THE ROLE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN FACILITATING RURAL FINANCING IN KENYA

(A CASE STUDY OF EMBU COUNTY)

BY

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DECLARATION

I declare that this research project is my original work; it has not been presented to any other institution of higher learning for academic purposes.

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This research report has been submitted for examination with my approval as the supervisor

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DEDICATION

To my parents Mum and Dad, My siblings Tony, Kevin and James for their prayers, encouragement and support. To my friends James, Wilson, Joshua, Domsiana, Unni Cafasso and Carol Njoroge for their support.

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Any omissions are highly regretted and owed to me.

LIST OF ABBREVIATIONS

AFC: Agricultural Finance Corporation

CDF: Constituency Development Fund

FOSAs: Front Office Service Activities

KERUSSU: Kenya Rural Savings and Credit Cooperative Society Union

Krep: Kenya rural enterprises programme

KUSCCO: Kenya Union of Savings and Credit Co-operatives Society Union

MFIs: Micro Finance Institutions

NGOs: non-governmental organizations

ROSCAs: Rotating Savings and Credit Associations

SACCOs: Saving and Credit Co-operative Societies

SASRA: Societies Regulatory Authority

SMEs: small and microenterprises

WOCCU: World Council of Credit Unions

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ABSTRACT

Rural financing is one of the critical factors to promote productivity and ensure an improved social and economic development for a country like Kenya, whose population of about 80% is rural-based and dominantly depending on agriculture. Like in many other developing countries, access to financial services in most parts of Kenya, particularly the rural areas, is very limited.

The specific objective of the study was to assess the role of Savings and Credit Cooperative Societies (SACCOs) in facilitating rural financing; it analyzed the type of financial services and products offered by the SACCOS and assessed the extent to which SACCOS are effective in facilitating rural financing. Data were collected through questionnaires. The study used a sample size of 35 respondents, which comprised SACCOs members and SACCOs board members. In data presentation, tables, charts, percentages and graphs were used.

The study found that a majority of SACCOs offers Credit and saving facilities only while money transfer, insurance and deposit products are not offered. A number of SACCOs were found experiencing poor management, low membership, and a low level of knowledge on the part of members.

The study concluded that if SACCOs are managed sustainably, they can play a critical role in facilitating rural financing. The researcher further recommended that in order to improve sustainability and ensure provision of knowledge for best practices, the government should put in place reliable mechanisms to the SACCOs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

1.1.1 Rural financing

Rural financing refers to the availability and accessibility of credit, savings and insurance services in rural areas (Andrew, 1999). Rural finance remains very challenging and in developing countries it is generally weak, despite the efforts of donors, governments and private investors to improve it. However, important approaches are emerging from these experiences that provide useful guidelines on how to expand and make more effective the provision of rural financial service. Rural financial services refer to all financial services extended to activities in rural areas which can be agricultural or non-Agricultural activities; these services include money deposit/savings, loans, money transfer, safe deposit and insurance. Demanders/beneficiaries of rural financial services are mainly households, producers, input stockists/suppliers, traders, agro-processors and service providers. Inspite of the importance of a savings account, most of Kenyan households have no access to a bank account (Kodhek, 2003).

Non-Rural finance comprises credit, savings and insurance (or insurance substitutes) in rural areas, whether provided through formal or informal mechanisms. The word' credit' tends to be associated with enterprise development, whereas rural finance also includes savings and insurance mechanisms used by the poor to protect and stabilize their families and livelihoods (not just their businesses). An understanding of rural finance helps explain the livelihood strategies and priorities of the rural poor (Hossain, 1988). Rural finance consists of informal and formal sectors. Examples of formal sources of credit include: banks; projects; and contract farmer schemes. Reference is often made to micro-credit. Micro underlines the small loan size normally associated with the borrowing requirements of poor rural populations, and micro-credit schemes use specially developed pro-poor lending methodologies. Rural populations, however, are much more dependent on informal sources of finance including loans from family and friends, the local moneylender, and rotating or accumulating savings and credit associations (Hossain, 1988). Rural finance is provided by a category of institutions which include commercial banks, non-governmental organizations (NGOs), Community development bank

(CBO's), Savings and Credit cooperatives Societies, Rotating Savings and Credit Associations(ROSCAS) as well as Savings and Credit Associations (Padmanabhan, 1996).

1.1.2 Saving and Credit Cooperatives Societies

Saving and credit cooperatives (SACCOs) which are known as the credit unions in some other countries are defined as cooperatives which furnish their members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest (Kabuga and Batarinyebwa 1995:229) an observation that is in agreement with (Bailey,2001). The saving and credit cooperatives are usually organised within a group which is already knit together by a bond of common interests such as workers in same factory or members of the same community who are fairly well acquainted with one another (Kabuga and Batarinyebwa 1995). Furthermore, the savings and credit cooperatives are cooperative organizations which are guided by the practices, philosophy and principles of the cooperative movement. They differ from the rest of other cooperatives because they are financial cooperative organisations with a social context (Kabuga and Batarinyebwa, 1995).

Small-scale enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country (Atieno, 1994). Improving the availability of credit facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy. Studies on informal finance in Africa show that they will do well so long as the level of economic activity demands increasing financial services for groups that cannot be reached by the formal financial institutions (Chipeta and Mkandawire, 1994; Soyibo, 1994). The emergence of demand for short-term credit especially among traders and farmers will most likely lead to the development of an informal unit to meet that demand. Informal credit therefore seems to develop in response to an existing demand. Aryeetey and Udry (1997) have further observed that while credit from an individual lender to a set of borrowers may vary in terms of what package each borrower receives, the more significant variation in the informal credit market is in terms of what packages different lenders are able to offer in the market. They therefore note that differences in the loan characteristics represent different lender types.

The failure of many government-subsidized credit programmes to reach the targeted groups has prompted the emergence of alternative means of administering rural credit so as to reduce the access problem Braverman and Guasch, (1986). Informal credit markets have developed in rural areas, providing faster services to their clients. That informal finance is more important than formal finance has been proven by different approaches used to measure its magnitude in different countries, namely Chipeta and Mkandawire (1991) for Malawi and Aryeetey and Gockel (1991) for Ghana.

Important lessons can be learned from the success of informal financial institutions. Often the degree of flexibility and creativity in informal finance accounts for the high degree of success in such institutions. The types of services they provide mostly contrast with those offered by traditional credit programmes. These are characterized mainly by short-term and small loans, increasing discipline in terms of savings, judgment of borrower creditworthiness, and information about the borrower. Service is based on flexible arrangements to adjust to changing economic circumstances, and reducing the transaction costs to the borrowers who respond by maintaining discipline in order to sustain their access to credit. The result is a dependable working relationship between the lender and the borrowers. Most services of informal finance are client oriented, thus reducing the transaction costs for customers, and making their services attractive. Informal lenders are also able to design their contracts to meet the individual dimensions, requirements and tastes of the borrowers (Aryeetey, 1996). This contrasts with the formal lender practices, which charge relatively low interest rates, but often impose procedures on borrowers that substantially increase their transaction costs.

In the informal financial markets, loans and deposits are often tied, enabling individuals to increase their access to credit by improving their deposit performance. This allows participants to enhance their creditworthiness through their savings and repayment record. All these lessons emphasize the fact that financial intermediaries at the small-scale level must be prepared to offer the financial services demanded by clients if the informal financial institution is to succeed (Schmidt and Kropp, 1987). Banks and other formal financial institutions tend to have a very low level of penetration in the rural areas, primarily driven by the tendency for most bank branches to be located in areas with high population densities and high market activity.

Access to financial services by smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Schmidt and Kropp, 1987). For small-scale enterprises, reliable access to shortterm and small amounts of credit is more valuable, and emphasizing it may be more appropriate in credit programmes aimed at such enterprises. Schmidt and Kropp (1987) further argue that the type of financial institution and its policy will often determine the access problem. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access. The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established. There is therefore a need to develop appropriate institutions for the delivery of loans to small-scale borrowers. A number of commercial banks provide wholesale funds for on-lending via SACCOs or via regional community banks for example the cooperative bank of Kenya.

As in many other countries in sub-Saharan Africa, the performance of formal financial institutions and credit programmes in Kenya in terms of alleviating the financial constraints of the smallholder sector has met a lot of criticism. The criterion of creditworthiness, delays in loan processing and disbursement, and the government approach to preferential interest rates, resulting in non price credit rationing, have limited the amount of credit available to smallholders and the efficiency with which the available funds are used (Atieno, 1994). This can be seen as an indication of the general inadequacy of the formal credit institutions in meeting the existing credit demand in the country.

Bottlenecks in the capacity of the existing institutions to deliver credit are also reflected in the existing unsatisfied demand (Aleke Dondo, 1994). Viewed against its ability to meet the particular credit needs of the different types of rural enterprise activities, Kenyas' financial system displays a deficiency in the range of financial instruments and lack of coordination between different financial institutions. This is consistent with the argument that credit markets in Africa are characterized by inability to satisfy existing demand, which for the informal market is explained by the high transaction costs and default risks.

The lending policies used by the main credit institutions in Kenya do not ensure efficient and profitable use of credit funds, especially by farmers, and also result in a disparity between credit demand and supply (Atieno, 1994). This view is further supported by a 1995 survey by the Kenya Rural Enterprise Programme (KREP) showing that whereas credit is an important factor in enterprise expansion, it will most likely lead to enterprise contraction when not given in adequate amounts (Daniels et al., 1995). Hence, despite the existence of a sophisticated financial system, it has not guaranteed the access to credit by the rural population. Although not much is known about the informal financial sector in the country, there is a consensus that it is an important source of finance to the small-scale entrepreneurs in the country (Aleke Dondo, 1994).

Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives (Braverman and Guasch, 1986). Besley (1994) has classified major features of rural credit markets that can be used to explain the existence of formal and informal credit markets in Africa. Among these are the existence of collateral security and covariant risk. Collateral security is often beyond the reach of many borrowers in rural areas. But even where this is not the case, the ability of the lender to foreclose is often limited, making enforcement of loan repayment difficult. Such difficulties help to explain the use of informal financial markets, which use social sanctions to ensure enforcement.

1.2 Statement of the Problem

Rural financing help the poor and low income households increase their incomes and build the assets that allow them to mitigate risk, smoothen consumption, plan for future, increase food consumption, invest in education and other life cycle needs. These needs can be broadly categorized into working capital, fixed asset financing, income smoothing and life cycle events. Access to credit and financial services has the potential to make a difference between grinding poverty and economically secure life.

The provision of credit has increasingly been regarded as an important tool in raising the incomes of the rural populations, mainly by mobilizing resources to more productive uses. The generation of self-employment in non-farm activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment- generating activities (Hossain, 1988). The lack of resources to educate and train the rural population in administration, operation and marketing activities in small businesses is a challenge though there is eagerness of the rural population to want to acquire knowledge and skills to expand activities Daniels and Musinga, (1995).

The majority of Kenyans live in rural areas and they lack the opportunity to participate effectively in the formal economy. Commercial banks and other formal institutions fail to cater for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the myth that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy (Adera, 1995). There has been an increased tendency to fund credit programmes in the developing countries aimed at small-scale enterprises. In Kenya, despite emphasis on increasing the availability of finances to rural population, access to funds by such population remains one major constraint they face. The failure of specialized financial institutions to meet the financial needs of the rural population has underlined the importance of a needs-oriented financial system for rural development. Experience from informal finance shows that the rural poor often have greater access to informal credit facilities than to formal sources (Alila, 1991). In the context of limited financial services in the rural areas in the most parts of Kenya, the study therefore assesses the role of Savings and Credit Cooperative Societies (SACCOs) in facilitating rural financing in Kenya.

1.3 Objectives of the Research

1.3.1 Broad Objective of the Study

To explore the role of saving and credit co-operative societies in facilitating rural financing in Kenya.

1.3.2 The Specific Objectives

1. To assess the role of saving and credit co-operative societies in facilitating rural financing in Kenya.
2. To analyze what type of services/products are offered by the Savings and Credit Cooperative societies.
3. To assess the extent to which Savings and Credit Cooperative Societies are effective in facilitating rural financing in Kenya for social and economic development.

1.4 Significance of the Study

This study will help in highlighting different views from other players in the Sacco industry and also the government as the licensing authority of financial institutions in Kenya will be interested in the findings of this study. This will enable the government to highlight the problems the players are likely to face due to regulations.

The study will be a reference material for future researchers and scholars who would wish to venture into this area of study and also since most SACCOs mobilize funds from the public it is necessary for the public to understand how these SACCOs operate and how they conduct their activities so as to have confidence in these SACCOs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter review areas and various literature related to Cooperative Societies, Micro financing, rural financing and their values in relation to rural development and poverty eradication. There has been a concern on the rural financing due to limited access to financial services to rural areas. The chapter covers among other things, the definition of SACCOs, rural financing and poverty relationships, background of Cooperatives in Kenya, theoretical and empirical studies related to rural financing.

2.2 Forms of Financing

There are two forms of financing offered by financial institutions. The formal and the informal form of financing. Informal financing has been defined to refer to all transactions, loans and deposits occurring outside the regulation of a central monetary authority, while the semiformal sector has the characteristics of both formal and informal sectors. In Africa it has been defined as the operations of savings and credit associations (SACCOs), rotating savings and credit associations (ROSCAs), professional moneylenders, and part-time moneylenders like traders, grain millers, smallholder farmers, employers, relative and friends, as well as cooperative societies (Aryeetey, 1996; Aryeetey and Udry, 1997).

Formal financing refers to services offered by commercial banks, these include state banks, agricultural development banks, savings banks and rural banks. They are regulated and supervised, offer a wider range of financial services and control a branch networks that extend across the country and internationally. However, they have proven reluctant to adopt social missions and due to their high costs of operation often cannot deliver services to poor or remote populations. The increasing use of alternative data in credit scoring such as trade credit is increasing commercial banks' interest in microfinance. (Aryeetey, 1996; Aryeetey and Udry, 1997).

2.3 Meaning of a Savings and Credit Cooperative (SACCO)

A SACCO is one form of a cooperative society whose business is to provide financial services to its members. SACCOs are legal institutions registered under the cooperative laws (1991 cooperatives Act and 1992 cooperative Regulations). SACCOs are owned by their members through payment of share capital and membership fees to the institution. In addition, as per SACCOL (1998), "a savings and credit cooperative (SACCO) is a democratic, unique member driven, self-help, not for profit financial cooperative. It is owned and governed by members who have the same common bond. A SACCO's membership is open to all that belong to a group, regardless of race, religion, colour, creed, and gender or job status. These members agree to save their money together in the SACCO and to make loans to one another at reasonable rates of interest. Interest is charged to cover the interest cost on saving and the cost of administration. There is no profit paid to anyone .The members are the owners and the members decide how their money will be used for the benefit of one another (Bailey, 2001). However, it should be noted that, in Kenya unlike South Africa where the Bailey hails, SACCOs often pay dividends to members depending on the number of shares one has.

Saving and credit cooperatives (SACCOs) which are known as the credit unions in some other countries are defined as cooperatives which furnish their members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest (Kabuga and Batarinyebwa 1995) an observation that is in agreement with (Bailey,2001). The saving and credit cooperatives are usually organised within a group which is already knit together by a bond of common interests such as workers in same factory or members of the same community who are fairly well acquainted with one another (Kabuga and Batarinyebwa 1995). Furthermore, the savings and credit cooperatives are cooperative organizations which are guided by the practices, philosophy and principles of the cooperative movement. They differ from the rest of other cooperatives because they are financial cooperative organisations with a social context (Kabuga and Batarinyebwa, 1995).

2.4 Historical Perspective of Cooperatives in Kenya

According to the Ministry of Cooperative Development Kenya (2011), there are 5,000 registered SACCOs out of a total 12,000 registered co-operative movements in Kenya. All these SACCOs operate back office operations. According to the ministry of Co-operative Development Kenya

(2010) SACCO societies were first registered in Kenya as a thrift licensee in 1964 with the objective of mobilizing savings from members. However, it was not until 1969 that the government encouraged the registration of SACCOs to mobilise savings and give credit to employed people who had similar common bond. The government enacted the co-operative societies Act and the rules to better manage the SACCOs in 1969. From 1973, many government ministries and departments registered SACCOs in accordance with the common bond. By 1975, there were over 1,000 registered SACCOs in the country offering back office and credit facilities. SACCOs in Kenya have grown tremendously and currently they have 3.7 million members. SACCOs in Kenya have mobilized deposits from members equivalent to Kshs 170 billion and have disbursed credit of about Kshs 120 billion. The 200 SACCOs with FOSAs have diversified into specialized bank like activities which include deposit taking, saving facilities, debit card taking and money transfer both locally and internationally. In the year 2009, the Ministry of Co-operative Development realized the need to have a regulator for the SACCOs which culminated into the SACCO Societies Act 2010 giving rise to the SACCO Societies Regulatory Authority (SASRA) According to the SACCO Societies Act (2008) SASRA has the mandate of licensing SACCOs to carry out deposit taking activities, regulate and supervise deposit taking SACCOs, manage the deposit guarantee fund and advise the minister of Co-operative Development.

The policy objective of the Kenyan co-operative movement is to spur sustainable economic growth by focusing on achievement of desired outcomes through strengthening of the movement, improving co-operative extension service delivery, corporate governance, access to markets and marketing efficiency (International Monetary Fund, 2007). The co-operatives have a great potential to deliver goods and services in areas where both the public and private sector have not ventured (Bailey, 2001). In most cases co-operatives are local institutions that address local needs, employ local talents and are led by local leaders either directly or through local branches. The Co-operatives in Kenya are organized into service and producer co-operatives. The co-operatives have made remarkable progress in agriculture, banking, credit, agro-processing, storage, marketing, dairy, fishing and housing. Service co-operatives are the closest to communities and are organized on a shareholder basis formed by individual members of organizations voluntarily working in a specific geographical area (International Monetary Fund, 2007).

2.5 Rural Financing and Poverty Relationship

Access to financial services such as saving facilities, credits, insurance, money transfer facilitate rural dwellers to build up productive assets and hence improve productivity. There is a greater relationship between poverty and access to financing. According to Zeller, (1998) quoted in; Padmanabhan, (1996) access to financial services can bring impact on food security in three ways. First, through improved income generating methods as loans provide relief in the short run. Second, a household's access to finance reduces the costs of self-insurance and hence induces changes in the household's assets base and level of liabilities. Consequently, ''precautionary savings'' in the form of non-productive assets, which are held to cushion adverse shocks such as illness, and bad weather, are made available for productive investments. Thirdly, credit enhances consumption. According to Padmanabhan, (1996).formal credit, savings and insurance services may help households' consumption, so they use fewer traditional methods, which are often inefficient and bind households into unproductive social relationships that discourage savings and wealth accumulation.

2.6 Theories Underlying Rural Financing and Financial Services for the Poor.

There are different theories about rural finance and financial services to the poor: The four main theories which consider rural financing are: Supply-leading finance theory, the imperfect information paradigm, the informal credit markets and the savings of the poor.

2.6.1 The Supply-leading finance theory

Refers to the provision of credit for the purpose of inducing economic growth. The theory emerged in the 1940's and 1950's in the context of post-World war 11 developments of the emerging nations where agricultural growth was given high priority. It assumed that farmers would need credit but they could not pay the full cost of commercial credits and finance, so they would have to be provided in advance of the demand for it. Many institutions providing credit subsidies suffer from political interference, poor management, and unwanted products, low repayments, high costs and high losses. The subsidized credit programmes have limited the volume of financial services to the poor-helping for decades to suppress the development of larger scale microfinance (Marguerite, 2001).

2.6.2 The imperfect information theory

The theory typically assumes that banks cannot cost effectively differentiate between low risk and high risk loan applicants. Banks may raise interest rates to compensate for risks related to their inability to distinguish between high risk and low risk applicants. The higher interest rates may drive low-risk borrowers out of the market, increasing the average riskiness of the loan applicant's pool. The model also concludes that the banks are unlikely to operate profitably in developing country credit markets or attaining extensive outreach. On the basis of the model, it would be difficult to muster much enthusiasm for advocating the entrance of commercial banks into microfinance markets (Marguerite, 2001).

2.6.3 Informal credit markets theory

The theory explains that in developing countries both rural and urban microfinance markets are typically composed of informal lenders and deposit takers, of semi formal bodies and of formal financial institutions. Money lenders in many parts of the world typically charge much higher interest rates to poor borrowers than are required for microfinance institutions to operate profitably. Banks can cost effectively gain reliable information about borrowers than is far broader than the information to which informal lenders have access. In that case money, lenders know the microfinance market well and commercial microfinance institutions have borrowed many of their methods (Marguerite, 2001).

2.6.4 The saving of the poor theory

Adams (1988) argued that "there is larger demand for financial savings in rural areas of developing countries and that savings are more crucial for microfinance clients than credit. Yet savings remain forgotten in much of institutional microfinance, rural and urban. The theory recognizes that mobilizing voluntary savings both as a service and as a source of finance for loans is a basic tenet of the microfinance revolution (Marguerite, 2001).

Grameen Bank approach is the early micro credit medal for poverty lending in Bangladesh founded by Muhammad Yunus. Muhammad Yunus, the founder of the micro-credit Grameen Bank made two observations fundamental to the mindset required for non-tokenistic approaches to community development and community engagement. He noted (1997, p. 3): "First, our knowledge base about people and their interactions is still very inadequate; Second, each individual person is very important. Each person has tremendous potential. S/he alone can influence the lives of others within communities, nations, within and beyond his/her own time." The Grameen Bank is a concept that has readily engaged many communities in the developing world for almost thirty years. Grameen Bank operates on a system of trust, responsibility, involvement and resourcefulness and does not demand collateral from its clients. Even the very poorest people in rural Bangladesh are provided credit without collateral. Credit is used as a catalyst to improve the socio-economic conditions of those previously without access to standard banking actions and as a cost effective way to address poverty. The approach demonstrates that poor people can be good credit risks and it has enabled a wide outreach to poor borrowers. With the model poverty lending approach requires large amounts of continuing subsidies and has not proven a globally affordable model. Poverty lending does not meet people's demand for saving services. Henceforth; a different solution is required to meet the massive global demand for small loans and savings (Marguerite, 2007).

With Grameen Bank, compulsory savings as a condition for obtaining loans and the collection of voluntary savings reflect two complementing different philosophies:" The former assumes that the poor must be taught to save and they need to learn financial discipline. The latter assumes that the economically active poor already saves in variety of forms; what is required for effective saving mobilization is that the institutions should learn how to provide instruments and services that are appropriate for local demand(Marguerite,2007).

The theories above indicate that there are different approaches which can facilitate rural financing. The choice of the best financial delivery mechanism based on the circumstance can facilitate the economically active rural poor to access financial services which can promote their involvement in the production and improvement of their live hood in developing country like Kenya.

2.7 Experience and Lessons in Rural Finance in Developing Countries.

Rural finance is provided by a category of institutions which include commercial banks, non-governmental organizations (NGOs),Community development bank (CBO's)Savings and Credit cooperatives Societies, Rotating Savings and Credit Associations (ROSCAs) as well as Savings and Credit Associations (Padmanabhan, 1996).

By the late 1960's, however many evolutions of rural credit programmes worldwide threw up some disturbing conclusions that they had found that a major portion of additional credits had not reached the small producers, to whom all these endeavours were directed. It also became clear that many financing institutions were not able to meet their operational costs from the interest income; furthermore, private co –operatives have an important role in any credit programmes for small farmers, local participation, group sanctions against delinquency and better use of scarce resources can be achieved through co-operatives (Padmanabhan, 1996). He further argued that unlike commercial banks and development banks, cooperatives sprang up in rural areas. In many areas they were the most accessible formal system for farmers, in particular, small farmers. They have a feeling of the local areas reflecting the rural ethics and culture. Farmers felt at ease with the loan agents of Co operatives.

A report on financial services for small holders highlighted that the ability of agricultural enterprises and rural households to invest for the long term and make calculated decisions for risky and time-patterned income flows is shaped by an economy's financial services. Despite the rapid development of financial services, a majority of small holders worldwide remain without access to the services they need to complete and improve their livelihood. Broader access to financial services-savings and credit products, financial transactions and transfer services for remittances would expand their opportunities for more efficient technology adopted and resource allocation (World Bank development report, 2008)

The financial systems approach to the rural areas recognize that savings are as important a service for the poor as credit and that savings are crucial in building self-sufficient financial institutions. Well crafted saving services can encourage a move from non financial savings into savings with the advantage of safety and liquidity for entrepreneurs and the provision of funds for investment for society (Rhyne, 1994). The authors further argued that one of the most important benefits of institutional savings in the rural areas is an indirect one which is credit worthy. The rural people can benefit from the expanded volume of institutional lending made possible by deposits mobilization. Substantial growth in institutional deposits can both significantly increase the amount of credits available to small entrepreneurs and provide loans which are of much lower interest rates than are otherwise available in the informal market.

The role and strength of informal finance agents in small scale rural economies and their importance to low income holds should not be underestimated. The informal sector allows low income people access to services at relatively low costs. It can do so because the informal sector is the natural environment for the rural people (Bouman, 1989). Non- governmental organizations have equated people centered development with participatory village development interventions; such interventions are important but in themselves are generally inconsequential. People centered development attributes poverty to the concentration and misuse of power and resources especially ecological resources in a finite world. It calls for an equality led transformation of institutions and values to restore community development, redistribution of powers and relocate resources to sustainable improvement in human welfare. In view of the above observations, it can be judged that in microfinance there is a need of building sustainable institutions which are self-sufficient given the greater demand of financial services and for convenience and appropriateness of financial services to the economically active poor.

Financial credit when used in ways that expand household economic activities and increase incomes can contribute in multiple and far reaching ways to the quality of life of the poor household members. According to Besley (1994), India and Mexico nationalized their banks in 1969 and 1982 respectively in order to force the banks to open up rural branches that would serve the rural people. The Grameen Bank experiment in Bangladesh demonstrated that the poor would save as much as 50% of additional income under appropriate conditions (Rhyne, 2001). Access to financial services enhances the quality of life of the clients of the microfinance institutions. A case study of Grameen Bank of Bangladesh indicates that " the Poor are bankable". Therefore, savings can only be possible in rural areas in Kenya if appropriate institutions are sensitized. The report on the United Nations International symposium on the mobilization of personal savings in developing countries concluded that domestic savings existed in most developing countries on a larger scale than was generally thought due to the existence of cooperative societies (United Nations report, 1984).

The services provided to small savers by informal financial intermediaries such as rotating and savings credit associations, indicate that the project that attempts to forge linkage between formal and informal financial institutions yields significant benefits. The experience of Taiwan in the mobilization of voluntary savings was interesting in that household savings strongly stimulated by price policies, new techniques, marketing facilities and public investment programs gave incentives to farm investment (Vogel and Burkett, 1986). Low productivity of farm labour in developing countries was due to the absence of credit to finance specific factor inputs. Therefore, financial credit is the most flexible form of transforming economic resources to the poor. The incidences indicated above provide evidence from some countries that access to financial credits can help the economically active poor expand and divert their enterprises and increase their income.

2.8 Experience on Rural Financing and Poverty Reduction from Abroad.

A number of scholars and experts from different parts of the world have g iven various opinions on the need for rural financing for the developing countries and its importance as part of poverty reduction strategy. In Latin America, the experience shows that the sector of micro, small and medium-sized enterprises contribute significantly to the local economies through their potential for promoting employment and reducing poverty. The availability of and access to efficient and high quality financial services are essential in order for the mentioned enterprises to acquire capital, new skills, know-how and technologies in an increasing competitive and global environment (Levitsky, 1989).

The Indonesian Bank Rakyat Indonesia (BRI) or People's Bank of Indonesia is an example of the rural financing approach. In 1984 it was converted from a centralized commercial bank to a network of independently operating unit banks providing full financial services at the local level. The conversion occurred as part of measures to liberalize the financial sector. It was a means of reducing the impact of financial restructuring of bank on access by the poor (especially the rural poor).The BRI maintained its state-owned status and central monitoring role. It was successful in fully covering its lending requirements from mobilized deposits, whilst being financially sustainable and covering a larger number of borrowers within a short time span (Jazayeri, 1998). The indigenous population, including the entrepreneurial class, was largely neglected by the colonial banks. Post-independence indigenous commercial and development banks were modelled on these systems, and have largely changed little despite the dramatic changes that banking system have undergone elsewhere. As a result the operations of formal financial services continue to favour commerce and larger scale industry, and to neglect the needs of the poor.

Brown bridge and Craig, (1997). Financial systems approach would not be feasible without the development of a set of new technologies and approaches that target to serve specific population segment, Rhyne and Otero (2001). Adams (1978) on his report on savings mobilization and micro enterprises finance in Indonesia argued that households save and they will save in a financial form if appropriate institutions and instruments are available.

The experience from the lessons abroad shows that rural finance interventions to reduce poverty must be tailored to the needs of the poor. Rural financing can also be improved by strengthening both formal and informal financial actors by linking them to capitalize on their respective strengths.

2.9 Empirical Studies in Kenya on Rural Financing

A study on Kenya Bankers cooperatives emphasized that SACCOs are a pivotal tool in the economic recovery and poverty reduction as they enable easy access to credit and other financial services in marginalized areas (Kariuki, 1995). The experience of Kenya rural enterprises programme (K-rep) in microfinance highlighted that microfinance services of Micro and small enterprises have proved to be not only productive and empowering but also reduce poverty and can be sustainable. K-rep was committed to combining the advantage of microenterprise credit with strategies to reach the very poor that do not have access to financial services from sources other than money lenders. Financial services to low income entrepreneurs and producers may well be the most single most effective means to tackle poverty and create broad-based economic growth. Financial services give poor people the means to increase their assets, their living standards and their role in shaping society (Aleke, 1995).

Ouma (1991) found that 72% of the sample surveyed saved with and borrowed from informal sources. Whereas in the formal credit market only a selected few qualify for the predetermined loan portfolios, in the informal market the diversified credit needs of borrowers are better satisfied. The problems of formal financial institutions, especially security, loan processing, inadequate loans given, unclear procedures in loan disbursement and high interest rates, all underscore the importance of informal credit and the need to investigate the dynamics of its operations, especially with respect to how these factors determine the access to and the use of credit facilities. Informal credit sources in Kenya comprise traders, relatives and friends, ROSCAs, welfare associations, and moneylenders.

Oketch, Abaga and Kulundu 1995) found that a number of institutions provide credit to the small and microenterprise sector in Kenya. These include commercial banks, non-bank financial institutions, non-government organizations, multilateral organizations, business associations, and rotating savings and credit associations. In addition, financial transactions also take place between traders, friends, relatives and landlords, as well as commercial moneylenders. The main commercial banks involved in SME lending and savings mobilization are the Kenya Commercial Bank, Equiy bank, Barclays Bank and Cooperative bank. Many financial institutions, especially commercial banks, rarely lend to small and microenterprises (SMEs) since they emphasize collateral, which most SMEs lack. Few enterprises are able to provide the marketable collateral and guarantee requirements of commercial banks, with the result that SMEs lacking such requirements have not been able to obtain credit from banks. Most of them therefore rely on their own savings and informal credit.

Kibaara, (2006), found that the overall goal of the Rural Development Strategy is to provide a strategic framework for the coordination of strategies related to the development of rural communities. It is geared towards creating opportunities for rural communities to attain sustainable livelihoods. The Rural Development realizes that the improvement of the standard of living of the rural people depends on several initiatives. These include commercialization of small holder agriculture. improving infrastructure and services, improving access to economic and social services and markets and ensuring sustainable management of the natural resource base. In this context the rural development Strategy provides strong linkages with major country policy initiatives that are complementary to one another for rural financing.

According to Kibaara (2006), rural financial services have been enhanced by the use of community owned rural finance model which is a rural finance model that is owned and managed by the rural community with assistance from the donor agency. The community forms registered associations. Membership is through purchase of shares from the associations. The objective of this model is to reduce poverty through improved access to financial services mainly in the low population density areas with high incidences of poverty such as parts of Eastern and

Western Lowland regions. The main beneficiaries are the low and medium income population with few alternatives to financial services. The study found some cases where the community financing models were set up using the Constituency Development Fund (CDF). Examples of the community owned rural finance model are the Financial Service Associations and the church based Mbeu Savings and Credit Association.

Analysis by Kibaara, (2006) on the government initiative on rural financing found that Government Led Rural Financing works through the Agricultural Finance Corporation. The corporation has been instrumental in the implementation of many government and donor supported programs such as mechanization of the agricultural sector, livestock development programs, the Guarantee Minimum Return, the Seasonal Crop Credit and the Emergency Livestock Off-take Program. The main beneficiaries of the credit from the corporation are the large scale farmers (AFC, 2005).

According to Kibaara (2006), the MFISAGA Thrift and Enterprise Promotion Limited (STEP) is a rural financial organization that facilitates the delivery of financial services to people living in the Kenyan counties around Lake Victoria region. It comprises of SAGA SACCO and SAGA Thrift and Enterprise Promotion Limited (STEP), the later manage the affairs of the SACCO. SAGA operates a Front Office Service Activities (FOSA). The shareholder can then access loan and savings products. The motivation behind this innovation is to contribute towards poverty alleviation among the fisher folks.

Kibaara (2006) found that most mainstream banks have undergone major restructuring such as closing branches in the rural areas to cut down on costs and improve profits. This has left a gap in the rural financial services which has partly been filled by the emerging indigenous banks such as Equity bank. The equity bank model works on the principle of taking banking services closer to the people. Although the bank reaches a wide range of clients, the majority of its clients are low-end salaried workers, and micro and small businesses. In addition, the rural farming community can access supervised short term loans for horticulture, dairy, coffee and tea farmers. The bank has captured a market niche in the banking sector in Kenya of the low income earners by addressing the perceived exorbitant price and attendant charges of loan and savings products.

Equity bank has focused specifically on the outreach component of mobile banking services. and on improving service efficiency and proximity for clients.

2.10 The Importance of Rural Financing

The availability of financial services in rural areas can contribute in many ways to the quality of life of rural households as well as stimulating economic development. There are a number of benefits which can result from rural financing some of which are: Provision of investment and working capital. Availability of finance to the rural poor promotes and enables the active poor to get involved in a variety of productive and income-generating activities. Availability of credit facilities in rural household will make it possible to invest in education, health and nutrition which have a positive and long term impact on productivity (Zeller, 1997). Increasing productivity and income as a result of availability of financial services results to livelihoods protection and improved standard of living. Availability of credit to the majority of rural people promotes self – employment in the informal sector hence reducing rural to urban migration for the active labour. Access to appropriately saving financial products enables the rural households develop the saving culture which in turn results to future self capital accumulation. Delivery of financial services to the rural poor through regulated institutions saves the poor from money lenders who often charge higher interest rate.

2.11 Training and Capacity Building of SACCOs

The two SACCO unions, KUSSCO and KERUSSU, both provide training. KUSCCO has a greater outreach because of its better-endowed training and consulting services department. KERUSSU relies heavily on managers from well-functioning SACCOs for most of its trainings. Both Unions also offer international training opportunities through their international partners. SACCOs usually have to pay market prices or at least payments that cover the costs of the trainings. KUSCCO has very limited access to donor funds for training. This however results in only the small proportion of large SACCOs affording most training.

The progressive SACCOs are using partnerships with service providers, including the Cooperative Bank, to strengthen their technical capacity in areas such as international remittances, ATMs, internet banking, and loan and accounts management systems. SACCO boards and staff also learn from each other by visiting more progressive SACCOs who already pioneered a new product or service such as microfinance loans or a new loan management software. For example, a number of progressive SACCOs are planning to use the same loan management system developed by a software Company for Baringo Teachers SACCO. One source of trainings that the SACCOs seem to be underutilizing is the training institutions in the microfinance sector. Microsave Kenya (www.microsave.com) is a good example of such institutions.

There are also some donor-funded training activities. WOCCU is planning to work directly with a small group of progressive SACCOs to help them to modernize their management systems. The Swedish Co-operative Center is also supporting a training project through the Co-op Bank to provide training to new rural community based SACCOs. The challenge for donors and international TA providers is to build local capacities in providing training. In the past, this has not always been the case.

2.12 Conclusion

The cooperative sub sector in Kenya cuts across all sectors of the economy. The SACCOs take care of agriculture production, processing, marketing and service industry. Overall the major benefits that accrue to Kenyans through SACCOs include creation of employment, settlement of the people and generation of income and acquisition of property. In addition to the more conventional functions of marketing and production, SACCOs increasingly serve as agents of social and economic change, and therefore are vibrant civil society actors. Therefore SACCOs are unique institutions that balance and negotiate relationships between their members, communities, traders, the state and international commercial traders.

Empirical studies including review of banking status in both rural and urban areas of Kenya and studies on rural financing indicate a lack or limited financial services in the greater part of rural areas. Limited access to financial services impairs the level of productivity, particularly in the agricultural sector due to lack of inputs.

Finally, the review of empirical studies has revealed the existence of government initiatives in promoting rural financing which include among others the financial sector reform and the promotion and review of Cooperative movements in Kenya to facilitate financial service delivery. It is on the basis on challenges which exist in rural financing in Kenya that the study decided to explore the role of Savings and Credit Cooperative Societies (SACCOs) in facilitating rural financing in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the study was conducted in data collection and analysis. It describes the research design, the area of study, the research approaches, the research sampling, the population of the study, the sample size, data collection methods, the data collection instruments and the analytical tools for data analysis.

3.2 Research Design

A research design is a logical and systematic plan prepared for directing a research study. It specifies the objectives of the study, the methodology and techniques to be adopted for achieving the objectives (Mugenda and Mugenda, 2003). The research design was descriptive study.

3.3 Study Population

The population of the study comprised of SACCOs in Embu County. There are 7 SACCOs in the county. The county is divided into three that is Embu East, Embu West and Embu North.

3.4 Sampling Strategy

A census of all the SACCOs in Embu county was done. Purposive selection was necessary because the study could not cover all rural based SACCOs in Kenya based on time and financial constraints. Purposive or Judgmental Sampling means a deliberate selection of sample units that confirm to some pre- determined criteria. It involves a selection of cases which we judge as the most appropriate area for the study. It is based on the judgment of the researcher. It does not aim at securing a cross section of a population (Mugenda and Mugenda, 1999).

A sample is a subset of a particular population (Mugenda and Mugenda, 1999). Twenty (28) SACCO members (respondents) were selected using random sampling techniques while 7 respondents i.e. Board members were selected through use of purposive sampling. Therefore, in total 35 (thirty five) respondents were sampled from the seven SACCOs in Embu county.

3.5 Data Collection and Instrumentation

The researcher collected data by the use of questionnaire, which were both open ended and close ended questions. The researcher used the drop and pick method of administering the questionnaire. The use of this instrument was advantageous because it requires less manpower and is convenient and cheap. It also enables the researcher to gather in – depth information on the phenomenon under investigation with a view to achieving the research objectives and in answering the research questions. However, this method may have limitation of low response rate. Nevertheless the method was appropriate because it eliminated any bias or personal opinion on the respondents and also gave them ample time to fill the questionnaires.

3.6 Data Analysis and Interpretation

The data collected was both primary and secondary data. The primary data were the questionnaires filled by the respondents and the secondary data was documents perused from the journals. The data was both qualitative and quantitative. Qualitative data will be analyzed descriptively to give clear interpretation whereas the quantitative ones will be analyzed using the Statistical Package for Social ScienceSoftware (SPSS) version17 for factor analysis.

3.7 Data Validity and Reliability

The degree of accuracy and reliability of data greatly depends on the approach and methods employed during data collection. To ensure accuracy and reliability of data, sufficient time was allocated in the section of reliable persons who are SACCO members and board members of the SACCOs. The respondents were also be given a brief back-ground and purpose of the study for more transparency and provision of realistic data. Information collected from various SACCOs members were counterchecked at other possible sources to ensure accuracy. The study also referred to documentary sources to enrich the study findings. In that way, the degree of reliability and accuracy of data was enhanced.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 INTRODUCTION

This chapter focuses on the analysis of data and the presentation of the research findings. It assesses the role of Savings and Credit Cooperative Societies (SACCOS) in facilitating rural financing in Kenya. This analysis is based on the research questions.

4.2 Demographic description of the respondents

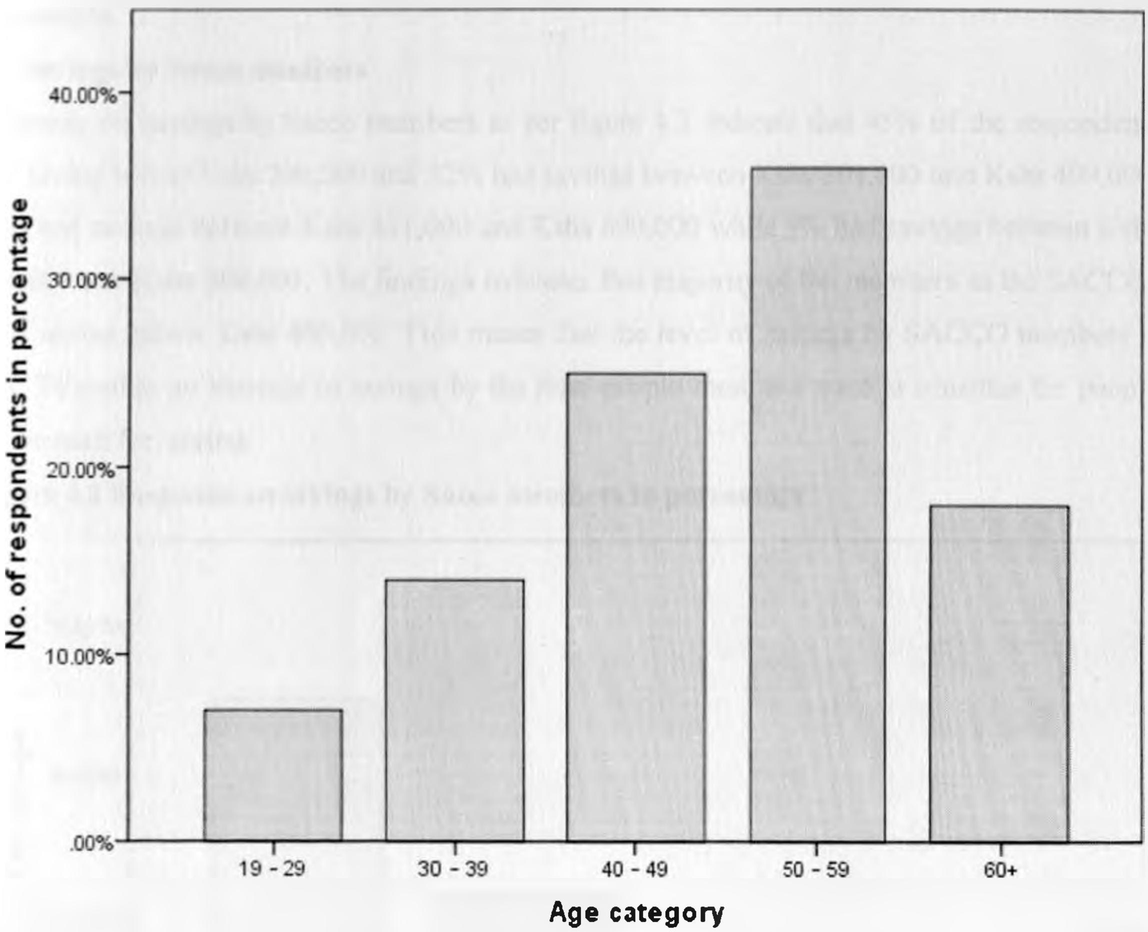
4.2.1 Category of respondents

Out of the 35 study respondents, a total of 7 which is equivalent to 20% were board members while 28 respondents equivalent to 80% were SACCO's members. The proportion of the SACCO members was higher since they are end users of SACCO's financial products and services. The study involved 7 board members and 28 SACCOs' members. Out of the 35 questionnaires issued to the respondents 28 were returned and 7 were not returned in percentage response rate was 80% and non response rate was 20%.

4.2.2 Age characteristics

The age of respondents were categorized in five groups as per figure 4.1 to assess the group which had more membership and in need of financial services from the SACCOs. It was observed that the age groups with more membership to the SACCOS were the age between 40 - 49 and 50-59 years with a percentage of 25% and 36% respectively. The same age groups 86% was married. The major reasons seem to suggest that the age groups in question are economically more active and more responsible for family life. This reveals that the youth groups which fall under the category of 19-29 years of age do not have much concern in SACCOs membership as indicated by the 7% response. Hence, more sensitization should be made to attract more youth membership to the SACCOs. This could be achieved by developing attractive products to suit their needs.

Figure 4.1 Age category of SACCOs respondents



Source: Author, 2011

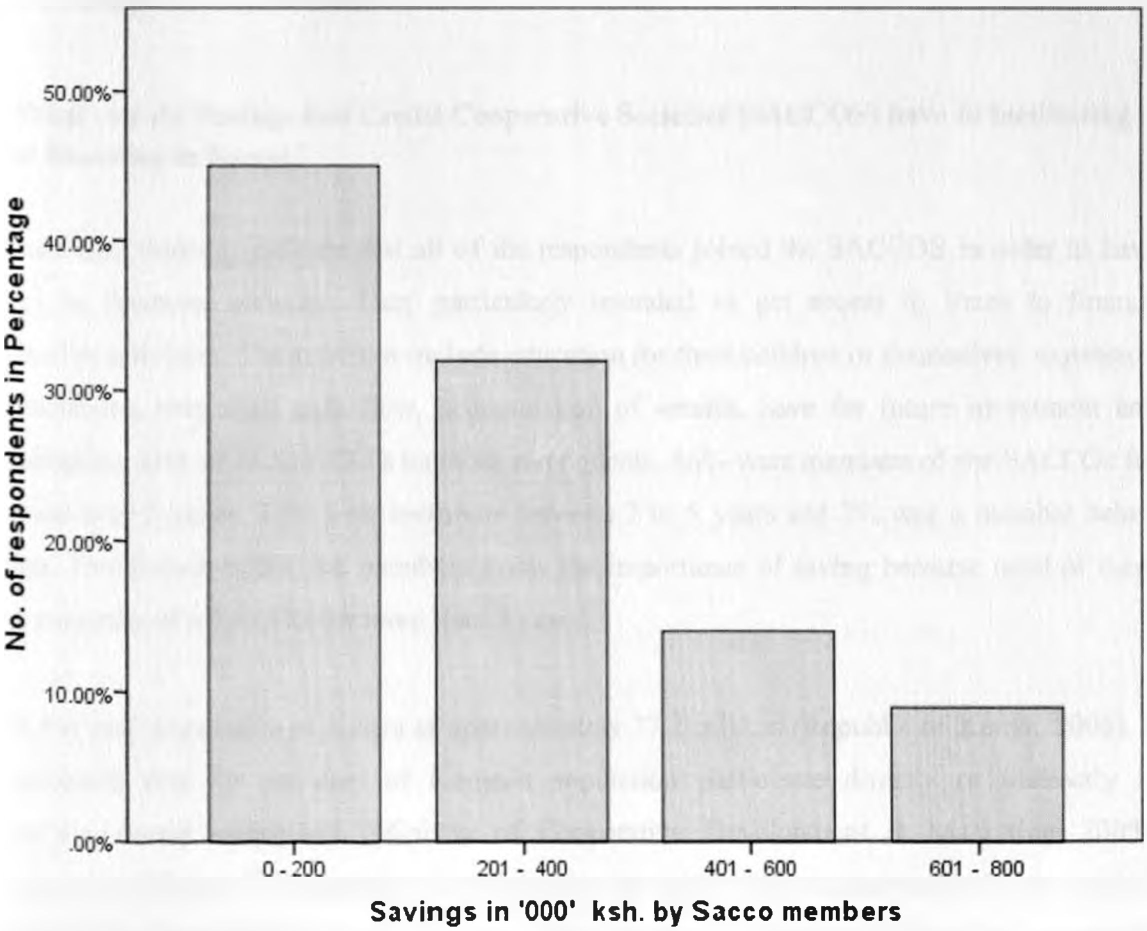
4.2.3 Gender of SACCOs respondents

The study found out that a total of 21 respondents equivalent to 75% of the SACCO's members were male while 7 SACCO's members respondents equivalent to 25% percent were female. The ratio of women may have been attributed to lack of knowledge and understanding of SACCOS by the majority of women in the rural areas. The ratio is also attributed to lack of money by the majority of women, who do not own assets. Such a higher a proportion of percentage disparity between the male and the female could also be attributed to the fact that there were few women who were SACCO's members who were willing to be elected as leaders in SACCO's management boards. It could also be attributed to the African Culture especially in the rural areas whereby most women do not possess assets. In this regards men are more likely to be in SACCOS as women could often rely on the membership of their husbands in relation to households.

4.3 Savings by Sacco members

Response on savings by Sacco members as per figure 4.2 indicate that 45% of the respondents had saving below Kshs 200,000 and 32% had savings between Kshs 201,000 and Kshs 400,000, 14% had savings between Kshs 401,000 and Kshs 600,000 while 9% had savings between Kshs 601,000 and Kshs 800,000. The findings indicates that majority of the members in the SACCOs have saving below Kshs 400,000. This means that the level of savings by SACCO members is low. To enable an increase in savings by the rural people there is a need to sensitize the people on the need for saving.

Figure 4.2 Response on savings by Sacco members in percentage



Source: Author, 2011

4.4 Where else do Sacco members get financial services apart from the SACCOs?

The study found that the financial services offered by the SACCOs are not sufficient and therefore the members source for financial services from commercial banks, merry-go-rounds and rotating Savings and Credit Association (ROSCAs). ROSCAs is an advanced version of merry go round where the members contribute some monthly shares and also disburse loans to members. They have their roots in the traditional mutual guarantee system. The actual number of ROSCAS in Kenya is not known, however these associations provide credit to many low-income people. A typical ROSCA involves a group of 5 to 30 members. The association offer short-term loans to members at interest rates that range between 5-20% per period. Some ROSCAs and especially in Rift Valley are financially very strong and have managed to buy assets such as land and buildings. Merry-go-round is composed of less than 20 members who contribute a specified amount of money regularly. Members vote on who is to be given lump sum amount. This model does not charge any interest rate.

4.5 What role do Savings and Credit Cooperative Societies (SACCOS) have in facilitating rural financing in Kenya?

The research findings indicate that all of the respondents joined the SACCOS in order to have access to financial services. They particularly intended to get access to loans to finance productive activities. The activities include education for their children or themselves, expansion of businesses, smoothen cash flow, accumulation of wealth, Save for future investment and consumption. Out of 28 SACCO's member respondents, 86% were members of the SACCOs for a period over 5 years. 11% were members between 2 to 5 years and 3% was a member below 2years. This indicates that the members know the importance of saving because most of them were members of a SACCO for more than 5 years.

With the total population of Kenya at approximately 37.2 million (Republic of Kenya, 2008), it is estimated that 63 per cent of Kenya's population participate directly or indirectly in cooperative-based enterprises (Ministry of Cooperative Development & Marketing, 2008). Indeed, the Ministry of Cooperative Development and Marketing estimates that 80 per cent of Kenya's population derives their income either directly or indirectly through cooperative activities. Empirical evidence shows that cooperatives play an important role in Kenya's economy. When one takes into consideration that about 80% of the Kenya's population is rural based, it is a fact that the majority of Kenya's population lacks financial services, which are vital for promoting production. The statistics call for initiatives to be made by the government by mobilizing the people to join SACCOS so that they can have access to financial services for promoting productivity.

4.6 What is the regulatory and operational framework for Savings and Credit Cooperative Societies?

On the basis of the documentary information and observation methods, the study found that According to the ministry of Co-operative Development Kenya (2010) SACCO societies were first registered in Kenya as a thrift licensee in 1964 with the objective of mobilizing savings from members. In the year 2009, the Ministry of Co-operative Development realized the need to have a regulator for the SACCOs which culminated into the SACCO Societies Act 2010 giving rise to the SACCO Societies Regulatory Authority (SASRA) According to the SACCO Societies Act (2008) SASRA has the mandate of licensing SACCOs to carry out deposit taking activities, regulate and supervise deposit taking SACCOs, manage the deposit guarantee fund and advise the minister of Co-operative Development.

Concerning the Savings and Credit Cooperatives supervisory structure in Kenya, the study found that there is a well established governance structure to ensure that cooperative societies including Savings and Cooperative Societies are well managed. Starting from the ministry level there is a dedicated Cooperative department which is represented down to the district level. These findings were in line with the Cooperative Societies Act, 2008 directives regarding cooperatives management in the country. However, it was observed further that there is a great knowledge gap among the majority of SACCOs' members regarding their rights and obligations. There is need for the training of both members and board members in order to understand the institutional framework and how to exercise best practices in SACCO's management.

4.7 What are the services and products offered by savings and Credit Cooperative Societies?

The research findings indicate that the most common financial products which SACCOs members frequently benefit from the SACCOs are loans which include development loans, education loans, housing loans and emergency loans as shown in figure 4.3 below, 96 % of the SACCO members indicated that they frequently benefit from SACCO loans while 4% indicated they benefit from other services. Other services include life and loan insurance, funeral insurance offered by the SACCOs. In assessing financial products and services offered by SACCOS, it was revealed that most SACCOS focused on granting loans to their members leaving other forms of financial products which include deposit products, money transfer and insurance and shares investment. Shares which is one form of investment where returns depending on the number of shares one holds are paid in form of dividends. Savings which is done through various savings products offered in the SACCO, namely, the liquid which permits unlimited number of withdrawals. The semi –liquid with a restricted number of withdrawals per month, and the fixed deposits.

Figure 4.3 Financial products by SACCOs

Source: Author, 2011

4.8 What benefits have members realized after becoming SACCOs' members?

The study found that the SACCO members benefit from a great deal from SACCOs. Saving is the key benefit that members get from the SACCOs. A member of SACCO is eligible for a loan.

The loans are intertwined with saving. A member will borrow from an organisation at fair and reasonable rates of interest and with easy terms of repayment, invest to get enough money to cater for their needs and boost their savings potential.

Free sensitization, education and training on saving. SACCOs have programmes through which they sensitize, educate and train members of the rural communities on a range of issues ,ranging from saving products and services to business practices, health and other social issues. Provide service to members such as financial counseling so that the members can solve most of their financial problems, and the risk of management service to ensure the safety of members' savings and loans. Most members become share holders in the respective organisations that they save with. Hence SACCOs offer opportunity for investment.

Exchange visits with more developed SACCOs. Such visits are used as case studies through which members are educated on the importance and benefits of saving organisations. SACCO members also benefit from incentives for loan payers, clients and borrowers who service their loans faithfully. There are also added services: such as, money transfer. As the institutions grow, so does their capacity and ability to offer a wide range of services.

Some of the SACCOs have income generating project that members benefit from. Some of the SACCOs stimulate the sense of ownership through electing some of their members into leadership position not exempting a position on the management board. SACCOs also strengthen family ties thus promoting peace; this is true for the main factor of family instability is the financial problem, often caused by mismanagement of the family income. In SACCOs people are shown how to avoid the pitfalls of money mismanagement; this strengthens love and family ties.

4.9 To what extent are SACCOS effective in facilitating rural financing?

The research findings revealed that most SACCO members are involved in agriculture, trading or animal husbandry. Therefore the loans they obtain from the SACCOs are for developing their economic activities. The research findings also found that the funding from SACCO members usually suffice the members activity this is because the members have been able to develop socially and economically. The development loans offered by most SACCOs have been used to buy land; build houses; invest in businesses and farming, buy household furniture and meet other family obligations. The contribution of cooperatives to poverty reduction, poverty prevention and social protection should be appreciated in this light. SACCOS being a financial provider, can provide credits, accept deposit and savings, offer money transfers and facilitate insurance of members' assets. Well managed SACCOs can easily facilitate financial transactions at a cheaper cost compared to commercial banks due to easy access to customers and low cost capital from members' savings and deposits.

The research findings found that apart from direct financial services which members benefit from the SACCOs. They also benefit from training services which are offered by the SACCOs. Training on business management, strategic planning, entrepreneurship, savings benefits, importance and its meaning. The research findings obtained that the management gets feedback on the level of satisfaction through questionnaires issued to members. There are also frequent meetings with the members, this is enabled by the fact that members of the SACCOs are from the same village therefore they are reached with ease.

Therefore, there is great scope for Kenyans SACCOs to develop and accommodate a much higher percentage of the population in terms of having a straightforward access to saving and borrowing (Alila, 1991). Small and medium enterprises in Kenya is limited due to high risks in the related sector, inability to fulfill collateral requirement and high screening costs by banks due to small loans spread over big areas. These constraints become more problematic when it comes to rural financing. Ideally, the presence of a big number of SACCOs which is capable of providing the required financial services serves as a critical instrument in economic growth through the promotion of productive activities in a much greater part of Kenya particularly in rural areas than otherwise.

4.10 What challenges do SACCOs experience?

The research findings revealed that SACCOs experience a number of problems. These include poor management, low level of education to members, low capital, loan default rate and political interventions all of which hinder the development of sustainable institutions. The highlighted problems limit SACCOS from operating in an efficient and effective manner.

Table 4.1 Factor Analysis on the Challenges faced by SACCOs

	Challenges faced by SACCOs
F1	Poor management
F2	Low level of education
F3	Low capital
F4	Loan default
F5	Political intervention

Source: Author, 2011

Table 4.2 Correlation Matrix-challenges faced by SACCOs

Factors	F1	F2	F3	F4	F5
F1	1.000	0.587	.498	.513	-.070
F2	.587	1.000	.601	.542	-.066
F3	.498	.601	1.000	.406	-.206
F4	.513	.542	.406	1.000	-.105
F5	-.070	-.066	-.206	-.105	1.000

Source: Author, 2011

High correlations were noted between poor management and low level of education at 0.587, and between poor management and loan default at 0.513. The study also noted that there were high correlations between low level of education and low capital; loan default respectively as shown by coefficients 0.601 and 0.542 respectively.

Table 4.3 Communalities- Challenges faced by SACCOs

	Extraction
Poor management	.751
Low capital	.720
Low level of education	.695
Loan default	.578
Political intervention	.364

Source: Author, 2011

Extraction Method: Principal Component Analysis.

The biggest challenge faced by Saccos from the analysis is poor management at 75.1%, followed by low capital at 72.0%; then followed by low level of education at 69.5%; then loan default at 57.8% and lastly political intervention at 36.4%.

Table 4.4 Total Variance Explained- Challenges faced by SACCOs

	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.092	28.112	28.112	3.013	27.387	27.387
2	1.521	13.828	41.939	1.532	13.928	41.314
3	1.134	10.310	52.250	1.194	10.859	52.173

Source: Author, 2011

The eigenvalue is the total value variance explained by each factor. Any factor that has an eigenvalue of less than 1 does not have enough total variance explained to represent a unique factor. And it is therefore disregarded. The three challenges that had eigenvalues greater than 1 were extracted and all contributed to 52.25% of the total variance.

It can therefore be concluded that poor management, low level of education and low capital are the major challenges that face Saccos.

4.11 Summary and interpretation of findings

According to the research findings most people residing in Embu County are farmers mainly involved in cash crop farming (Tea and Coffee) and dairy farming. Farmers under this scheme begin a SACCO catering for their needs in the area. Crop sales are paid to farmers through the SACCO. Members may be loaned amounts related to the size of their savings. Normally loans are paid during crop sales though repayments can be made anytime. This confirms the fact that owing to the poor access of formal financial services in the rural areas, the formation of SACCOS was advocated and encouraged by the Government as one way of promoting access to financial services.

The rural SACCOs, have a common bond in residences and associations. Members of these schemes usually reside in the same village, and rely on the same primary cooperative society for crop sales and other activities like dairy farming. In SACCOs savings are linked to credit. The SACCOs have helped to address the bias that often prevails against individual borrowers who are located in rural areas which are sometimes not easy to reach. The SACCOs have functioned as a bridge between individual borrowers particularly small borrowers and the formal financial institutions. SACCOs have had a substantial role in the mobilisation and allocation of otherwise untapped resources. Like the formal financial institutions, SACCOs are found in both rural and urban areas.

These societies are willing to offer even small sized loans to members which is something that the formal financial institutions will not do in view of the high costs of administration, and lengthy procedures involved in processing information before a decision is made to give out a loan. The high transaction costs, inadequate information and the associated perception of high risk associated with rural finance have limited the growth and development of rural financial services in the country. The financial institutions that have utilized the knowledge and proximity of established institutions in the rural areas have tended to do better. Through SACCOs these institutions have extended credit to small borrowers in the rural areas some of which are otherwise not easily accessible. Unlike banks that experience low loan repayment rates from peasant borrowers, SACCOs loans have lower default rates. Borrowers know that the loans come from savings of the community. Community pressure, access to information and close follow up all have been combined to enhance access even without having to use conventional forms of collateral.

A number of rural schemes operate under a savings-first arrangement whereby potential borrowers have to pay cash deposit before they can apply to borrow a maximum of twice the amount they have saved with the programme. Thus, loan size is linked to level of savings. With the high borrowing transaction costs associated with the loans, farmers who can deposit only small amount of money can hardly participate in the programmes. As such, linking the amount of loan to the level of savings, in trying to minimize risk costs, prevents poor people to enhance their credit worthiness by demonstrating their savings abilities to lenders. Thus the regulation limits access to loans by the poor farmers. Under these circumstances, pooling savings through institutional arrangements such as SACCOs helps to address this problem.

According to the research findings the standard of living of people residing in Embu County have greatly improved this is because by being members of a SACCO, they are able to obtain loans that enable them educate their family members and get involved in activities that empower them economically. The loans enable SACCO members smoothen their cashflows and also enable them to save for future investment and consumption. This proves the fact that rural finance has positive impact on household economic conditions. At household level in the rural areas it is often difficult to separate financial needs of enterprise/business households activities from other financial needs of individual households. This presents itself as a challenge for financial service providers to formulate appropriate instruments which can address both enterprise and individual household needs such as school fees and costs associated with health care. If these are not catered for then even the performance of enterprise activities can be affected. For instance, diversion of resources to other basic needs can reduce resources available for enterprise development thus disrupting their performance.

According to the research findings the members of the SACCOs borrow loans in small quantities and are able to meet their needs. This has shown that availability of financing, even small amounts has a very positive impact on the family's economic condition as it helps to unlock productive potential. Provision of a range of financial services including credit, savings, and insurance to poor enterprises and households, can offer the potential for growth and help safeguard poor households against extreme vulnerability. Loans, savings, and insurance help even out income fluctuations and maintain consumption levels during lean periods. Evidence from rural finance clients demonstrates that access to financial services enables poor people to increase their incomes, build assets, and reduce vulnerability. It also translates to better nutrition and improved health outcomes. These experiences suggest that providing affordable financial services to the rural population deserves high priority in development.

On the basis of the documentary information and observation methods, the study found that the cooperative movement structure in Kenya has gone through a number of processes. The Ministry of Cooperatives has ensured the enactment of the new Cooperative act, 2008 relating to Savings and Credit Cooperatives societies. The study found that there is a well established governance structure to ensure that cooperative societies including Savings and Cooperative Societies are well managed. However, it has been observed further that there is a great knowledge gap among the majority of SACCOs' members regarding their rights and obligations. This necessitates the training of both members and board members in order to understand the institutional framework and how to exercise best practices in SACCO's management. The researcher noted that a majority of SACCOs in Embu county experience a number of problems including poor management, low level of education to members, low capital, increased loan default rate and political interventions all of which hinder the development of sustainable institutions. The highlighted problems limit SACCOs from accessing financial services from commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The researcher undertook a task of exploring the role of Savings and Credit Cooperative Societies in facilitating rural financing in Kenya. An analysis of the various financial services and products was done and the extent to which SACCOs are effective in facilitating rural financing was assessed. Data was collected through questionnaires. The study used a sample size of 35 respondents, which comprised of SACCOs members and SACCOs board members. The researcher presented the data by the use of charts, percentages and graphs.

The study findings revealed that a majority of SACCOs offers Credit and saving facilities only to their members while other services like money transfer, insurance and deposit products are limited. The research findings revealed that most SACCO members are involved in agriculture, trading or animal husbandry. Therefore the loans they obtain from the SACCOs are for developing their economic activities. The research findings also found that the funding from SACCO members usually suffice the members activity this is because the members have been able to develop socially and economically. The development loans offered by most SACCOs have been used to buy land; build houses; invest in businesses and farming, buy household furniture and meet other family obligations. The contribution of cooperatives to poverty reduction, poverty prevention and social protection should be appreciated in this light.

The study also revealed that a number of SACCOs were experiencing poor management, low membership, and a low level of knowledge on the part of members. The people in which SACCO societies are established have a very strong economic motive to have their own financial institution that will enable them promote and encourage for development of more saving culture and provide them with sustainable financial service flow for more investment in their individual economic activities. Therefore with training of both SACCO members and board members will enable them to understand the institutional framework and how to exercise best practices in SACCO's management.

The conclusion of the study was that if SACCOs are managed sustainably, they can play a critical role in facilitating rural financing. This can be achieved by the individual SACCOs employing competent management employees who will ensure that the SACCOs are run in an efficient and effective manner. The researcher further recommended that in order to improve sustainability and ensure provision of knowledge for best practices, the government should put in place reliable mechanisms to the SACCOs.

5.2 Conclusion

It can be concluded from the findings of this study that Savings and Credit Cooperative Societies can play a significant role in facilitating access to financial services and products in most areas, particularly the rural ones where most commercial banks and financial institutions do not have business operations. SACCOs being a financial provider, can provide credits, accept deposit and savings, offer money transfers and facilitate insurance of members' assets. Well managed SACCOs can easily facilitate financial transactions at a cheaper cost compared to commercial banks due to easy access to customers and low cost capital from members' savings and deposits. From the research findings, it can be learnt that similar products which are offered by commercial banks can be tailored and made available through SACCOs hence reducing the gap of limited access to financial services in most rural areas. This can be done by taking into consideration the economic activities that most rural people undertake. This is because SACCOs are well able to provide the service offered by commercial banks if well managed.

According to the research findings it can be concluded that the members of the SACCOs borrow loans in small quantities and are able to meet their needs. This has shown that availability of financing, even small amounts has a very positive impact on the family's economic condition as it helps to unlock productive potential. Provision of a range of financial services including credit, savings, and insurance to poor enterprises and households, can offers the potential for growth and help safeguard poor households against extreme vulnerability. Loans, savings, and insurance help even out income fluctuations and maintain consumption levels during lean periods. Evidence from rural finance clients demonstrates that access to financial services enables poor people to increase their incomes, build assets, and reduce vulnerability. It also translates to better nutrition and improved health outcomes. These experiences suggest that providing affordable financial services to the rural population deserves high priority in development.

The Supervisory authority which is the government through the Ministry of Co-operative Societies must strive for good governance and sustainable SACCOs in order to encourage more people joining and making use of the available financial products which in turn will promote productivity and improvement of social welfare. When SACCOs are managed well then a trust will be built on SACCOs thus more people have confidence in SACCOs thus will join them especially in the rural areas where banking services are limited thus leading to social and economic development in the rural area.

5.3 Policy recommendations

On the basis on the findings and conclusions of the study, the following recommendations have been made:

In order for greater population, particularly the rural people to have access to financial services, they should be sensitized to form SACCOs in their areas where they can access services easily. Education and awareness campaigns by the government and interested stakeholders in poverty eradication need to be emphasized so that more people may be aware of their rights and the possibility of accessing financial services from their self- owned institutions (SACCOs).

Supervisory authority need to emphasize adherence to good governance principles in managing SACCOs in order to boost members' confidence and trust. This may help to encourage more people to join SACCOs. To achieve this dream, SACCOs must be able to provide a variety of financial services and products to ensure institutional sustainability. Among the products that need to be emphasized, include insurance products such as funeral and credit life insurance, money transfer as well as developing deposit products with attractive features such as payment of interest to deposits in order to attract more depositors to the SACCOs, which also become source of capital.

There is also a need to develop tailor made products particularly credit products which can suit majority of the members in the society taking into consideration the nature of their activities. In most rural areas the major economic activity is agriculture. For effective production, farmers are to be facilitated with farm implements and farm inputs. In this case, SACCOs need to be developed to ensure that they offer demand driven products by offering credit products which fit member's requirements. In this case, mobilization of SACCO's capital from internal and external sources is important.

The government needs to allocate a sufficient budget in order to facilitate training and ensure that cooperative supervisors are well distributed in the country for easy monitoring of the SACCOs which are spread over wider areas. In order to monitor increased loans default rates to a majority of SACCOs, the legal framework and court practices should be revised to expedite the rulings of SACCOs' loan default cases. Similarly, the regulatory frame work should be able to take legal action including the seizing of personal properties of SACCOs' leaders who mismanage SACCO's resources.

5.4 Limitations of study

There were delays in receiving filled questionnaires from some respondents. Some of the respondents did not fill their questionnaire within the stipulated time. The respondents were unwilling to give some of the information I needed for my research due to the confidentiality of the information.

The collected data was from only one County therefore the findings from the research may not be fully generalized to other counties because some counties are unique and thus cannot be similar to the one from which data was collected.

Poor infrastructure was a challenge because it was very difficult to reach some of SACCOs. The researcher was also constrained in terms of finances since the study was self-sponsored and the researcher had to travel to collect data.

5.5 Suggestions for further study

The purpose of the study was to research on the role of Savings and Credit Cooperative societies (SACCOs) in facilitating rural financing in Kenya. Therefore, the researcher recommends that future studies should concentrate on the following areas:

Despite the dedicated government authority to support cooperative movements in Kenya, the management still remains a critical problem in many Savings and Credit Cooperative Societies in Kenya. What are the root causes?

Savings and Credit Cooperative Societies(SACCOs) being a community-based organization do not have stringent conditions for financial services to members, but the majority of Kenyans shy away from them. Why is that the case?

Savings and Credit Cooperative Societies (SACCOs) play a great role in rural financing however in most areas the significance can hardly be seen. What measures can be undertaken to ensure that the role is significant?

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APPENDIX I

QUESTIONNAIRES

a) Questionnaires for SACCO members

The role of Savings and Credit Cooperative Societies in facilitating rural financing in Kenya

Introduction

The purpose of this questionnaire is to collect data that shall enable the researcher to examine the role of savings and credit cooperative Societies in facilitating rural financing in Kenya. You have been selected to participate in the study because of your potentiality in provision of the required research information. Be assured that the information you will give shall be treated as confidential and will be used for the purpose of this study only.

Kindly, I request your cooperation in order to make this exercise successful by filling all areas of the questionnaire.

Part A: Personal particulars

1. Name (Optional)…………………………………………………………………………………

2. Age (Tick where appropriate)

- o Below 18yrs
- o Between 19-29yrs
- o Between 30-39yrs
- o Between 40-49yrs
- o Between 50-59yrs
- o 60year above

3. Marital status

- o Single
- o Married
- o Divorced
- o Widowed

4. Gender
    - o Male
    - o Female

Part B. Other information;

5. How long have you been a SACCOs' member?

   a) 1 to 2 years ( )

   b) Between 2 to 5 years ( )

   c) Over 5 years ( )

6. What influenced/made you to join the SACCO?

....

....

....

7. What kind of services/product do you get from your SACCO?

....

....

....

8. How does the loan obtained from the SACCO benefit you?

....

....

....

9. In which economic activities are you involved?

a) Agriculture ( )

b) Trading ( )

c) Animal husbandry ( )

d) Other (mention (if any)..

10. What amount of saving do you maintain at the SACCO?

....

11. Apart from SACCOs where else do you get financial services in your area?

....

....

....

12. Apart from direct financial services from SACCOs what other benefits have you realized after becoming a SACCOs' member?

....

....

13. What is the regulatory and operational framework for Savings and Credit Cooperative Societies?

....

....

14. What challenges do SACCOs experience?

- Poor management ( )
- Low capital ( )
- Low level of education for members ( )
- Loan default ( )
- Political intervention ( )

Thank you for your cooperation.

b) Questionnaires for board members

The role of Savings and Credit Cooperative Societies in facilitating rural financing in Kenya

Introduction

The purpose of this questionnaire is to collect data that shall enable the researcher to examine the role of savings and credit cooperative Societies in facilitating rural financing in Kenya. You have been selected to participate in the study because of your potentiality in provision of the required research information. Be assured that the information you will give shall be treated as confidential and will be used for the purpose of this study only.

Kindly, I request your cooperation in order to make this exercise successful by filling all areas of the questionnaire.

Part A: Personal particulars

1. Name (Optional)..

2. Age (Tick where appropriate)
   - Below 18yrs
   - Between 19-29yrs
   - Between 30-39yrs
   - Between 40-49yrs
   - Between 50-59yrs
   - 60year above

3. Marital status
   - Single
   - Married
   - Divorced
   - Widowed

4. Gender
    - o Male
    - o Female

Part B. Other information;

5. How long have you been a board member in the SACCO?

    a) 1 to 2 years ( )

    b) Between 2 to 5 years ( )

    c) Over 5 years ( )

6. What kind of services/product does the SACCO offer to members?

....

....

....

7. What benefit do the services/products offered by the SACCOs have on the SACCO members?

....

....

....

8. How does the management get feedback from SACCO members on the level of satisfaction on the products/services offered by the SACCO?

....

....

....

9. What challenges do SACCOs experience while dealing with the members?

....

....

....

Thank you for your cooperation.

Appendix II

List of SACCOs in Embu County

Embu West

1. Embu Teachers Sacco

2. Embu Farmers Sacco

3. Tuungane tujijenge Sacco

4. Bimas Sacco

5. Ack Mwireri Sacco

Embu East

6. Rukuriri Sacco

Embu North

7. Muungania Sacco