965- 1970 (Chao-Beroff, et.al, 2000). The SACCOs came as a result of the credit systems of the farming cooperatives. In these cooperatives farmers would access financial services through the union's banking sections. In the cooperatives' banking sections farmers saved and obtained advances that were serviced from income earned from the harvest. The SACCOs' banking services are provided even today in Kenya with already 219 SACCOs that offer banking services spread all over the country (Kyendo, 2011).

The first co-operative society in Kenya was Lumbwa cooperative society (Bottleberge & Agevi, 2010). In 1908 the European Farmers made this cooperative formal. Its main objective was marketing and purchasing of farm inputs. According to KUSCCO report of 2011 cooperatives in Kenya have led to the development in agriculture, storage, housing, fishing and credit. The Ministry of Cooperative Development and Marketing (MCDM) conference report of 2010 indicates that there are currently over 5200 registered SACCOs with over 5.6 million registered members in Kenya. Like in most African countries, cooperatives in Kenya have developed through two main eras, that is, the era of state control and the era of liberalization (Wanyama, 2009). According to Wanyama, the first era made cooperatives platforms for implementing socio-economic policies to the extent that failure of state policies expressed themselves in the cooperative movement. The failures saw the need for the liberalization of the cooperative movement in early 1990s (Porvali, 1993).

1.1.1. Regulation in public transport saccos

SACCOs in Kenya are required to adhere to regulations set in Sacco's regulation authority (SASRA). The management has to present the capital adequacy return reports, liquidity statement report, Statement of financial position and Statement of deposit return as well as return on investments report which compares land, building, and financial assets to the SACCO's total assets and its core capital.

Developments in Legal and Regulatory Framework the rapid growth of Sacco Societies growth has come with increased challenges which could not be adequately addressed within the provisions the Cooperatives Societies Act (CSA) CAP 490 in spite of numerous amendments. In response to this challenge the MoCDM recognized the need for a regulation specific to the Sacco subsector. Section 91A(1) of Co-operative Societies Act 1997 as amended in 2004 provided that “The Minister shall in consultation with the apex society constitute by notice in the Gazette a body to regulate the operations of savings and credit co-operatives. The MoCDM commenced the development of a Sacco specific regulation in 2004 culminating in the Sacco Societies Act (SSA) that was enacted and assented to in 2008. SSA provides for the licensing, supervision and regulation of Sacco Societies; and establishment of the Sacco Societies Regulatory Authority (SASRA) with the mandate to enforce the new legal and regulatory framework. In addition to prudential regulation, the Act also establishes the Deposit Guarantee Fund (DGF) which shall provide protection to members’ deposits up to Ksh.100,000 per member. The SSA commenced in 2009 but SASRA started operations in June 2010 upon publication of the Sacco Societies (Deposit Taking Sacco Business) Regulations.

The new legal and regulatory framework modeled along the same principles as those for the regulation of banks and deposit taking microfinance institutions has the primary purpose of improving governance of Sacco societies through enhanced transparency and accountability in the conduct of Sacco business. Section 3(1) provides that the Act shall apply to every deposit taking Sacco business and specified non-deposit taking business. In respect of the non-deposit taking business, the Minister may make regulations specifying the non-deposit taking business to which this Act will apply including the measures for the conduct of the specified business. The Regulations published by the Minister in June 2010 like the name suggest applies to every deposit taking Sacco business. The deposit taking Sacco business refers to the taking of demand deposit from members which occur in Sacco societies operating the Front Office Service Activity (FOSA) (Sacco Supervision Report 2010)

SASRA is therefore mandated to license and regulate the FOSA operating Sacco societies which numbered 218 at the date of publication of the Regulations. License applications Section 69 of the Sacco Societies Act provided one year from the date of publication of the Regulations for all the FOSA operating Sacco societies to apply for license under the Sacco Societies Act. This period lapsed in June 2011 by which date 200 Sacco societies had submitted their applications for license with SASRA. The balance of eighteen (18) Sacco societies discontinued or closed the deposit taking business as they did not satisfy the licensing requirements. This left them to operate the Back Office Service Activity (BOSA) referred to in the Act as non-deposit taking business since they do not collect demand deposits from members. The supervision of BOSA Sacco societies remains under the Cooperative Societies Act and hence under the Commissioner for Cooperative Development. The licensed Saccos are required to submit periodic financial reports to the Authority for monitoring the financial performance and taking necessary action in case of violations. A key output from these returns will be data and information on the performance of the Sacco subsector to the policy makers and the public in general. This is necessary to bring confidence in the Saccos, a prerequisite for the Sacco subsector to attract new members and professionals who have shied away due to perceived bad governance practices.

1.1.2. Investments

Savings and Credit Cooperatives (SACCOs) have found themselves commanding a large percentage of savings in the financial sector. This has driven the citizenry to trust the management of the SACCOs in not only safekeeping of their money but also to provide a good return on it. A statement of financial condition of the SACCO gives a snapshot of the 'health' of the institution at any given time. The statement has a liability side (sources of Funds) and Assets (Uses of Funds). Once the members deposit their money in the SACCO, the management has a responsibility to ensure the members will get their money back, and should give interest being a reward for using the members' money for their operations. While the sources of funds for the SACCO Marjory include members' savings, the uses of funds are the SACCOs' investments. The investments include loans which take a major share, financial investments, liquid investments, non financial investments and other investments in regulated financial institutions. The SACCO while looking for where to invest members' funds should consider the Safety, Liquidity and Yield. This should all be integrated into the SACCOs investment policy and a proper appraisal should be done on the investment vehicle being considered for use (Kenya Sacco Net)

Safety refers to the ability to collect 100% of the SACCO's investments plus interest earned in that period. When there are no regulations on investments and also there is no guarantee on their investment, so there is a great deal of risk. In addition, there are other certain investment risks that do exist for SACCO's. These risks include: market risk, interest rate or maturity risk, credit risk, and other risks. Investment policy must be flexible enough to allow for changes in the balance sheet items that represent member needs, i.e., savings and loans. As such, investment practices can be considered a function of savings and loan behavior. Each time there is a shift in either savings or loan volume; this may require a shift in the investment strategy. Suppose, for example, the board of directors decides to expand loan policies by offering longer-term loans to meet member needs. This will result in a slower turnover of funds, and thus will expand the loan portfolio. If savings deposits cannot be expected to meet the increased loan demand, investment policies must reflect a change. In this case, the SACCO would probably shorten investment maturities to meet the expected loan demand. Another factor, which would affect liquidity, is the movement and direction of interest rates. As they increase, the value of long-term securities decreases. Thus a SACCO with long-term securities during a period of increasing interest rates would become illiquid unless the loss incurred through their sale could be absorbed (Kenya Sacco Net).

Only after liquidity and safety are considered should investment analysis center on yield. As a general rule, investments with higher risk factors and greater price volatility command the greater yield. Thus the potential for greater income must be weighed very carefully against the risks of reduced liquidity and/or potential losses. The yield of each investment portfolio should be continuously appraised and should be justifiable. The SACCO should invest most of its funds in loans. However, once a SACCO diversifies to other investment channels, the SACCO has to invest in a portfolio that gives more or equal than the market rates of return. Yield for investment X is calculated as; Yield = Income from investment X 100% Amount of Investment. The rule of thumb is the higher the yield the greater the investment. However as previously explained, yield should not be the major factor (Kenya Sacco Net).

1.1.3. Effect of regulation on investment

Government regulations can limit or even foreclose entry to potential competitors and therefore a change in government control can greatly affect the value of current and prospective investments in Sacco's. Investment in projects or entities under government regulation can lead to extra ordinarily better performance. However, what the government gives, it can also take away (Joel et al 1998).

Deregulation of the cooperative sector in addition has left the movement with virtually no single regulator. Given that Sacco societies receive deposits from members against background of high moral hazard in the society, wonders how safe the deposits are in the absence of a regulator.

Deregulation is the transfer of control from the government to the owners. Ongore (2001) refers deregulations as the freeing up of the market from direct control by the government and its agencies so that largely the forces of demand and supply determine prices of goods and services. Deregulation of co-operative was officially initiated in Kenya in 1997 through the sessional paper number 6 without first conducting empirical investigation to find out whether the co-operatives performance will be better in a deregulated market than regulated one.

The new regulatory framework brings immense challenges to Sacco societies as they are expected to conduct business in a different way. While a majority of the Sacco societies satisfy the minimum licensing requirements namely capital adequacy, physical infrastructure and internal controls, there are notable challenges for the effective compliance with the Act and Regulations. These include, Low understanding of the Act and Regulations, There is limited in depth understanding of the Act and the Regulations in most Saccos to integrate the regulatory requirements in the operational policies for the day-to-day running of the Sacco business, Governance structure, The historical practice where the management committee (now called Board of directors) comprising of elected officers are heavily involved in the operational affairs of the Sacco to the exclusion of the technical staff is deeply entrenched limiting the effectiveness of the Act and Regulations in licensed Sacco societies, Technical capacity, The effective implementation of the new legal and regulatory framework requires a new set of skills and knowledge. This requires financial resources and time besides the attitude change amongst the leaders, Management Information systems, The operating regulations and prudential standards define new ways of doing business thus requiring heavy investments by the Sacco societies in upgrading the existing information systems for effective compliance.

The pace of the changes is slow due to multiplicity of factors including governance, technical capacity and financial, Costs of regulation, there are numerous costs to compliance, most of which are immediate and direct but the benefit of regulation are not obvious and take time to show in the business. This coupled with the above mentioned challenges acts as a disincentive to the regulated entities to commit resources and time for faster compliance.

The Authority working with the stakeholders has initiated a number of programmes to address the key challenges in the subsector. This includes, Developing of technical guides to assist in the interpretation of the Act and Regulations for ease of application by the Saccos. These are provided to the Saccos through the Authority's website as well as hard copies issued during trainings, Continuous engagement with the key providers of training in the Sacco subsector to ensure they understand the regulatory requirements. This is in addition to the direct training conducted by SASRA to Saccos, both licensed and unlicensed, Under a Sacco subsector reform programme, funded by Financial Sector Deepening Trust Kenya (FSD Kenya), technical materials and toolkits will be developed covering governance, planning and change management. Besides, the technical materials, the programme will also develop a pool of service providers to provide technical support to the Sacco societies. Other areas that this programme has addressed include automation and financial reporting.

1.1.4. Public Transport in Nairobi County

Kenya, like other developing countries, has been urbanising fast, with 3.4% of its population residing in urban areas. Main transport providers include matatu (which is a minibus), whereas the railway plays a pivotal role in public transport. In addition, taxis and tuk tuk (motorised 3- wheel taxis and cycle taxis) are operated in the metropolitan area. Matatus are minibuses with 14-passenger capacity and are the main operators in the City of Nairobi, but they are closely rivalled by bus companies. These companies include the Citi Hoppa, Kenya Bus and Double M connection, which unlike matatus have been licensed to operate in some parts of the Central Business District of Nairobi. Buses and Matatus have designated routes, following the introduction of new regulations by the government on public transport. They also have designated stopping areas, but this is normally disregarded, mainly by Matatus. Matatus are popular among some Nairobi residents due to their flexible operation, as mentioned above.

However, they are the main source of traffic jams and accidents because of the dangerous manner in which their drivers shuttle them. By the year 2004, the Matatus had about a 30% share of total vehicle traffic in Nairobi (JICA, 2006). The share has dropped drastically since the year 2004, when the government introduced road safety reforms in the public transport sector that led to the introduction of strict regulations on public transport operations, such as the enforcement of a maximum travel speed of 80 km/h. The reforms also saw the entry of more bus companies into the public transport business in Nairobi metropolitan area (NMA). The traffic demand for Nairobi has been increasing rapidly during the past decade, culminating in a shortage of road capacity to meet the drastic rising demand for road use against the urgent need to improve and increase public transport supply in the city. Inadequate road capacity, road structure and traffic management have led to heavy traffic congestion and traffic accidents (KIPPRA, 2009).

Accordingly, in order to improve this situation, it is necessary to undertake a number of initiatives, which include the improvement of the public transport system, the 130 construction of the missing links and the improvement of road structures/facilities and traffic management capacity (JICA Study, 2006, KIPPRA Study, 2005).Of the nearly 4.8 million trips made each day in Nairobi in 2004, only 16% were made in private vehicles; 36% used public transport and 48% were made on foot. The vast majority (about 80%) of public transport trips in Nairobi are carried by Matatus. The remaining public transport trips are served by traditional bus routes, commuter rail line and other shuttle services, such as those run by schools. On the major corridors, Matatus make up anywhere from 15% to 50% of the vehicles on the road, making them a significant component of the vehicular traffic on Nairobi's road network. As Nairobi's population grew following Kenya's independence, and the need to travel to the city centre for work became more important, so did the need for public transport services. Matatus were not always a prominent mode in Nairobi, but they emerged to meet unmet demand, as the British-established formal bus company Kenya Bus Service (KBS) deteriorated (Aligula et.al, 2005).

Matatus and now bus companies play a critical role in Nairobi's transport system because they serve a need that is not met by other modes. Where the Matatu service becomes critically important is in connecting the city centre to outlying township communities. Where distances are too far to walk, Matatus provide the only affordable means of transport for many people. With such a major role in the regional transport mix, disruptions to Matatu operations result in significant and hard-felt effects on the population at large. The significance of this is that policies affecting Matatu performance will have an effect on Matatu riders, and thus strategies to improve traffic congestion must consider the effects on these users of the road network, in addition to people who travel in private vehicles. Apart from the Matatus, we also have the railway, which plays a partial role in public transport. In addition we have buses, taxis, tuk-tuks (motorised 3-wheel taxis) and cycle taxis, are also operated in the metropolitan area. By January 2004 when reforms were introduced, we had 175 routes (50 bus routes and 125 matatu routes) served by 12,376 public transportation modes, i.e. bus and matatu. Of this number, approximately 12,000 were matatus and 78% of them were small, 14-seater matatus, which are the main contributors to traffic congestion in Nairobi. Total daily passengers of bus and matatu were approximately 830,000.

When the government introduced reforms in the public transport sector more private bus companies were registered, including Citi Hoppa, Double "M" Services and others which operate with less than two buses. Matatus largely ignore official bus stops, especially during peak hours. Matatus and buses depart from the terminal only when fully occupied and generally do not drive non-stop to the final destination. In off-peak periods, drivers try to pick up as many passengers as possible on the way, which leads to erratic driving and stopping behaviour. During congested periods, traffic rules are often ignored (e.g. they use the road shoulders or lanes for opposing traffic to bypass traffic jams).

1.2. Research Problem

Investment is a prime component in any development effort as it is believed to be the most certain way of enhancing income and promoting productivity with the intention to break through the vicious cycle of poverty (Keynes, 1936). However, the levels of domestic savings and investment in Kenya have been very low (Lawrence, Benjamin, Desterio, & George, 2009). The deterioration of public infrastructure, governance problems and insecurity has discouraged private investment in Kenya (UNCTAD, 2005). Moreover, some of the installed capacity has deteriorated due to lack of investment or maintenance. World Bank (2003) approximates capacity utilization in Kenya at 63%. Kenya's vision 2030 for financial services is to create a successful and globally competitive sector that drives savings and investments in the country. However, the vision 2030 argues that access to financial services still remains low (Adam et al., 2011). WOCCU (2008) has shown that 38.3% of Kenyans are not included in financial services and use. All these indicate low levels of investment in Kenya.

The problem of low savings and investment comes at a time when African Confederation of Co-operative Savings and Credit Association [ACCOSCA], 2011) workshop has classified SACCOs as vehicles for economic growth. Moreover, the government of Kenya recognizes cooperatives as the major contributor to national development with the country's population approximately 37.2 million (RoK, 2008). Kyendo (2011) confirms that most SACCOs have been lending at 12% per annum, which is lower than what banks have offered. The basic function of SACCOs is to provide credit facilities at low cost (Saunders & Cornet, 2007). This is done through pooling together members' savings. SACCOs have been pooling together members' savings until 1990s when sector liberalization enabled them to diversify their financing sources through offering of FOSA services (Owen, 2007). According to Landi and Venturelli (2002), diversification of financing sources improves the performance of the diversifying institution. The improved performance of SACCOs is assumed to translate into improved service delivery to members including affordable loans that hopefully should enhance the investment culture which is low in Kenya (Lawrence et al., 2009).

According to the Ministry of co-operative Development Report, the success or failure of any business pivots as 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. 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 Sacco's are out of balance and that financial statements are not always produced on a monthly basis. Although Sacco's 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.

This study therefore, is to investigate the effect of regulation on enhancing investment in public transport saccos in Nairobi.

1.3. Objectives of the study

The primary objective of the study is to find out the effect of regulations on enhancing investment in public transport Saccos in Nairobi County.

1.4. Value of the study

The results of this study will be useful to the following: Ministry of Co-operative Development will be able to have detailed information on the financial operations of the co-operatives in the transport sector. The report will assist the carrying out its roles of; supervising of the said co-operatives, education to the member, committee members and the staff of the co-operatives in the sector, findings from this study could be used as well as for new policy development in the sector.

Kenya Union of Savings and Credit Co-operative (KUSCCO) will promote formation of Savings and Credit Co-operatives, promote education to members, staff and committee members of the co-operatives, act as a savings and credit co-operative for the individual co-operatives through its central finance programme. The union acts as a mouth piece (advocacy) for the savings and credit co-operative societies in the country especially on government policy on management of co-operatives and taxation. KUSCCO will draw information from the report on the co-operatives in the transport sector.

The Government, through (TLB) Transport Licensing Board and other government arms have been opposed to the existence of organized groups in the industry manning the vehicle terminus and stages. This included savings and credit co-operatives, which the minister for transport repeatedly included them with cartels.In some occasions the government has arrested transport co-operatives managers and stage clerks employed by the co-operatives to collect co-operative dues (shares, savings deposits, loans repayment and interests) from the vehicle route terminus.

This study will give information which will make the government and the transport licensing board has a deeper understanding of the operations of the co-operative in transport sector so as to come up with better policies to streamline the public transport sub-sector. The report highlights the role the co-operatives are playing in financing the owners of the vehicles and this will help the other financiers to understand the co-operatives and the opportunities available. This will enable the financiers to understand the co-operatives and also plan for provision of complementary financial services that are not provided adequately by the co-operatives.The other players in the sector include manufacturers, supplies of spare parts such as batteries, motor accidents insurance provider, motor vehicle manufacturers and suppliers, body builders, tyres suppliers, fuel and lubricant supplier’s e.t.c. They may use this study report to understand the workings of the co-operatives and how they can use the co-operatives to reach the co-operators members with the aim of expanding their markets for goods and services. They may also be interested in knowing how the co-operatives can be useful in financing members to buy their products.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review on agency theory propositions and implications between the principals and the agents in the public transport sector

2.2. Theoretical Literature Review:

2.2.1. Agency Theory

According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the SACCO, hires by electing the management board as their agent (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Mitnick, 2006; Bruton et al., 2000). Principals (members) delegate the running of business to the management board which in turn hire and delegate authority to the managers (Clarke, 2004). Indeed, Daily et al. (2003) note that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCOs can be self-interested. Shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the interest of the principal and the agent's pursuits. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. An explanatory power of agency theory is reduced if and when the principal decides to divest to a new business. An agent must be motivated and monitored to create wealth, portraying the agent as potentially fraudulent (Arthur & Busenitz, 2003).

2.2.2. Stewardship Theory

According to Davis et al. (1997), a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behaviour (Davis et al., 1997). Daily et al. (2003) assert that in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance.

2.2.3. Stakeholder Theory

Abdullah & Valentine (2009) indicate that a stakeholder can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers have a network of relationships to serve, which include the suppliers, employees and business partners. Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Donaldson & Preston (1995) suggest that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) concludes that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

Freeman (1984) reveals that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others.

2.2.4. Political Theory

Abdullah & Valentine (2009) propose that political theory brings the approach of developing voting support from the members. Hence having a political influence in corporate governance may direct corporate governance within the SACCO. Loss of capable African cooperative leaders and managers to the political arena worsens the situation. Kabuga (2005) points that every person of questionable motives, integrity and competencies who vie for SACCO leadership can invade the sector. In that way, floodgates for nepotism, corruption, mismanagement and financial indiscipline are opened. Enete (2008) observes that in Nigeria, many SACCOs have been formed through government directives to certain categories of government officials to form a given number of SACCOs in their villages of origin. In some other cases, SACCOs spring up in response to government promises of providing subsidized services to members. These two categories could be referred to as "political SACCOs" which usually do not stand the test of time.

2.2.5. Degeneration Thesis

According to Cornforth et al. (1988), market pressures tend, over the course of time, to lead to SACCOs becoming similar to other kinds of enterprise, particularly capitalist enterprise. Market pressures make themselves felt in a number of ways, e.g. price competition and liquidity of investment. Within a SACCO, these pressures are experienced as tensions of different kinds, e.g. over the extent to which surpluses should be retained or distributed to members, over whether OMOV should be upheld but with a restricted membership or modified but with an expanded membership i.e. to open the common bond, or over whether strict equality of members should be maintained or an element of hierarchy allowed. Attempts to resolve such tensions can lead to 'degeneration' hence the "degeneration thesis". Degeneration springs from two main sources: weak internal democracy, where the members are unable to hold the leadership/management to account or have too little stake in the SACCO to influence decision-making processes; and abandoning the principle of member ownership and control (e.g. by allowing external investors to gain a foothold in the SACCO) (Cornforth et al., 1988).

Meister (1974, 1984), contends that the process of degeneration has a life-cycle of four distinct phases. The first phase is characterised by high idealism and commitment which enables the SACCO to get off the ground. However, over time there are clashes "between a direct democracy jealous of its prerogatives and an economic activity still badly established". The need for greater efficiency leads to the establishment of full-time management. The second phase is a period of transition in which, if the SACCO survives, further economic consolidation takes places and conventional principles of organisation are increasingly adopted. These changes are not always accepted peacefully, and conflicts continue between idealists and managers. In the third phase, SACCOs lose their radical ideals and market values are accepted. As the SACCO develops, democracy becomes restricted to the management board and the gap between managers and members increases. During the fourth phase members and the management board lose all effective power as control is assumed by managers because of their superior expertise and ability to control information.

2.2.6. Implications of the Agency Theory

Agency theory re-establishes the importance of incentives and self interest in organizational thinking (Perrow, 1986). In agency theory, information is regarded as a commodity: it has a cost and it can be purchased. This gives an important role to formal information systems such as budgeting. The implication is that organizations can invest in information system in order to control agent opportunism. A second contribution of the agency theory is its risk implications. Organizations are assumed to have uncertain futures. Environmental effects such as government regulation, emergence of new competitors and technical innovation can affect outcomes. Agency theory extends organizational thinking by pushing the ramifications of outcomes, uncertainty to their implications for creating risks. Uncertainty is viewed in terms of risk/ reward, tradeoffs, not just in terms of inability to pre-plan. The implication is that outcome uncertainty coupled with differences in willingness to accept risk showed influence contracts between principal and agent. Overall, agency theory predicts that risk-neutral managers are likely to choose the "make" option (behavior –based contract), whereas risk averse executives are likely to choose "buy" (outcome based contract).

2.3. Empirical Literature

Alila and Obacio (1990) state that the number of registered co-operatives has shown tremendous growth. The growth rate registered co-operative societies in the transport sub-sector has also been high. The driving force behind the fast growth in co-operative societies has proved popular with virtually all income categories of borrowers including women. The favorable terms and conditions of borrowing have meant much easier access to credit obtained has been put to various uses of direct economic and social benefits to the borrowers and their families. There is, therefore, an emerging key role of co-operative societies in developments specifically in terms of financial intermediation. The co-operatives also offer other services at lower cost. The co-operatives also offer savings & banking facilities. The co-operatives give higher returns in form of dividends or rebates on funds deposited by members. Savings and credit co-operatives with their main objectives as promoting thrift (saving) and using the amount saved to give credit to the members in accordance with their savings. In savings and credit co-operative societies, a co-operative member is entitled to three times the member's savings as loan; with a few exemptions. USAID/Kenya – Projects (1985) state that the amount of savings in savings and credit co-operatives is about equal to the total individual savings in all banks and non-banking financial institutions combined, the growth of savings in these co-operatives is in excess 25% per year. In addition, members frequently borrow in order to invest in their home areas. The lending of savings and credit co-operatives represents a significant flow of funds into the rural areas.

Obuon (1988) carried out a study on the determinants of saving in Saccos in Kenya.The objective of the study included:- to Identify determinants of Sacco's savings deposits and loans and why they vary across societies. to formulate, estimate and analyze savings, deposits and loans functions for Saccos, to estimate and simulate total savings, deposits and loan potentials of Saccos. suggest policies for enhancing savings mobilization, thus improving Sacco sector performance in terms of deposits, turnover, membership and loans.

The paper concludes that to increase corporate savings, the Saccos could increase their assets and profits. There is need to increase corporate savings, share capital and attempt to reduce loans outstanding among others in order to expand and diversify assets and portfolio respectively. Ikiara (1986) while evaluating the Ministry of Co-operative Development Commissioners circular dated 25/11/1985 criticized the investment guidelines contained in the circular on the grounds that; They were too restrictive and could affect other sectors of the economy where Co-operatives were investing before.

The investment in co-operative bank was against prudent portfolio management where an organization is required to diversify investment to cater for risks. Conservative and risk averse members were unlikely to approve any investment proposals put to them in the general meeting and the management committee was better able to make such decision. The guidelines would lead to excess liquidity in Saccos and would curtail the availability of this liquidity to the rest of the economy. He concluded that the investment guidelines would reduce overall volume of investment by co-operative societies and would lead to a major shift from investments in the form of physical and commercial properly to investment in the form of bank deposit.

Mutugu and Mwarania (1986) argues that Saccos are capable of developing a portfolio of investments that can achieve a desired rate of return for a given level of risk and desired maturity structure and to wipe out all diversifiable risks. These suggestions even though important cannot be fully relied on since the writers did not carry an empirical research to ascertain their allegations.

Cooperative sector remains one of the vibrant economic techniques of poverty eradication, wealth & job creation, rural development and even financing of other small and medium enterprises. Few studies have been conducted in this sector and a lot more need to be done in order to address the major challenges including financial management decisions that affect the overall financial performance in this important sector. Padoa *et. al.,* (1999) in their study of the regulated financial institutions argued that regulatory arrangements have the object of significant change, and that such financial dynamics are at the centre of attention at international avenues. They further said that a number of countries such as the United States, United Kingdom, Australia and Japan are in fact presently radically changing their regulatory systems to meet the needs of the modern stakeholders.

Akinwumi (2006), argued that cooperative sector provides the best alternative than all other economic groupings and schemes, suggesting that they needed to formalize in line with cooperative principles so that long after project interventions they still remain sustained. Invariably, cooperative society remains the better alternative to economic reconstruction of the government. Most of the Non-Cooperative Groups (NCGs) often die in the midway without fulfilling the economic objectives for their establishment. He pointed out that as much as it is desirable for cooperative societies to help in the development of a nation, there are problems and constraints that have militated against its effective performance of its roles in nation building and that this has led to poor financial performance, declining and death of some cooperatives. The other critical element according to him was leadership. He said that if cooperative leaders are transparent, dedicated and follow good financial management policies, then cooperative sector will definitely succeed. He concluded by saying that a true leader does not cut corners, does not inflate contracts so as to receive kickbacks, does not have favorites among members and does not mismanage the resources.

Dempsey *et. al.,* (2002) posited that cooperatives "destroy value" since few cooperatives have changed the way they operate. They said that several financial ratios for cooperatives (revenue growth, return on assets and operating margins) were calculated which indicated weak financial performance in the cooperative sector. Another financial performance measure, "value created" was also analyzed; it was based on "return on invested capital" this also reported a low financial performance in cooperative societies. In their conclusion, they realized that firms which were regulated performed better than cooperatives which were left unregulated.

Kaleshu (2008) identified lack of financial regulations as a major setback to the financial performance of cooperatives societies saying that group action is more difficult to coordinate than individual action. He therefore averred that with proper government interventions SACCOs are likely to perform much better and with a lot of discipline.

Akinwumi (2006) affirmed that poor financial management decisions, bad governance and leadership problems are critical elements that affect efficiency of cooperative movement not only in Nigeria but also in the rest of African countries. He therefore suggested the need for total financial reengineering of cooperative movement to enable it to face the challenges of the changing world in order to perform the desired economic function. He said that good financial management decisions require a constant scanning of the financial environment in order to determine appropriate strategic financial regulations to be adopted towards achieving desirable objectives.

Ngumo (2006), in his study, "Cooperative Movement in Kenya", noted that there has been much progress in the development of SACCOs in the country in the recent years compared to 15 years ago, and the future of SACCOs is very bright despite the challenges. Some of the challenges, he pointed out were; mismanagement, slow adoption of modern technology and failure to adhere to rules and regulations in the operations of the savings and credit societies.

In his recommendation, he said that there need to be immediate review of the cooperative law in line with the Cooperative Development Policy (CDP) that would address the financial management regulations in the sector. He further recommended that there need to be further research on financial regulations and their effects on the management committees, members and employees of the sector and how they fit the prevailing financial environment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter gives a detailed outline of how the study will be carried out. It will describe the study area, the research design, the target population, the sample and sampling design, data collection and data analysis procedure.

3.2. Research Design

The research design that will be used in the study is descriptive research. This research describes the financial benefits that have accrued from the co-operative societies in the transport sector as a result of accessing credit and other services from various cooperative societies. The study thus describes how the variables outlined in the literature review interacts with the changes that have occurred in the transport sector as a result of accessing credit and other services from the various co-operative societies and analyse both the extent of implementation of the government's financial regulations and the level of investment performance.

3.3. The Study Population

The population of interest in this study consists of 104 Saccos (see Appendix iv) operating in Nairobi County according to the (R.O.K. 2013) Register of Co-operative Societies, Ministry of Industrialization and Enterprise Development.

3.4. Sampling Design and Sample Size

The study will be carried out in Nairobi County. The sample frame was obtained from Provincial Cooperative Officer's office in Nairobi, which supervises all Cooperatives, registered and operating in Nairobi. The total numbers of Cooperatives studied were 95 societies randomly selected and form 91.3% of the total population. Stratified random sampling was used; Nairobi was divided into 8 divisions. A sample was selected from each division with transport cooperatives as shown below;

Table 3.1: Transport Co-operatives in Nairobi per Division

Divisions in Nairobi County	Total Number of Transport Cooperatives	Number of Societies Samples
Central A	24	23
Eastern	14	13
Northern division	13	12
Industrial Area A	8	7
Industrial Area B	9	8
Western division	10	8
Southern	12	11
Central B	14	13
TOTAL	**104**	**95**

Source: (R.O.K. 2013) Register of Cooperative Societies Ministry of Industrialization and Enterprise development.

3.5. Data Collection Methods

The collected data will be of two types, viz: primary and secondary data. Primary data will be collected by use of closed and open questionnaire that I will personally administer to the sampled respondents from all divisions. Secondary data will be collected from intake forms, loan application forms and reports from the cooperatives.

3.6. Data types and analysis

This study was conducted through a descriptive research design. Simple random sampling of 95 out of 104 Saccos. Both closed and open ended questionnaires were used to collect primary data. Secondary data was obtained from periodicals and published Sacco reports. Editing and sorting of data will be done with the help of SPSS computer software. The data collected was analyzed using descriptive statistics such as the means and percentages to analyze the extent of government regulations and the level of investment of the Saccos. A five point lickert scale was used to measure the extent of the implementations of financial regulations and the financial/ investment performance.

Financial regulations were measured by taking into account the level of which:-

1) Approvals of audited accounts are received after the end of the financial year.

2) Approval of the maximum borrowing powers by members.

3) Not more than 25% of share capital can be invested.

4) Approval of budget 3 months before next financial year.

5) Approval of assets procurement and disposal by 2/3 members.

Investment Performance was measured by taking into account the level at which:

1) Sacco has been promptly and efficiently disbursing loans to members.

2) Sacco has consistently increased its investments.

3) Sacco has consistently made enough surplus to give out as dividends.

4) There has been consistent increase in membership.

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSIONS

4.1. Introduction

This chapter presents the study findings of the study. The findings have been analyzed, discussed and interpreted under the following thematic areas; questionnaire return rate, Demographic characteristics of the respondents, owners of public transport vehicles, turnovers, loans given, societies investments and computerization of the Saccos.

4.2. Questionnaire Return Rate

The respondents sampled were selected such that they were well spread across the entire Nairobi County so that the findings of the study can be generalized to all Saccos in the county. Out of the 95 targeted Saccos respondents, 87 responded which represents 91.6% of the targeted sample size. This was because some members of the Saccos who had been appointed to manage the Saccos in the first years of the Saccos could not be traced. Out of the 6 targeted key informants, 5 responded which represents 83% response. The questionnaire return rate is as shown in table 4.1

Table 4.1. Questionnaire Return Rate for the Saccos in Nairobi per Division.

Divisions in Nairobi	Total Number of Transport Co-operatives	Percentage	Target Sample Size	Achieved Respondent
Central A	24	23.0	23	22
Eastern	14	13.5	13	12
Northern Division	13	12.5	12	11
Industrial Area A	8	7.7	7	6
Industrial Area B	9	8.7	8	7

Western Division	10	9.6	8	7
Southern	12	11.5	11	10
Central B	14	13.5	13	12
	104	**100**	**95**	**87**

4.3. Demographic Characteristics of the Respondents

The demographic information comprised of respondents gender, their age bracket and their education level. This is shown in table 4.2.

Table 4.2. Demographic characteristics of the Saccos Respondents.

Age	Frequency	Percentage
26-35	12	13.8
36-45	55	63.2
45 and above	20	23
Total	**87**	**100**
Gender	**Frequency**	**Percentage**
Male	75	86.2
Female	12	13.8
Total	**87**	**100**
Education Level	**Frequency**	**Percentage**
Primary	15	5.8
Secondary	15	17.2
College/ University	67	77.0
Total	**87**	**100**

Out of 5 key informants, 4 were male representing 80% and 1 was female representing 20%

Table 4.3. shows the key informant respondents gender distribution.

Table 4.3. Key Informant Respondents Genders Distribution –

Gender	Frequency	Percentage
Male	4	80
Female	1	20
Total	**5**	**100**

The age distribution of the sacco respondents was in three age brackets with 12 respondents being in the age bracket of 26 – 25 years representing 13.8%, 55 were in the age bracket of 36 – 45 years representing 63.2% while 20 respondents were in the age bracket of 45 years and above representing 23.0%.

This was an indication that many of the people involved in the Sacco management are in the bracket of 36 – 45 years which is the group at its peak productive capacity. This is in line with expectation as this is the group that is most active in the society. The gender distribution was such that, out of the 87 respondents from the sacco management, 75 were male representing 86.2% while 12 were female representing 13.8%.

The study findings indicated that 67 of the Sacco management had attained college/ university education representing 77%, 15 respondents had secondary school education representing 17.2%, 5 respondents had attained primary level representing 5.8% with about 94% of respondents having attained secondary level education and above, it is indicative that those appointed to manage the Saccos have adequate basic education and that there is a likelihood of appointment of well educated individuals to manage the Saccos.

4.4. Membership

Table 4.4. Owners of Public transport vehicles in the routes

1. Owners of public transport vehicles in the routes

Types of Owners	No. of Owners	Percentage
Co-operative Members	1828	96.5
Non Co-operative Members	67	3.5
Total	**1895**	**100**

The members of co-operatives were those that had paid registration fees and contributed shares (deposits) regularly to the society, the minimum shares contribution is 3,000 per month per member.

There were vehicle owners operating in the respective routes but were not members of the co-operative societies. Their vehicles paid management fees of an average of 100/= per day to the societies. They were not registered members of the co-operative, they could not save or contribute shares (deposits) and they could not therefore qualify to get co-operative loans or share dividends at the end of the year.

Only registered members of the co-operatives benefit from the co-operatives society loans. On the ground, the co-operative members had better and new vehicles than non members.

From the 45 societies interviewed, they had 1895 owners operating in the route with 96.5% of the registered members of the respective co-operative societies, 3.5% of them operated in the designated routes but were not members of the co-operatives. This indicated that the societies were beneficial to the vehicle owners. Majority of the non-members, owners of the matatus were actually new entrants to the routes and were in the process of joining the co-operatives.

4.5. Turnovers

Table 4.5. Turnover of Saving & Credit Activity

Turnover Shs ('000)	No. of Societies	Percentage
Below 1000	40	46
1000 < 2000	25	29
2000 < 3000	10	11.4
3000 < 4000	6	6.8
4000 < 5000	3	3.4
5000 and over	3	3.4
TOTAL	**87**	**100**

4.6. Table 4.6. Turnover per division of savings activity and other activities

Divisions in Nairobi	Number of Societies sampled	Turnover savings Activity (a)	Turnover other activity (b)	Total Turnover (a+b)
Central A	23	21 Million	194 Million	215 Million
Eastern	13	4 Million	0.2 Million	4.2 Million
Northern Division	12	0.9 Million	0.1 Million	1 Million
Industrial area A	7		0	0
Industrial Area B	8		0	0
Western Division	8	1.2 Million	0	1.2 Million
Central B	11	0.4 Million	0.1 Million	1.5 Million
Southern	13	3.5 Million	0.6 Million	4.1. Million
Total	**87**	**31 Million**	**195 Million per year**	**226 Million**

The total turnover of savings activities of the co-operative societies was Shs. 31 million: 50% of the co-operatives turnover was below Shs 1 Million. The reason being that they were newly registered. The older societies' other activities turnover was 195 million per year, 99% of this turnover was from 3 societies, which had filling stations the three societies are in the central A Division.

.

Apart from the turnover from the filling station, other activities which contributed to the turnover are: Sale of tyres, batteries and insurance. The older co-operative societies' turnover was impressive. These are the societies with additional activities and their members have built confidence with the societies over time. The cooperatives with their own filling station, sell fuel to their members and the general public. They sell over 9000 litres fuel per per day.

4.6. Loans

Table 4.7. Loans Granted in one year (2004)

Purpose of the Loan	**Amount Shs (000)**	**Percentage**
Purchase of Vehicles	188000	79.00
Purchase of Spare Parts	21000	08.82
Emergency	25000	10.50
Others	4000	01.68
Total	**238000**	**100**

The loans granted amounted to 230 Million 2004; 245 vehicles were brought using the loans from the cooperatives. The emergency loans and loans indicated as others were for financing insurance of vehicles, purchase of spare parts and for domestic use of the co-operative members.

Table 4.8. Loans granted since inception of the societies

Purpose of the loan	Amount Shs (000)	Percentage
Purchase of Vehicles	846000	82.46
Purchase of Spare Parts	112000	10.92
Emergency	55000	5.36
Others	13000	1.26
Total	**1026000**	**100.00**

4.7. Investments

Table 4.9 Societies Investments

Investments	**No. of Societies**	**Amount of Investments**
Land	15	27 Million
Buildings	10	23 Million
Equipment and Machinery	8	15 Million
Vehicle	6	18 Million
Others	3	10.5 Million
Total	**42**	**93.5 Million**

42 out of 87 societies had investments in terms of motor vehicles, machinery, buildings, lands, and other investments.

4.8. Computerization

Table 5.0. Hardware Status

With Computers	**Without Computers**	**Total**
87	0	87

All the societies are computerized at 100%

Table 5.1: Software Status

Those with customized programmes	Without Customized Programmes	Total
70	17	87

Societies with customized programs are 70 representing 80.5% while without customized programs are 17 repressenting 19.5%

4.9. Extent of Implementation of Investment regulations

The first objective was to establish the extent to which Sacco societies in the Transport sector in Nairobi have implemented the government's Investment regulations. To achieve this, the respondents were requested to rate on a five-point Likert Scale, the extent to which government Investment regulation have been implemented in their Saccos over the last 6 years. The results were as presented in table 5.2.

Table 5.2. Extent of Investment Regulations Implementation

	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent	$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$
1. Approval of Audited accounts 4 months after the end of the financial year	22	16	19	17	13	87	244	2.805
2. Approval of the maximum borrowing powers by members	4	9	13	34	27	87	332	3.816
3. Not more than 25% of share capital can be invested	47	16	12	10	2	87	165	1.897
4. Approval of budget three months before next financial	16	35	21	11	4	87	213	2.448
5. Approval of assets procurement and disposal by	39	23	12	10	3	87	176	2.023

2/3 majority								
Mean of Extent of Financial regulations implementation								**2.5978**

While responding to the extent to which the societies have adhered to the approval of audited accounts 4 months after the end of the Investment year, 22 reported not at all, 16 said to a little extent, 19 reported moderate extent, 17 indicated to a large extent, while 13 recorded a very large extent, resulting in a weighted mean of 2.805 on the scale.

The weighted mean score suggests that the regulation has been moderately implemented. This could be because quite a good number of SACCOs are not able to raise the required audit fees in time to meet the registration deadline as required. Furthermore, it is from the audited accounts that SACCOs are able to know whether to declare dividends or not. The findings of this study concurred with the one conducted by Wambui (1993) on regulation of auditors' reports in investment decisions which revealed that most of the companies whose books of accounts are audited annually tend to perform better than those who do not embrace the audit. Concerning the approval of maximum borrowing powers by members, a weighted mean score of 3.816 on the scale was posted. It is therefore expected that with this large extent of implementation of this regulation, SACCOs will have a strong Investment stability since they will have fewer loans to service. It was also found that in terms of implementation of the requirement that not more than 25% of the share capital can be invested, gave weighted mean score of 1.897 indicating a little extent of implementation of this regulation. This is expected to affect the efficiency in loan disbursement and even the rate of dividends pay-out to members.

This concurred with a study by Oyoo (2002) who also found out that SACCOs societies invest much of their capital in non-core businesses that do not bring enough returns to the shareholders, hence weakening their Investment stability. A weighted mean score of 2.448 was obtained in response to extent of implementation of the requirement that budgets must be approved 3 months before the beginning of the next Investment year. This suggested that majority of the respondents admitted that the regulation has moderately been implemented. This means that most of the expenditures are approved and controlled by the members. This is likely to bring confidence among the members resulting in the retention of the membership. The findings were in concurrence with a related study by Mong'are (1994) which noted that Investment performance of public enterprises improve so much in relation to the level of Investment control systems that are put in place, and that one of the Investment performance control instrument that the study found to be useful is the budget. Regarding the two thirds members' approval of the procurement and disposal of society's assets, the weighted mean score was 2.023, an indication that the regulation has to a little extent been implemented. This showed incompetency in tendering committees or a total lack of it. This is expected to affect the general Investment performance of SACCOs since the disposal and procurement of the society assets are likely to interfere with the capital of the society. This finding is in agreement with one by Ochola (2004) who found out that most of public institutions do not adhere to the requirement of the Public Procurement Act 2003 which lays down the procedures of acquiring and disposal of public assets.

4.9.1. Investment Performance

The second objective was to establish the level of investment performance of the Sacco societies in Nairobi County. To achieve this, the respondents were requested to rate on a five-point Likert Scale, the extent to which government Investment regulation have been implemented in their Saccos over the last 6 years. The results were as presented in table 5.3.

Table 5.3. Investment Performance

Questions	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent	$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$
1. SACCO has been promptly and efficiently	40	26	15	5	1	87	162	1.861

disbursing loans to members								
2. SACCO has consistently increased its investments	15	22	28	13	9	87	240	2.7586
3. SACCO has consistently made enough surplus to give out as dividends	37	26	10	12	2	87	177	2.0344
4. There has been consistent increase in membership	42	28	16	1	0	87	150	1.7241
Mean of level of Investment/ financial performance								**2.1522**

Concerning the performance of SACCOs in terms of disbursement of loans to members, a weighted mean score of 2.0919 on the scale was registered. This means that the performance of the SACCOs in terms of efficient and prompt disbursement of loans is quite wanting .This could be because the majority of the SACCOs do not have adequate share deposit to give as loans whenever there is need.

The results of this study concurred with the one by Oyoo (2002), in his study of SACCOs' Investment performance in Nairobi which revealed that most SACCOs were inefficient in terms of loan disbursement. When asked about the consistent increase in investments, a moderate extent of agreement to the level of performance with weighted mean score 2.7586 on the scale was recorded. Responding to the consistency in dividend pay-out, a weighted mean score of 2.0344 on the scale was recorded. Majority of the respondents were of the view that SACCOs have not done enough to improve their surpluses that can be given out as dividends to the members. Again with the good performance in investment, it is not clear why SACCOs cannot have enough surpluses to give as dividends. Could it be that that the surpluses are used to service or offset the loans that the SACCOs are owing to other Investment institutions?

However, a study by Gachara (1990) in SACCOs in Nairobi found out that most societies paid low interest dividend rate mostly due to heavy indebtedness and he suggested that SACCOs should not borrow funds from Investment institutions such as banks which charge high interest rates, rather they should source funds from non-Investment institutions such as Kenya Union of Savings and Credit Cooperative. In response to consistent increase in membership, a weighed mean score of 1.7241 on the scale was recorded. This explained why 41.38% of the respondents admitted that the membership of the SACCOs is decreasing, suggesting that most of the SACCOs have not done enough to increase their membership. This could be because of inadequate dividend pay-out and inefficiency in loan disbursement which were equally lowly rated by the respondents.

Furthermore, it could be due to low quality of services being offered by the SACCOs hence prompting members to withdraw their membership resulting to the decline. These findings were supported by the study done by Dempsey *et al.*, (2002) who posited that cooperatives destroy value since few of them have changed the way they operate, hence resulting to a weak Investment performance in the sector

CHAPTER FIVE

Summary of Findings, Conclusions and Recommendations

5.1. Introduction

This chapter presents the summary of the study findings, conclusions as well as recommendations and suggestions for further study.

5.2. Summary of Findings

All the co-operatives formed by the public transport owners operate as savings and credit co-operatives or multipurpose co-operative societies, the two types of societies has no difference apart from registration.

The cooperatives' main objective is to mobilize savings among the members (owners) of the vehicles. So far the societies have been able to attain the objective. The savings are then utilized by the members as loans to finance their transport business.

Majority of the public transport operators who operate individuals have joined the societies. The co-operatives are the major sources of finance to their transport business.
Some co-operatives societies seem to be more successful than others. The success of any cooperative depends on the management committee and the qualification of their employees. Societies with more qualified staff and informed committee members on management of co-operative are more successful.

The cooperatives also offer other services to the member, some have filling stations, other societies give credit to their members to buy tyres, batteries, insurance and spare parts.

The loans taken by members have assisted them not on to buy more vehicles or improve the transport fleets but also to improve the quality of their lives and their families. For example in paying college fees, buying houses, lend and other instruments.

The societies' major projects are lack of management skills to manage large funds saved by members and management of the loans portfolio in order to minimize incidence of loan default. Other problems faced by the societies are lack of clear policy guidelines for the public transport sector by the government. Lack of clear policy guidelines by the government has resulted in high mobility of owners from one route to another and high exit and entry to the industry. The societies have therefore unstable membership base.

There is substantial potential for the co-operatives in these sectors to mobilize millions of shillings as savings and loans. Taking advantage of these opportunities is not easy. Any society wishing to take advantage of these opportunities will have to be able to put together a good management committee and a core of qualified staff. Come up with policies and strategies to improve their members' of participation in the cooperatives. Evidence from a few of co-operative societies in the sector indicates that the co-operatives that have good management policies reap substantial economic benefits.

5.3. Conclusions

The study aimed at assessing the effect of the government Investment regulations on Investment performance in Sacco societies in Kenya, based on three objectives. The first objective was to establish the extent to which SACCO societies in Nairobi County have implemented the government Investment regulations. To achieve this, the study considered; timely approval of audited accounts, members' approval of maximum borrowing powers, percentage investment of share capital, members' approval of yearly budgets and members' approval of procurement and disposal of society's assets.

The study established that the only regulation that is highly implemented by the SACCOs is the approval of maximum borrowing powers with a mean of 3.82 out of the possible 5. The results also showed that most of the societies do not implement the regulation on procurement and disposal of assets contrary to the requirement of the Public Procurement and Disposal Act of 2003. The second objective was to establish the level of Investment performance of the SACCO societies in Nairobi County. To achieve this objective, the study considered; efficiency and promptness in loan disbursement, consistent increase in investments, consistent increase in surplus given out as dividends and consistent increase in membership.

The study revealed that SACCOs' had moderate performance in their investment level; however, this did not translate to an improvement in the general Investment performance. The findings also revealed that membership of the SACCO societies have been decreasing. This might have been as a result of the management problems which were found to be highest among the societies under the study area, low dividend pay-out rate and inefficiency in loan disbursement.

The study established that the Investment performance of SACCO societies in Nairobi County was on average low with the majority of the respondents describing their performance to be deteriorating. The third objective of the study was to analyze the relationship between the extent to which SACCO societies have implemented the Investment regulations and their level of investment performance.

The government financial regulations which were meant to provide minimum operational and prudential standards; aimed at improving financial performance in SACCOs have been in operation for the past 6 years. On the basis of the findings, the study concluded that the government financial regulations to a little extent had an impact on the financial performance of SACCO societies in the study area.

The findings of the study revealed that SACCO societies' financial performance is low; therefore, the government through the Ministry of Cooperative Development and Marketing should provide training programs in financial management for the management committees of the SACCO societies to help them improve their financial management in decision making. The findings also revealed that financial regulations were implemented to a little extent possibly due to unawareness. Therefore, the Ministry of Cooperatives needs to sensitize members of the sector on the existence of the regulations since lack of this was the major challenge mentioned by most of the respondents.

The management of the SACCO societies should have copies of the Cooperative Societies Act and Rules since these are the relevant sources where the financial regulations are found. The management committees and other officials of the cooperative societies should establish management support networks to enable them to obtain new ideas and useful information for the promotion of the sector. This will allow them to compete with other established financial institutions since this was found to be one of the major problems that the sector faces.

5.4. Recommendation

The Ministry of Co-operative Development should mobilize resources to educate the members and management committees of the societies. The societies should also set aside a budget for committee members, members and staff education. The Ministry of Transport, Ministry Co-operatives, Transport Licensing Board and the representatives of the cooperatives should come with a policy guideline on formation, operation and management of the routes the co-operatives are designated to operate in. The government should recognize the financing role the cooperatives are playing in the transport sector and their contribution to the economy. The government should encourage formation of co-operatives in this sector in areas where they do not exist.

Branch & Baker (1998) indicate the following measures against the SACCO governance problems such as having clear rules in the SACCO bylaws which would include: Clarify rules and have prudential regulations of decision making by defining the management role of the directors and management's responsibility for technical credit decisions. Because many SACCO board members confuse the roles of decision making and decision monitoring, SACCO bylaws need to establish clearly the roles of SACCO members, boards of directors, and managers in order to clearly separate decision making from management. These rules should limit the involvement of the management board in day-to-day operations, focusing it instead on policy and direction.

The manager's major responsibilities should include implementing board-sanctioned policies and the budget, administering daily operations, reporting to the board, and hiring and overseeing staff. If these functions are usurped by the board, the agility and efficiency of the SACCO may well suffer (Branch & Baker, 1998). Establish clearly the fiduciary responsibility of the board and their responsibility for monitoring the decisions of management, as well as penalties for failing to meet these responsibilities. The management board is accountable to the general member assembly and membership for the operating results of the SACCO. Removal of board members should be specified in bylaws for failure to meet their responsibilities, for mismanagement, or for legal improprieties (Branch & Baker, 1998).

Establish ethical codes of behavior and controls on insider loans to avoid conflicts of interest. To hold office on the management board, a member should be free of any relation with any of the SACCOs employees, should not have a contractual working relationship with the SACCO, and must not have committed any illegal acts or be delinquent in the payment of loans or any other obligations to the SACCO (Branch & Baker, 1998).

Provide for staggered rotation of board members. There is always a need for experienced individuals on SACCO boards. However, a limit of two or three terms allows for the circulation of fresh ideas. It also avoids domination of the board by small groups for extensive periods of time. Establish criteria for who is qualified to assume a position as a director. Directors should have adequate preparation and business experience to provide policy direction and guidance to the SACCO (Branch & Baker, 1998).

Without unduly interfering with the management of the SACCO, the supervisory committee must be responsible for the SACCOs compliance with its bylaws, for enforcement of internal controls, and for oversight of the board itself. The supervisory committee should be held responsible for seeing that the board contracts and receives an annual external audit and for ensuring that all internal controls are in place and functioning properly (Branch & Baker, 1998).

Credit decisions need to be made on technical risk analysis criteria by technical staff with appropriate preparation. SACCO bylaws should not provide a detailed treatment of how to do loan analysis; that should appear in the credit policies. However, the bylaws should identify the body responsible for loan analysis. In small SACCOs, the volunteer credit committee reviews and acts on loan applications. This group may have better information about their fellow borrowing member's risk than a formal institution's credit officer ever could. As SACCOs grow larger, however, the credit committee members cannot personally know all of the loan applicants. It becomes impractical for these volunteers to approve all loans given their large number, and, in any case, they do not possess specialized risk analysis skills. Consequently, as SACCOs grow, volunteer credit committees should be disbanded or assume the role of randomly reviewing compliance of loans with policy and procedures. The credit committees in many countries have usefully evolved from an elected volunteer committee to a technical committee made up of SACCO loan officers and employees with specialized skills. The manager approves small loans, and the technical committee approves larger loans that fall within the size parameters and policies approved by the management board. The management board then considers loans to SACCO directors and staff (if allowed) and loans larger than those approved by the technical credit committee (Branch & Baker, 1998).

Governance problems specific to the SACCO pose challenges not faced by many other forms of organization. However, when a number of controls are brought to bear on the problems including; well-defined institutional rules of governance, internal controls, service adequacy, prudential management disciplines and external supervision. These problems can be overcome to produce a stable and balanced financial intermediary.

5.5. Suggestions for Further Research

The effects of replacement of 14 seater public service transport vehicles with higher capacity vehicles to the transport Saccos. The effects of the changes in the bank interest rates on the co-operatives in the transport sector. In the daily Nation of 1-10-2013, it is said that the government is in the process of introducing a new law to steer the matatu sector through the National Transport and Safety Authority. Problems associated with licensing of operators of public transport vehicles as co-operate bodies should be considered for further research. The effect of changing the normal driving licenses with new smart driving licenses in the public transport sector should also be considered for further research The impact of convergence of Sacco sub sector into a financial cooperative system should be considered for further research.

REFERENCES

Abdullah, H. & Valentine, B. (2009). Fundamental and Ethics Theories of Corporate Governance. *Middle Eastern Finance and Economics* (7), 88-96.

Adams, D. (1999). "*Using credit unions as conduits for micro-enterprise lending: Latin American Insights*", 37-52 in Balkenhol, B. (Ed), (1999). "Credit Unions and the Poverty Challenge: Extending outreach, enhancing sustainability", International Labour Office, Geneva.

Akinwumi, U. (2006). Re-engineering Cooperative Societies for Sustainable Small and Medium Enterprises in Nigeria. *Africa Journal*, (2), 23-24

Allen, B., & Gale, F. (1998). *Public Control of Resource Allocation.* Breffield, New York

Armstrong, M. (2005). *Theory of Regulation*. 1st Edition. University College of London.

Barth, E. Caprio & Levine, T.(2002, Nov.14). How Financial Monopoly creates Financial Asymmetry in the Financial Markets. *The Economist*, (2), 36-37

Clark, T. (2004). "*Theories of Corporate Governance: The Philosophical Foundations of Corporate Governance*" London and New York: Routledge.

Clarkson, M. B. E. (1995). A stakeholder framework for analysing and evaluating corporate social performance *Academy of Management Review* 20(1), 92-117.

Cooperative Societies Act, (2004). Republic of Kenya, Government Printers, 2004

Dale, F. (1997). How Capital Resources determine Financial Markets stability. *Journal of Development Studies*, (2), 3-8

Dawatripartwe, K., & Tirole, W. (1994*). Financial Management in the 20th Century; Challenges of the Modern Financial Markets. San Diego University Press,*

Dempsy, C., Kumar, H. Loyd, B., & Merkel, C. (2008) Corporate Financial Performance Indicators, Malaysia. Journal of Applied Economics, 229-230. Gachara, D. (1990). A Study of Cooperative Sector in Kenya. *Cooperatives as Means of Economic Recovery and Poverty Reduction.* 1st Edition, McMillan Publishers

Gachara, J. R. (1990). An investigation into the Investment Practices of Reserve Funds in SACCO societies in Nairobi. *MBA* University of Nairobi.

Goodhart, C. &Shoemaker, R.(1992).The Evolution of Central Banks: *London School of*

Economics quarterly Annual Journal, (1), 45

Hahn, W. (2006). *Theories of Regulation and Deregulation: A Critical Appraisal.*

Hertog, J. (2007). *Regulation: A Distinction between Economic Regulation and Social Regulation.* Economic Institute, Utrecht University, Germany.

Kibanga, M. and Mania, D.T. (2004), *Co-operative Management in Developing Countries,* Mansfield Management Services Ltd- Kenya

KUSSSCO Ltd, (Kenya Union of Savings and Credit Co-operatives Societies) *A model Co-operative Societies* by-laws 2004.

Mong'are, D.O. (1994). Project Report: *Financial Performance of Public Enterprises and Privately Owned Firms Compared.* University of Nairobi.

Ngumo, M. (2006). Cooperative Movement in Kenya: The Eagle that Won't Fly. *A Publication of the Cooperative Bank of Kenya. (2), 55*

Noia, D. & Piatti, K. (1998). *Resources: The Basis of Financial Regulation.* 3rd Edition, State University Publishers and Printers.

Obuon, J.S. (1988), *Determinants of Savings: The case of Saccos in Kenya (MA),* UON

Ochola, F. (2004). Public Procurement and Disposal in Public Institutions. *An evaluation of procurement and disposal procedures.*

Oyoo, M. (2002). Evaluation of financial performance of SACCOs in Nairobi.

Padoa, N., & Schioppa, S. (1999). *Regulations of Financial Institutions of the modern Economies.*

Hamilton, Ontario, Canada: McMaster University Press.

Pandey, I. (1996). *Financial Management,* 6th Revised Edition.

Wambui, J.N. (1993): *The Usefulness of Auditors' Report in Investment Decisions: A Study of User Perception against Institutional Investors in Kenya.* University of Nairobi

World Council of Credit Unions, (2006) Statistical Report. www.woccu.org/intl_system/global.php website:[Accessed 25th March, 2012]

APPENDIX I

Letter of Introduction

Dear Sir/ Madam,……………………………….

RE: REQUEST FOR FILLING OF QUESTIONNAIRE

I am a Graduate Student at the University of Nairobi pursuing a Masters Degree in Business Administration; part of the programme involves undertaking research project. My research is on The Role of Cooperatives in Financing Public Transport Sector in Nairobi. Your Cooperative is one of the institutions I have selected as part of the sample of this study. I kindly request your assistance in data collection by filling in the questionnaire attached.

The information you provide will be treated with utmost confidentiality and the results of the research will be restricted to academic purposes only. However, the findings will be availed to you upon request.

If you have any further questions or need further information or you can help with extra information, please call me on 0716 047883.

Thank you in advance

Yours Faithfully,

Peter Kamau Wagereka

The University of Nairobi

APPENDIX II

Please answer the questions in this questionnaire by inserting tick in the boxes provided against the answer chosen by filling in the spaces provided as briefly as possible.

Questionnaire

CO-OPERATIVE STATISTICS AS AT ………………………………………………

C/S No……………….NAME OF SOCIETY DIVISION……………………………….

1. Number of Members ……………………………………………………………….
2. Share capital ………………………………………………………………………..
3. Turnover/ Income in Kshs …………………………………………………………
4. Loan Granted during the year:
    - For purchase of motor vehicles accessories ……………………………………
    - Emergency ……………………………………………………………………..
    - Others …………………………………………………………………………..
5. Loans Granted since inception
    - For purchase of motor vehicles …………..…………. (State No. of Vehicles)
    - For purchase of motor vehicles accessories ……………………………………
    - Emergency ……………………………………………………………………..
    - Others …………………………………………………………………………..
6. Loans repaid during the year Kshs ………………………………………………

7. Loans Outstanding at the end of the year Kshs ……………………………………

8. Number of Members with loans …………………………………………………

9. Total Loans Defaulted …………………………………………………………….

10. Number of Defaulters ……………………………………………………………

11. Status of employment:

    a. Number of Employees ……………… (Male) ………………… (Female)

    b. Level of education;

        i. Primary ………………………………………………….

        ii. Secondary ……………………………………………….

        iii. University………………………………………………..

12. Investments:

    a. Types of Financial Investments ……………………………………………

    b. Total value of financial investments Kshs …………………………………

13. Types of capital Investments (Fixed Assets)

    a. Land Kshs ………………………………………….

    b. Buildings Kshs …………………………………….

    c. Equipment and machinery ………………………..

    d. Vehicles Kshs ……………………………………..

14. No. of members registered in FOSA (SASA) activity (where applicable) ………

15. Share capital for the FOSA (SASA) activity in Kshs………………………………

16. Total Amount advanced by FOSA (SASA) in Kshs …………………………..…

17. Number of Beneficiaries …………………………………………………………

18. Annual sales for the consumers activity (if any) in Kshs …………………………

19. Multi Purpose (if society is registered as such)

- Membership ……………………………………………..…………
- Share Capital in Kshs ……………………………….………….
- Number of Activities …………………………..…………….
- Turnover in Kshs ………………………..…….……………..
- Gross Sales in Kshs ……………………………...…………
- Payment to members in Kshs ………………….………………..

20. Level of computerization of the society (tick where applicable)

    a. Hardware
    b. Software
    c. N/A

21. Year the society was last audited…………………………………………………

22. Total society expenditure for the year in Kshs ……………………………………

23. Amount of cash reserves in Kshs …………………………………………………

24. Status of the society

    a. Active …………………………….
    b. Dormant …………………………….
    c. Newly Registered……………………

25. Year of last approved operating budget……………………………………………

26. Year last AGM was held ……………

27. ……………………………………………

28. General comments on the management of the society (tick where applicable)

a. Excellent

b. Satisfactory

c. Good

d. Poor

e. Very poor

29. Please rate your satisfaction according to the following

Financial Regulations

Questions	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent
1. Approval of Audited accounts 4 months after the end of the financial year					
2. Approval of the maximum borrowing powers by members					
3. Not more than 25% of share capital can be invested					
4. Approval of budget three months before next financial					
5. Approval of assets procurement and disposal by 2/3 majority					

Financial Performance

Questions	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent
1. SACCO has been promptly and efficiently disbursing loans to members					
2. SACCO has consistently increased its investments					
3. SACCO has consistently made enough surplus to give out as dividends					
4. There has been consistent increase in membership					

Signed by: ……………………………………………………………………….

Signature: ………………………………………………………………………..

(Reporting Officer of the Society)

APPENDIX III

FIVE POINT LIKERT SCALE

1. Financial Regulations

	Questions	Column Choices	Likert weights
1.	Approval of Audited accounts 4 months after the end of the financial year	Not at all	1
2.	Approval of the maximum borrowing powers by members	Little Extent	2
3.	Not more than 25% of share capital can be invested	Moderate Extent	3
4.	Approval of budget three months before next financial	Large extent	4
5.	Approval of assets procurement and disposal by 2/3 majority	Very Large Extent	5

2. Financial Performance

	Questions	Column Choices	Likert weights
1.	SACCO has been promptly and efficiently disbursing loans to members	Not at all	1
2.	SACCO has consistently increased its investments	Little Extent	2
3.	SACCO has consistently made enough surplus to give out as dividends	Moderate Extent	3
4.	There has been consistent increase in membership	Large extent	4

Financial Regulations

Questions	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent	$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$
6. Approval of Audited accounts 4 months after the end of the financial year	22	16	19	17	13	87	244	2.805
7. Approval of the maximum borrowing powers by members	4	9	13	34	27	87	332	3.816
8. Not more than 25% of share capital can be invested	47	16	12	10	2	87	165	1.897
9. Approval of budget three months before next financial	16	35	21	11	4	87	213	2.448
10. Approval of assets procurement and disposal by 2/3 majority	39	23	12	10	3	87	176	2.023
								2.5978

Financial Performance

Questions	Not at all	Little Extent	Moderate extent	Large Extent	V/large Extent	$\sum f_i$	$\sum f_i w$	$\sum f_i w / \sum f_i$
5. SACCO has been promptly and efficiently disbursing loans to members	40	26	15	5	1	87	162	1.861
6. SACCO has consistently increased its investments	15	22	28	13	9	87	240	2.7586
7. SACCO has consistently made enough surplus to give out as dividends	37	26	10	12	2	87	177	2.0344
8. There has been consistent increase in membership	42	28	16	1	0	87	150	1.7241
								2.1522

The score is arrived at as follows:

(Number of votes x weighting for column 1) +

(Number of votes x weighting for column 2) +

(Number of votes x weighting for column 3) +

(Number of votes x weighting for column 4) +

(Number of votes x weighting for column 5) -:-

Total number of Votes

The equation for size:

$$\frac{(22x1) + (16\ x2) + (19x\ 3) + (17\ x\ 4) + (13\ x\ 5)}{87}$$

$$= \frac{244}{87} = 2.805$$

APPENDIX IV

TRANSPORT CO-OPERATIVE IN NAIROBI

NO	NAME OF SACCO
1.	12 C Transporters
2.	City Travellers Sacco
3.	Indimanje
4.	Oromwosa
5.	Tena Umoja Transporters Sacco
6.	Naak Route 110
7.	Cross Land Sacco
8.	Walokana
9.	Muna Sacco
10.	Embassave Sacco
11.	Duruma Cross Road
12.	Matatu Transporters
13.	Matatu Sacco
14.	Ndemawa Sacco
15.	Satima Sacco
16.	Ganak Multi-purpose
17.	4W Wanyee Sacco
18.	Banana Hill Sacco
19.	2 KW Wangige
20.	2 KR – Route 105
21.	Kayole Nissan Sacco
22.	Thika Road Transporters Sacco

23.	Kakegi Sacco
24.	Tena Umoja Transporters
25.	Maribu Sacco
26.	Samaritan Jogoo Road
27.	Highway 89 Classic Sacco
28.	NK 30
29.	Ruari Transporters Sacco Ltd
30.	Jitegemee 19C Sacco
31.	LIRA
32.	Kahawa West Sacco
33.	44 Sacco Githurai
34.	Baba Dogo Matatu Sacco
35.	Olokise Sacco
36.	Ngumo Matatu Sacco
37.	Kabiria Matatu Sacco
38.	Nairobi West Matatu Sacco
39.	Dakika Sacco
40.	Pakin Alicia Sacco
41.	Kandana Sacco
42.	Multi Two Sacco
43.	2B Travellers Sacco
44.	Stammer harmony Sacco
45.	Marimba Travellers Sacco
46.	Eastleigh 9/6 Sacco
47.	Nairobi Metropolitan Sacco
48.	Latema Sacco

49.	Kakose Sacco
50.	Ganaki MP Sacco
51.	Nazigi Sacco
52.	Lopha Travellers Sacco
53.	Kileton Sacco
54.	Runka Sacco
55.	Kangemi Matatu Owners Sacco
56.	Star Bus Sacco
57.	NNK Sacco
58.	Kawangware 46 Sacc
59.	Mbahima Sacco
60.	Cosby Sacco
61.	Kaka Travellers Sacco
62.	Nagiru Sacco
63.	Bakaki Travellers Sacco
64.	Runa Sacco
65.	Githurai 45 Travellers Sacco
66.	Ummoinner Sacco
67.	Cibet Sacco
68.	Seven City Sacco
69.	Kilele Sacco
70.	NMOA Sacco
71.	Kimao Sacco
72.	Karagi Sacco
73.	4C Satellite Sacco
74.	Jossy Sacco

75.	Nangkis Sacco
76.	Mbuni Safaris Sacco
77.	Unified Poa Sacco
78.	Hannover Sacco
79.	MFL Operators Sacco
80.	Star Bus Sacco
81.	Metro Trans Sacco
82.	Cossy Sacco
83.	Compliant MOA
84.	Compliant III
85.	Ngumo Highrise Sacco
86.	Kileleshwa 48 Sacco
87.	B D Travellers Sacco
88.	Namuga Sacco
89.	Nawaku Sacco
90.	John Saga Flats Sacco
91.	Kawas Saco
92.	Capital Travellers
93.	BHM Sacco
94.	Mazingo Sacco
95.	Hardy Travellers Sacco
96.	Route No. 3 Sacco
97.	Lunga Lunga Sacco
98. `	Compliant NMOA Sacco
99.	Pioneer Sacco
100.	St. Mary's Transport Sacco
101.	Kangunex Transport Sacco.
102.	Kunes Transport Sacco
103.	Highridge Transport Sacco
104.	South B / C Tranporters