THE EXTENT OF DELAYS OF LOAN REQUESTS TO MEMBERS IN SACCOs OPERATING AT NAIROBI PROVINCE

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DECLARATION

This research is my original work and has not been presented for any other Degree in any other University or Institution.

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DEDICATION

This work is dedicated to all SACCO members and all my colleagues in MBA class to whom they have one common mistake, they were late to undertake their research projects, but still, they did. The task becomes easy when it is difficult to all.

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ABSTRACT

According to SACCO star (2006), quite a number of SACCOs have a long string of pending loan applications from members. Some SACCOs pay out little or no dividend/ interest on members' savings. Some others still have a low loan multiplier and / or limited concurrent loans. The study was undertaken in order to determine the extent of delays in payment of loan requests and investigate factors contributing to delays in loan payment to the members after requisition. The study was a sample survey that targeted SACCOs operating in Nairobi province. Senior members of SACCOs committee were the respondents. A questionnaire was used to collect the information. The data collected was analysed using percentages and mean scores.

The finding of the study revealed that there have been delays in receiving loan money by Saccos members after making loan requests. This has delays has taken main forms such as delay in release of loan application forms, a lot of paper work in the process and lack of know how among applicants on the application process. These delays affect customers' satisfaction negatively.

Further, study found that savings mobilization, loan duration, borrower check-off remittance system, strategic alliances and management policies and practices are some of factors contributing to delays in payment of loan application by Saccos. However, the effect of loan duration is most high followed by the management policies and practices then strategic alliances and savings mobilization. Strategic alliances with other institutions have the least effects.

The study recommended that there is need to employment of additional personnel to handle large number of applications and computerization of the application process. Also there is need to charge higher interest rates for loans with repayment period above three years as indicated by respondents.

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CHAPTER ONE

1.0 Introduction

1.1 Background of the Study

One of the basic principles of the Co-operative Savings and Credit movements is the belief in co-operation and mutual self help for the uplifting of members standards of living (KUSSCO, 2006). Members with a common bond join hands to form those quasi-bank institutions. With finances mobilized through such joint efforts the savings and credit society members build up the capital which they can use through local arrangement to finance their own social as well as economic development.

For the purpose of this study, Maina (2005) defines a loan as the amount granted from the members' accumulated savings or external funds sourced by the cooperative society. However the use of external funds for granting loans to members is not a common practice for cooperative societies as they use the member savings because it is a cheap source of funds. There are two major types of loans i.e. Short term and long term loans. Short term loans are repayable within a year and normally meant for school fees and other emergency expenses. Long term loans are normally referred to as Development loans and repayable in a period of more than one year. They are mainly used for financing projects and therefore they increase the members' earning capacity through the success of the projects to be funded by the loans.

Savings and Credit co-operative societies (commonly referred to as "Saccos"), accept monthly payment for shares from which, members may borrow an amount equivalent to two or three times their own savings if they can get other members to guarantee them, (Odepo and Nyawinda, 2004). They said that growth in SACCOs in the last twenty years has been spectacular. According to stastics from Kenya Union of Savings and credit co-operative societies (KUSCCO), the number of Saccos rose from 630 in 1978 to 3,870 by the end of October 2002 while Savings and Share Capital rose from Kshs. 375 Million in 1978 to Kshs. 80 billion by 2003. Credit outreach similarly recorded significantly, having risen from Kshs. 375 million in 1978 to Kshs. 70 billion by 2003. SACCOs' active membership numbered over 1.5 million by 2002 having risen from 378,500 members in 1978. Their rapid growth indicates that they have filled a need, which had not been met by other financial institutions. Of the Kshs. 110 billion in current share capital and deposits held by co-operatives, the statistics show that Kshs. 90 billion has lent out to customers. However, the recent statistics from the ministry of Co-operative Development and Marketing shows the position as below:

Table 1.1: Sacco statistics from year 2000 to 2005

Description	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Total Active Saccos	2,699	3,351	2,990	2,503	2,845	3,187
Dormant	928	574	1,030	1,697	1,629	1,491
Total Saccos	3,627	3,925	4,020	4,200	4,474	4,628
Active Members	2,423,092	2,141,729	2,506,153	2,720,103	3,528,662	4,556,316
Dormant Members	246,917	465,271	635,552	780,002	113,338	45,684
Membership	2,670,009	2,607,000	3,141,705	3,500,105	3,642,000	4,602,000
Share capital/ Deposits (in million)	54,090	63,497	70,394	74,215	93,335	101,686
Turnover (in million)	7,790	8,882	8,996	9,761	10,359	11,609
Loan given (in million)	31,621	37,240	46,932	43,093	55,104	67,115
Loan repayment (in million)	24,775	20,949	32,359	29,815	35,933	42,050
Amount outstanding (in million)	9,874	28,377	53,337	50,078	68,911	87,744
Amount defaulted (in million)	276	756	4,042	3,624	4,583	5,542
No. of Defaulters	5,742	19,828	71,291	45,697	64,134	72,571
No. of loanees	392,891	400,306	400,893	482,329	464,549	546,769
No. of Employees	2,020	2,244	2,937	3,257	4,347	6,838

Source: District Annual Reports Analysis by the Ministry of Cooperative Development & Marketing.

The table 1.1 above shows that just between 11% and 16% of the members were given loans in the entire period of 6 years. The table also shows that the loan advanced as a percentage of the total deposits was ranging between 58% and 67% for the 6 year-period. The default rate ranged between 0.8% and 8% of the total loans advanced over the six years. From these statistics, Saccos still has an internal potential not fully utilized. The internal management principles need to be enforced strongly to improve efficiency of collections, and even perhaps consider insuring the loans in case of demise of the member loaned.

The Sacco movement has the capacity to propel the economic lives of the citizens if indeed it is well managed. Its principles of democratic management, voluntary membership and common bond give it the base to take its members to new heights. The movement has been a boom for this country and many people would not be where they are now were it not for the harvests of the opportunities sowed in the garden of the movement, (Sambu, 2006). It mobilizes savings and finance and penetrates to areas not valued by other financial institutions, while serving special needs of members. The prospects for the industry are so huge. The statistics above shows that they have already mobilized savings in excess of Kshs. 100 billion. This can fund entirely the leading budget allocation for a ministry in 2005/06 financial year which was Kshs. 96.6 billion for the Ministry of Education representing 43.7 percent of the total budget allocation.

By identifying the fact that the easiest source of funding is the locally mobilized savings, the Saccos should come up with innovative ideas to encourage the members of the common bond to save, as a first step. Other sources of funds like the Co-operative bank, which all the Saccos have a stake in, should be considered exhaustively. Besides, they should think outside the box and get organisations willing to empower members economically by allowing loans at a rate less than what Saccos offer to its members. The Saccos umbrella body - Kuscco - has a fund to assist the member Saccos when they are in need of the funds. (www.kuscco.com).

Saccos face numerous challenges contributing to delays in payment of loan requests. (Mudibo, 2005) raised concern on the calibre of leaders who run Saccos noting that since these are voluntary organizations, members can elect anybody they like, who may not necessarily have the skills to run a Sacco. He suggested that before a member is elected, he should have a certain number of shares so that he has something to lose if he mismanages the Saccos. Non – remittance and delayed remittance of co-operative dues by employers has led to inconveniences and loss of income by the societies hence affecting loan advances. He also noted that over Kshs. 4 billion was being held by employers. New rules have however provided stiff penalties for errant employers. Membership is also at risk due to HIV/AIDS and ways to attract new members are required.

According to (Maina, 2007), some Savings and Credit Co-operatives have demonstrated the ability to mobilize large numbers of small, voluntary savings account, mainly from the low-income members of the society. Sound financial disciplines, Saver friendly product packages and aggressive member recruitment on the part of the co-operative can generate high levels of liquidity necessary to meet loan demands from members.

This liquidity will enable the co-operative establish a stable base of income for long-term financial self-sustainability, raising savings to fund their lending portfolios.

In his article *The Co-operative Movement in Kenya:The Eagle that Won't Fly* Nairobi, Ngumo (2005), Kenya Institute of Management, raises several unsettled issues affecting the Saccos. First, the government should decide whether to control or facilitate the co-operatives. Co-operative officers' role should be reemphasized. One-member-one-vote rule should be questioned. Instead, he suggests the policy of one-share-one vote. Still, ownership and control should be de-linked for good corporate governance. Then business strategies need further scrutiny before implementation. He concludes that it will be sad for Kenyans to compose a eulogy for the movement after all this time. He said, "We can not milk a cow, refuse to feed it, cry that it was a wonderful cow, and blame God for its demise."

1.2 Statement of the Problem

According to SACCO star (2006), quite a number of SACCOs e.g. Tena Sacco, have a long string of pending loan applications from members. Some SACCOs pay out little or no dividend/ interest on members savings. Some others still have a low loan multiplier and / or limited concurrent loans. A study is therefore necessary to establish the cause of these liquidity problems leading to pending loan applications.

Littlefield et al. (2003) explain that whereas it is undoubtedly important for members to take loans for various reasons, most of these loans are serviced through contribution of members through Savings mobilization. Inspite of this importance, most Saccos do not meet these loans either in full or in time. It is against this background that the purpose of this study was to investigate the factors contributing to delays in servicing the members' loans requirements.

1.3 Objectives of the Study

The main purpose of this study was to:

1. find out the extent of delays of loan requests to members in Saccos in Kenya,
2. establish the main causes of such delays of loan requests to members in Saccos in Kenya, and
3. make recommendations to reduce such delays of loan requests to members in Saccos in Kenya.

1.4 Research Questions

This study was guided by the following questions;

1. What is the extent of delays of loan requests to members in Saccos in Kenya?
2. What are the main causes of such delays of loan requests to members in Saccos in Kenya?

3. What are the recommendations to reduce such delays of loan requests to members in Saccos in Kenya?

1.5 Significance of the Study

The study aimed at developing an understanding on major factors contributing to delays in loan requests by Saccos in Kenya. It sought to examine and underscore the salient principle that have a bearing in meeting the loan requests and hence suggest ways and means of dealing with the loan delays.

The findings of the research can be benefit of the following among others;

Management of Saccos in the formulation of the loan policy. The research highlighted the factors that should be given critical consideration due to their impact on the successes of the Saccos in terms of the loan financing and value maximization. Management can able to see how their loan policies compare with those of other firms of similar size and those operating in the same industry can address the problems of delays of loan requests by the Sacco members.

The government through the ministry of Co-operative Societies and marketing can benefit in formation of a policy for Saccos and hence encourages the development of the co-operative movement in Kenya.

Scholars with interest on the subject of loan request by Saccos and who can use the findings of this research as a basis of conducting further research on the subject. The study adds to the body of knowledge in the finance discipline.

1.6 Scope of the Study

This study covered Saccos based in Nairobi Province. There are about 660 such Saccos as per the records of KUSSCO, 2007. A suitable sample from the population was selected by use of stratified sampling process. About 10% of the population (66 Saccos) were covered by the study (Appendix III). Study respondents were Treasurers i.e. the member of the central management committee (CMC) in the selected Saccos.

1.7 Assumptions of the Study

For the purpose of this study, it was assumed that;

1 Short term loans takes one day to be processed, and

2 Development loans/long term loans takes a maximum of one week from the date of receipt of the loan application form.

CHAPTER TWO

2.0 Literature Review

2.1 Introduction to Literature Review

Chapter one talked about the background, statement of the problem, objectives of the study, research questions, the significance, limitations and scope of the study. This section contains literature, which has been reviewed and will continue to be reviewed, related to the problem. This review is done to provide the researcher with the necessary reinforcement by providing documentary evidence and support to the ideas raised. It helps identify previous studies done in the area, and an opportunity to re-evaluate them in terms of limitations, strengths and weaknesses.

A review of books, journals, published articles, relevant laws and authoritative opinions on issues related to loan requests of Savings and Credit Cooperatives in general. Specifically, attention will be paid on loans and their requests, savings and their mobilization, long term investments, time duration/repayment period, default rate/Non performing loans, strategic alliance, support from parent organization/ check-off system and competence, skills and training of sacco officials.

2.2 Past Studies Done in this Area

2.2.1 Loans and their Requests

One of the main tasks of a Savings and Credit Cooperative is to use members' accumulated savings for granting loans to the same members, (Maina,2005). The loans are granted from the members' accumulated savings or external funds sourced by the cooperative. However, the use of external funds for granting loans to members is not a common practice in cooperatives. Member savings provide the cooperative with cheaper source of funds. Borrowing costs from the financial market could prove more expensive to the cooperative than savings mobilization from members. Members' loans from their cooperative attract a lower rate of interest than loans from other commercial institutions.

It is not that the loans are cheaper, but the loans are from their own savings and have avoided the profit element other commercial banks would have levied if the loans were obtained from them.

According to David T. Maina $ Murungi Kibanga(2004), there are two types of loans common in Savings and Credit Cooperatives; Short term and Development loans.

Short-Term Loans

These are those loans repayable within a year and are normally meant for school fees and other emergency expenses. The amounts are generally small and guaranteed by co-members. These loans do not help them to increase their overall earning capacity.

Development Loans

Development loans are for larger amounts and longer terms. These loans are important because they help the members to increase their income in the long run. They increase the members' earning capacity through the success of the projects to be financed by the loans. They are also referred to as long-term loans because the repayment period is usually for more than a year. They are further called income-based loans because they are repaid from net income or profit realized from the projects so undertaken and not salaries or the sale of assets.

These loans pay for buying or improving equipment, tools, farmland, buildings, workshops, vehicles, offices etc. These are the productive assets the members need for their various projects to earn income. The loans are repaid during several years from the members' cash profits after paying all production and other costs.

Management should, which most don't, concern itself with the repayment difficulties that can arise from these loans if proper analysis of the projects to be financed is not done. As indicated earlier, the ease with which the loans are availed to members coupled with unclear repayment system often impairs the members' ability to both manage the projects in a business manner and make rational financial judgement. Further, securing such loans by members' savings and co-signers only leaves the cooperative very vulnerable.

Management should consider securing such loans, in addition, with the inventory bought with the loan or other property.

2.2.2 Savings Mobilization

Most economists agree that income and/or wealth is the main driving force behind consumption and their saving. However, they disagree on which income drivers consumption/saving. The Keynesians used current/absolute income, Friedman applied permanent income Modigliani developed his own consumption theory based on permanent income over the life-cycle of household, and Dusembery focused on relative income, Schmidt-Hebbel and Severn (1996).

Keynes's absolute income theory is simple. As a household's income increase at any time it consumes and saves more. Friedman's permanent income is based on two concepts, one involving transitory income and the permanent income. The transitory income, or windfall income, is a temporary income change, which leads to an increase in savings rather than consumption. The permanent income is the income the household is sure of receiving.

This permanent income increases the household's consumption without changing its saving level, and can even decrease the saving level.

Modigliani and Brumber's lifecycle income theory holds that the consumption patterns of a household depend on the stage of its lifecycle. Over the lifecycle, income follows the consumption with a hump or belt-shaped pattern, with the difference as 'dissaving'. Consumption exceeds saving, thus creating dis-saving or probably borrowing when a household is younger. Savings reaches its peak, exceeding consumption, for a household in middle age, and then the household lives off its accumulated wealth/saving during retirement. Thus the propensity to save depends on age and differs systematically across age-specific cohorts.

Dusembery's relative income theory is based on the inelasticity of consumption patterns relative to a change in income, and concludes that consumption is always relative to the income of an individual household, and that of their friends. Credit makes it possible for people to keep their consumption level while their income goes down.

Keynes (1936) identified nine key reasons why people save; Precautionary motive: to build up a reserve against unforeseen contingencies. Life-cycle motive: to provide for an anticipated future relationship between the income and the needs of the individual.Intertemporal substitution motive: to enjoy interest and appreciation.Improvement motive: to enjoy gradually increasing expenditure. Independence motive: to enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action. Enterprise motive: to carry out speculative or business projects. Bequest motive: to satisfy pure miserliness (i.e. unreasonable but insistent inhibitions against spending money).Down payment motive: to accumulate deposits to buy houses, cars and other durables.

From a more practical point of view, households save for a number of reasons Vogel (1984, Zeller et al. (1998). Savings help to even out income streams that are subject to seasonal variations. In the absence of social security systems for the poor, savings can also serve as insurance substitutes in case of bad health, disability, sudden income losses and retirement. As a means of accumulating wealth, savings help to achieve the household's long-term goals, including social and religious obligations, and facilitating future investment and consumption Hannig and Wisniwki (1999). Rutherford (1999i) summarises these to: life cycle needs, emergencies and opportunities. Reciprocity is another reason where people save by lending.

Rutherford (1999b) wrote that finding these large sums of money is the main management problem. The only reliable and sustainable way is to build them from savings. Savings, making a choice not to consume – is thus the fundamental and unavoidable first step in money management, without which financial services cannot operate. The poor themselves recognise the need to build savings into lump sums and contrary to the popular belief, the poor people except those who are entirely outside the cash economy can save something, no matter how small, when poor people do not save, it is for lack of opportunity rather than for lack of understanding or of will.

Rutherford (1999b) identified three ways to convert savings into lump sums: Saving up, saving down and saving through. Saving up is when savings are accumulated in some safe place until they have grown into a useful large sum, saving down is when savers are given advance against future savings, then savings take form of loan repayments. Saving through is when savings are made continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits e.g. in insurance where premiums are savings.

Rutherford (1999b) identified ways in which poor people save. These are: The informal sector, Saving at home, Savings clubs – groups of people who save together and monitor each others, savings disciplines, money guards – keeps the money for others for free, but have freedom to use it in the meantime. Example is the rural kiosk/shopkeeper. Others are deposit collectors – charges fees for savings and are orderly, reciprocal lending – savings is advanced to a needy person then borrow from them later, informal insurance schemes, ROSCAs – merry – go – rounds or cash rounds e.t.c. ASCAs – regular deposits are made by members and accumulated and some members borrow from it, money lenders and pawn brokers – shylocks and cash against appliances, supplier credit.

The formal sector includes Saccos (Savings, Loans and Insurance products) – People come together to pool their savings, and that pool they take loans on which they pay interest which is in turn used to reward savers. Others are formal banks (savings and loan products) and insurance companies. In the semi – formal sector – MFIs (loan, savings and insurance products) – take compulsory savings which will act as security (collateral) for loans.

There are a number of factors that savers consider before entrusting their savings. Rutherford (1996) identified six key factors sought after by the rural poor when they are considering where to entrust their savings. These are, safety: will their savings be held safely by the bank or other deposit taken? Proximity to home or workplace. Are there nearby locations for making deposits and withdrawals? Prizes or bonuses for good saving. Can more be earned for diligent savers? High interest rates and quality of services: Are small depositors treated with respect and appropriate assistance?

Ndiangui (2005) said that Kenya's cooperative movement is a powerful resource mobilisation tool, but the resources have not been used properly. He noted that the movement is similar to retirement benefits scheme but has an advantage of a free hand to invest. He observed that cooperatives can act as ''community investment banks'' or community investment vehicles, where people would place their money in form of shares and the vehicle would seek to participate in bigger investments in Kenya and even abroad. He concurs that there is need for Cooperatives Acts to create a tough watchdog but at the same time make cooperative consulting regulated to spur some good study in to it, bring in powerful innovation in management and encourage mergers at some point and their costing at Nairobi Stock Exchange (NSE).

2.2.3 Long Term Investments

The investments decisions of a firm are generally known as the capital budgeting, or capital expenditure decisions, Pandey (2005). A *capital budgeting decision* may be defined as the firm's decision to invest its current funds most efficiently in the long – term assets in anticipation of an expected flow of benefits over a series of years. The long – term assets are those that affect the firm's operations beyond the one – year period. The firm's investment decisions would generally include expansion, acquisition, modernisation and replacement of the long – term assets. Sale of a division or a business (divestment) is also an investment decision. Decisions like the change in the method of sale distributions, or an advertisement campaign or a research and development programme have long – term implications for the firm's expenditures and benefits, and therefore, they should also be evaluated as investment decisions. It is important to note that investment in the long – term assets invariably requires large funds to be tied up in the current assets such as inventories and receivables.

Pandey (2005) stated the following as the features of investment decisions: The exchange of current funds for future benefits, the funds are invested in long – term assets and The future benefits will occur to the firm over a series of years.

Maina (2007) emphasized that there must be a clear investment policy or policies developed by the cooperative that is regularly reviewed which states among other things; The minimum amount to be invested, The minimum time for the investment, The criteria for selecting the investment and The investment procedure.

The principle of investment in cooperative is when there is cash surpluses so as to ensure the maximum interest yield for the cooperative, but within the constraint of full safety of principal and liquidity when cash is required. There can be no surplus/idle funds when members, loans demands are outstanding. Suitable investment securities will provide a sound balance between a return on idle cash and the ability to respond to unexpected cash demands – they will earn interest but will be quickly saleable at low cost and be virtually devoid of risk. Investment in real properties or high – risk commercial stocks and bonds should not only be discouraged, but must not be done at all. Cooperative directors and managers must operate within the cooperative by – laws and within the special limits imposed by cooperative laws and principles when making decisions on investments. Decisions touching on investment for savings and credit cooperatives should be those based on *cost – benefit analysis* and not the traditional *capital budgeting analysis* used by profit – oriented organizations.

Maina (2005) further emphasized that if the concept of cost – benefit analysis is not understood, then investments based on capital budgeting analysis will turn savings and credit cooperative societies into complicated businesses whose ownership will eventually be difficult to resolve, not withstanding resultant poor service delivery to members. Directors and Managers must satisfy themselves that any proposals for new outlays are evaluated against the accomplishment of the organization's mission. Does this allocation of members' resources contribute significantly today to the needs of the members?

As most cooperatives grow and mature, they may find a need to invest some of their surplus as investments can provide some income, serve as a source of liquidity and act as a cushion against unplanned events. The fundamental guide to investing is the SLY principle. This principle is based, in order of importance, on safety, liquidity and yield.

Safety in an investment is concerned with the possibility of a loss. Since the surplus funds belong to the members and not the cooperative, safety is a paramount consideration. Liquidity is the ability to convert an investment into cash. In order to meet loan and withdrawal demand, the cooperative needs sufficient amounts of investments easily convertible to cash, meaning that the majority must be short – term investments. Yield is what is earned on the investment, and depends on the degree of investment risk.

The cooperative, being a non – profit organization, must not invest in its own name in projects that are meant to bring profits to the organization ostensibly to redistribute such profits to individual members, Maina (2007). There is no formula for this and no formula should be formulated as this will be turning the cooperative from a service – oriented organization to a profit – oriented one. A cooperative cannot be involved in investments that will change its status from a non – profit making organization to a profit – making organization.

The meaning of investment or capital budgeting is to purchase assets whose returns (cash – in – flows) are expected to continue beyond one year. This means committing the cooperative's current resources to invest in projects that are going to bring in cash to the organization in the years to come not withstanding any risks. The members need service now; they may not be there then. Even if all members whose savings were used for investment will be there, it is impossible to put in place a scheme or system that will ensure that they equitably benefit from such investments given that their organization is a service – oriented and not profit – oriented organization.

According to Maina (2007), investment in cooperatives is a complicated area that is likely to compromise the principles and values of cooperatives on which these institutions are founded. In terms of capital budgeting, the relevant objective for investment in a savings and credit cooperative is to bring efficiency in serving the members. Investment geared towards cost – efficiency and all members share the cost.

Major decisions that necessitate capital budgeting are geared towards achieving one of the following objectives: Increase in production through new technology, Achieve cost efficiency and Asset diversification

The most important asset of a savings and credit cooperative is loan to members. It is difficult to think of any project aimed at assets diversification for a cooperative that will meet the same expectations members have on loans from their organization.

Similarly, production technology is not applicable since the cooperative is not involved in production. This leaves out cost – efficiency as the most important investment objective that will benefit the members.

Investments in cooperatives are investments that address the core activities of the cooperative as a no – profit organization – loans to members and short – term investment in real estate. A cooperative should establish a strong Research and Development department that will be identifying investment opportunities for individual members to invest using loans from the cooperative.

Members should have the advice to invest in long – term projects like real estate since the current loans are not serviced by the proceeds of the project but their salaries. This is an excellent way capital accumulation for use after retirement. A cooperative cannot involve itself with investments that are meant to profit it as an entity. This will be contradictory to its business concept with the members.

Although diversification is described as the 'golden rule of investment', cooperatives need to be careful on investments outside their core businesses, Maina (2007). Contrary to diversification thinking that an organization should not put all of its funds in one investment, it is almost mandatory that all cooperative funds should be invested in loans to members only. The cooperative funds cannot be spread to other different instruments outside loans to members. If cooperatives have surpluses, which in most cases may not be big, they should be encouraged to invest in their national organization central finance facilities. Most savings and credit cooperatives in developing countries are characterized with poor or under capitalization, have liquidity problems and asset quality not good, which make investment outside core activities not recommendable for them.

However, if there are surplus funds for short – term investments, in addition to the cooperative's investment policy, Directors and Managers must evaluate financial institutions for investment purposes. This is done by ratio analysis developed from financial statements of the various target financial institutions. The most important areas to consider are:-

Capital Adequacy

It is important to know whether the financial institution you are dealing with has established the necessary capital to absorb losses while providing financial stability. If the capital base is substantial, it is more likely to withstand losses.

Size

It is a reality of the financial world that asset size alone plays a commanding role. In evaluating creditworthiness of a financial institution, size is important in terms of equity and shares. The larger the institution, the more leverage it has in the financial markets and the better returns it gets on assets. Cooperative Directors and Managers should take into consideration this aspect before they commit any funds to a financial institution. This is the safety scrutinising aspect.

Liquidity

Liquidity is the ability to meet demands for funds. The liquidity of an institution being considered for an investment is a compelling concern. Liquidity measurement is limited when using ratio analysis since it reflects an institution's liquidity at one point in time.

Liquid – Asset ratio = Short – term investments/Total loans

Cooperative funds must be invested with liquid institutions so that if the need for cash arises, the investment is quickly converted into cash.

Asset Quality

It is easier to evaluate liabilities from a financial statement than to evaluate assets.

The amount shown for assets over time may not indicate their current value, so it becomes necessary to evaluate the quality of an institution's assets. If a savings and credit cooperative is considering investing in another financial institution, the loans are typically the largest asset. The delinquency ratio is an important test for quality:-

Delinquency ratio = Delinquent loan/Total loans

Cooperative Directors and Managers should appraise themselves with the financial market by regularly reading the financial press to get a general impression of which institutions are doing well and which have problems.

Prudent short – term investment of the cooperative's surplus funds can provide a source of liquidity. It is important, therefore, that liquidity forecasting and planning become an integral part of the investment process. Cash flow forecasts should be made monthly for the next 12 months. It is advisable that a savings and credit cooperative place its surplus in short – term investment and avoid long – term investments in real estates. It is recommended that the cooperative establish a research and development department that can generate investment opportunities for individual members that will form the basis for various loan packages. In this sense, real estate investments can be directly linked to individual members as opposed to the cooperative as an entity. This department will also deal with investment policy for the cooperative that will spell out the investment goals and the type of investments authorized and not authorized. This department should closely work with an established Investment Committee that is mandated to study the financial market and potential investments that are in line with the objectives of the cooperative and make recommendations to the Board of Directors. This committee should periodically review the cooperative's investment policy and procedures and make recommendations for changes as necessary.

2.2.4 Time Duration/Repayment Period

Maina & Manyara (2004) stated that there are two types of loans common in Savings and Credit Cooperatives as follows: Short – term loans & Long – term or Development loans. Short – term loans are repayable within a year and are normally meant for school fees and other emergency expenses. The amounts are generally small and guaranteed by co-members. These loans do not help them to increase their overall earning capacity.

Development loans are for larger amounts and longer terms. These loans are important because they help the members to increase their income in the long run. They increase the members' earning capacity through the success of the projects to be financed by the loans. They are also referred to as long – term loans because the repayment period is usually for more than one year.

Credit provisioning is restricted to SACCO members only and is based on three to four times the level of members' savings/shares. Other members provide additional security for the loan repayments, as guarantors. The maximum loan size to an individual is limited to 5% of the society's total share capital and reserves. The loans are largely classified as either ''development'' loans (e.g. Housing) or ''Social'' loans (for emergencies, school fees). Between 50 and 80 per cent of the loan are granted for social purposes. The loan term varies but is frequently 12 months at about 1% per month rate Chao-Beroff et al. (2000).

2.2.5 Default Rate/Non Performing Loans

The poor use borrowed funds from both formal and informal institutions in a varied manner. Littlefield et al. (2003) demonstrate that the poor not only use financial services for business investment in the micro enterprises but also to invest in health and education, to manage household emergencies and to meet a wide variety of other cash flow needs that they encounter.

Micro Credit institution clients use loans for investment purposes as documented by Mugwanga (1999). However, there is compelling evidence that a significant proportion of the loan is diverted for other lump sum needs like school fees, medical bills, etc. The extent of diversion varies from one institution to another, by gender and by location. This will cause an increase in the default rate.

There are many cases in Savings and Credit Cooperatives where a large number of members fail to repay their loans. Maina & Manyara (2004). Obviously a system, which is incapable of collecting money owed to it, is like a man sawing off the branch of a tree on which he is sitting in which both are doomed to fall.

Why is it so difficult to collect outstanding debts owed to the cooperatives? The answers are many and relate mainly to the fact that once a member decides not to repay, there is no way the cooperative can collect it's debt. The cooperative is unable to locate the debtor, who may often be quite unable to pay, so it is left empty-handed.

According to Maina & Manyara (2004), the current loan analysis in Savings and Credit Cooperatives focuses on the member's ability to repay based on his/her salary package. Loans assessments and approvals are not based on the viability of the projects for which the loans will apply. Current area of concern for cooperatives is whether the member qualifies in terms of membership, total savings and repayment schedule. According to most management thinking, the most important source of loan repayment is the member's current income (salary) and not the viability of the project the loan is meant to finance.

In most developing countries, Kenya included, it is believed and it is a standard practice to charge 1% a month on the outstanding balance of loans. This practice taken from the developed Western Nations, but does not take into consideration or account of the conditions prevailing in the country where the cooperative is located.

In countries where the monthly and not the annual rate of inflation reach 5-10%, a loan at 1% monthly interest is nothing but a gift and a highly tempting prospect. There is evidence that the repayment of cooperative loans are not being taken seriously by the members due to this fact and lack of suitable guarantees and poor management systems for loan collections. As a result, most cooperatives are finding themselves in serious cash flow problem. This situation is complicated further by overdrafts cooperative negotiate with commercial banks at higher interests to loan to members at lower interests.

2.2.6 Strategic Alliance/Affiliation to Auxiliary Organizations

Saccos have continued to diversify their products and services to meet their challenges, e.g. market liberalization, lack of capacity, outdated technology and lack of proper regulatory framework. The diversification includes the provision of near retail banking services, based on what are popularly known as Front Office Service Activities (FOSA). This is the provision of banking services that constitute services on fixed deposit accounts and checking accounts. There are currently 122 SACCOs with FOSAs whose services have gone a long way to filling the void left by the bank branch restructuring (Nyongo, 2005).

The Sacco movement has a number of organizations affiliated to it. Among them is the Cooperative Bank of Kenya, Cooperative Insurance Company and the Kussco. Kuria (2005) noted that the Cooperative Bank of Kenya is the biggest and the most prosperous cooperative bank, while CIC is the only such company surviving in Africa.

Cooperative Bank has a number of products to support the cooperative movement. It actually operates to compliment and support most of the Sacco products rather than competing with it. According to the Cooperative Bank (2006) the bank has Sacco personal loan. This loan scheme was launched in July 2004 and targets Saccos whose members are employed by fairly stable companies/organizations. The Sacco has to enter into a special agreement with the Bank before it can start using this facility. For an applicant to qualify, he/she must meet the following requirements: Must be a member of the Sacco, Must be employed and earning a regular salary, Other requirements apply as per our normal personal loans guidelines, The applicant doesn't require having an account with the Bank and the applicants do not have to step into bank's branches to enjoy this facility since their application receipts and loan disbursement are done through their respective Sacco.

Benefits accruing to the Saccos include: The Sacco gets to retain its members who would otherwise seek loans from competitor-banks and The Bank assist the Sacco by lending to their members when they have exhausted their borrowing capacity for wholesale facilities.

According to the Kuscco (2006), Kuscco was registered on 27th September 1973 under CS/No.2171. However, effective operations started in 1974. This was after the leaders of the already established SACCOs felt that there was need for an association to cater for the group welfare of all the societies. The Kenya Union of Savings and Credit Cooperatives limited renders a variety of services to it affiliates as detailed below: Spokesman ship and Advocacy, Representation, Promotion of SACCO societies, Risk Management Services, Central Finance Programme, Education and Training, Business Development, Research and Consultancy and Corporate affairs and Marketing.

Other special products such as; Sale of stationery, SACCO star magazine, KUSCCO Housing Fund, Common Shared Services, KUSCCO proposes to introduce the following services to large, medium and small SACCO societies in the short – term: Book-keeping and accounting services, Management and Internal Audit facilities to SACCOs, Information Technology facilities – the SACCO software, PEARLS installation and training, Front Office Services facilities, Collection of Statutory Reserves, Secretarial services, Recruitment of SACCO staff, Facilities for management and Board In-house Training, Meeting facilities for the delegates and Branch Officials, Dispatch of Cheques to the SACCO Branches through KUSCCO offices, Communication facilities such as mails, faxes, parcels, marketing of large SACCOs, Common legal facilities through KUSCCO's approved advocates.

Kuscco has a programme known as Central Finance Programme, according to Kuscco (2006). It says that like individuals in a community, Savings and Credit societies in a given area are not financially equal, nor are their financial needs the same. Therefore, through the same spirit of co-operation and mutual self-help, the more prosperous Savings and Credit Societies will lend some of their individual strength to the common effort with the relatively poorer Savings and Credit Societies in order to achieve the following: Expand credit for the movement, create capacity to meet members' credit requirements, Increase financial strength and mutual protection within the SACCO movement.

The Central Finance Programme operates on the same principles as the Cooperative Savings and Credit Societies. The programme is intended for: Mobilization of funds within the Cooperative Savings and Credit movement, Extension of credit boundaries of SACCO societies by creating linkage and mutual interdependence, Support of KUSCCO through extra income generation for the union and member societies, Acceleration of lending capacity of member societies through which increased member confidence will be realised because of the society's ability to finance member requirements either individually or in groups, Providing a means of centralizing investment plans of the entire Cooperative Savings and Credit movement. This will enable the union to acquire the necessary investment expertise.

Financial resources of the Central Finance Programme will be derived from regular deposits of the SACCO Societies. KUSCCO will fix a reasonable minimum percentage interest on this deposit which will be credited to member societies every three months. All the SACCO societies that are members of the Union are encouraged to contribute to the programme out of their monthly or periodical savings. Most African Countries consider 10% of monthly savings to be a reasonable figure. However, SACCO societies are at liberty to save any amount in the programme. The rates of interest will vary from time depending on current market rates in order to attract more funds.

The funds from affiliates will reach KUSCCO in various ways e.g. money orders, cheques, bank drafts or banker's orders can be used. It is preferred that banker's orders are used. This requires proper cash flow planning therefore up to date books of accounts must be kept. KUSCCO will send out receipts to acknowledge monthly contributions as well as quarterly statements which should be confirmed to be in agreement with books of accounts of each member society.

Every SACCO is invited to join the Central Finance Programme which is a unique new development binding all members. A SACCO society that wants to be a member must fulfil the following conditions: Be an affiliated member of KUSCCO with annual subscriptions up to date, Submit copy of resolution passed by the management committee authorizing the society to join the programme together with an application form, A regular member of the programme must accept the following conditions, The society's loaning practice and procedure must conform in all respects of policy guidelines from the Commissioner of Cooperative Development, Financial statements of the society must be up to date. Arrears over 90 days will disqualify a member society from getting any loan. Monthly trial balances must be done and a copy submitted to the programme, Remittance of funds from the employer must be total and up to date, Year-end reconciliation of shares/deposits and loan balances must be done and a copy submitted to the programme and Quarterly Internal audit will be carried out at any time by KUSCCO with adequate notice to the management committee.

Mudibo (2005a) indicated that by December 31, 2004, there were 700 Saccos with total savings of over Ksh. 1.3 billion. The amount loaned to the societies since the beginning of the programme stands at Ksh.9-2 billion.

2.2.7 Remittance of Check-offs By Employers

Mudibo (2005a) said that non – remittance or delayed remittance of cooperative dues by employers has led to inconveniences and loss of income by societies. By October 2005, he noted that over ksh. 4 billion was being held by employers. However, the new laws provide for stiff penalties for errant employers. He further said that KUSCCO was lobbying for the Sacco Act which will enforce prudential standards and enhance safety of members' funds.

2.2.8 Competence, Skills and Training of SACCO Management

Mudibo (2005a) raised concern on the calibre of leaders who run Saccos. Since they are voluntary organizations, members can elect anybody they like, who may not necessarily have the skills to run a Sacco. To address this, he further pointed that Sacco members are required through their by – laws to provide for minimum qualifications for their managers.

Mudibo(2005b) raised the need for all Saccos to practice good corporate governance. The following are the seven principles of cooperation applied in mainstreaming corporate governance in the cooperative societies: Voluntary and Open membership, Democratic member control, Economic participation by members, Autonomy and Independence, Education, Training and Information, Co-operation among cooperatives and concern for community in general.

Good corporate governance aims at achieving; increased profitability and efficiency of business enterprises, Enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers, Enhanced separation of ownership from control, viability in corporations for investment in a competitive global market, Enhanced legitimacy, responsibility and responsiveness of the business enterprise, Transparency, accountability and probity of business enterprises.

The Cooperative Policies in East Africa has been constantly under review, while the Cooperative society's legislation in Kenya has seen amendments in order to strengthen Cooperative Governance. Issues of concern include setting stringent measures on Audit standards, misappropriation of funds and other measures to embrace prudential standards. The need to institute a Savings and Credit Cooperatives (SACCOs) legislation in Kenya is under consideration and has the blessings of the Central Bank of Kenya and the Ministry of Cooperative Development.

Other policy reforms relate to: Distinction of the role of the Board of the Directors and Management, Review of By – laws to define who qualifies to assume positions of a Director and the functions of the Supervisory committee, Removal of Board members for failure to meet their responsibilities, for mismanagement or improprieties, Establishment of ethical codes of best practices and control by cooperative societies, By – laws to provide for rotation by Board members and maximum tenure of office of the leaders, Government policy on declaration of wealth which affects Board members and Managers of the cooperative societies. Upon election or employment, Board members and management staff are expected to provide a financial statement of their income, assets including, but not limited to land, buildings, vehicles, investments and financial obligations. They are also expected to provide details of their spouses, dependants and their liabilities on an annual basis.

Others include the requirement that Board members provide an indemnity of a certain amount arising from action and omission as a consequence of mismanagement of resources of a cooperative society, institution of the Anti-corruption commission to investigate cases of fraud and corruption including cooperative societies, Establishment of Management Commissions for a maximum period of 90 days in cases where cooperative societies have been mismanaged with a view to streamlining operations and handing to elected leadership, The cooperative Tribunal being involved in solving all disputes between members and cooperative societies, proposed appointment of cooperative officers by the Attorney General as Public Prosecutors for cases arising on mismanagement of cooperatives, The commissioner for cooperative development to carry out routine inspections of books and records of cooperative societies.

Mudibo(2005b), while exploring the issue of corporate governance in Saccos, concluded that whereas at the individual member level what is required is integrity, competence and commitment, internally what is crucial to observe in a cooperative is the structure, continuity, balance in the composition of the Board and accountability. There is also need for the Board members to ensure transparency and compliance with the regulations of the society.

Maina(2007), emphasized the need for cooperative management to improve efficiency in their organizations so as to be competitive, in terms of management, like private sector business companies. Prudent management is the only cure available for effective and efficient organizational performance. Effective and efficient are two words that managers must understand. An organization has a goal or purpose for its existence. Assume the goal is to economically move the owners from point A to B within 12 months. If this is achieved as planned, then it has been effectively and efficiently done. If point B has been achieved but taken 13 or more months instead of 12, then it has been effective but inefficient. If B is achieved within 11 months or less, it is effective and more or most efficient. Effectiveness depends on efficiency. Efficiency is controlled by speed, cost, quality, dependability and flexibility. The Sacco management can easily reduce or avoid loan delays period by prudent management through efficiency improvement techniques.

With the support of the Kenya centre for Corporate Governance, a code of Best Practices and Corporate Governance in Kenya has been developed. Part of the new mandate of the Ministry of Cooperative Development and Marketing includes Cooperative Governance. Aspects that need urgent attention however include enhanced legislation for effective supervision and issues relating to Borrower domination and the attendant rules, credit rationing and the role of financial intermediaries in a liberalized environment.

2.3 Summary and the Gaps to be Filled

Studies and opinions have been carried out. Several of these have been received in this section, especially on the major factors influencing the delays in the loan requests in Saccos. It can be noted that the factors ailing the industry could be looking so obvious, but still, the problems continue to persist.

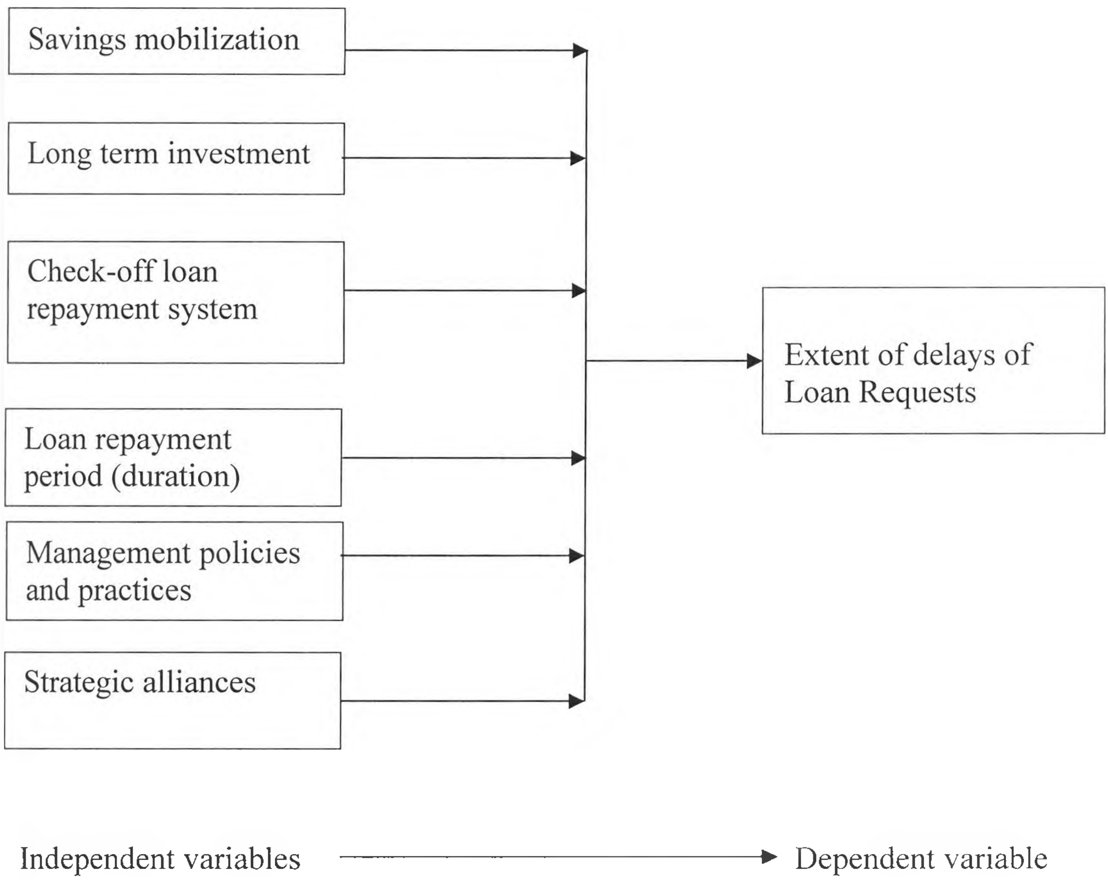
While there have been thorough studies and opinions on almost each of the major factors contributing to loan requests delays, there is still a need to explore the possibilities of overcoming these factors. There are problems still persistent in the industry as the movement is yet to exhaust it's full potential.

This study will therefore seek to exhaustively explore these impeding factors and suggest ways of overcoming their negative influence and advice on ways of taking their advantages for the prosperity of the Sacco movement. This study will also try to test the applicability of the reforms being carried out in the sector. Other suggestions earlier put forward by other researchers and have not been considered will also be put forward.

2.4 The Conceptual Framework

The main variables of this study are as summarised in the following framework.

Figure 2.1: Conceptual Framework



Source: Author 2008

CHAPTER THREE

3.0 Research Methodology

3.1 Design of the Study

The research, being a survey, adopted a descriptive research design. It was expected to get response from the representative sample of the Nairobi based Saccos. This design was appropriate because respondents could not be manipulated but asked to describe issues related to delays in loan requests in Saccos. Such a design enabled respondents to give more information freely.

3.2 Target Population

According to Kuscco (2007) there are currently 660 Saccos based in Nairobi. All of these Saccos are members of the Umbrella body. Within this population, the main focus was the Central Management Committee members in each of them.

3.3 Sample

Out of the population of 660 treasurers of the Saccos, a sample of 66 was taken by use of Systematic sampling technique. This was done by arranging the Saccos alphabetically and picking the first, i.e. ASKS, with a skip interval of 10. According to Mugenda and Mugenda (1999), a representative sample is one which is at least 10. This is 66 Saccos. This gave a variety enough to get solutions to the problem.

K = Skip interval = Population size/Sample size = 660/66 = 10

The Saccos were arranged alphabetically, starting from A.S.K Sacco, and with our skip interval being 10, we come up with a sample of 66 Saccos.

3.4 Data Collection Procedures and Instrument

Data collection was using of a semi-structured questionnaire (see appendix I). The data collected was both quantitative and qualitative. The questionnaire was delivered by the researcher using "Drop and Pick later" system. This was suitable because the data collected was more qualitative and the respondents are geographically diverse. It enabled the respondents to express their views more openly and clearly. The researcher used two assistants for the purpose of circulating the questionnaires to the respondents and collecting them afterwards.

Several publications on the Saccos, their loan requests and procedures were reviewed. The societies' and KUSCCO's periodical magazines, which contain reports from all the operations were useful in this review. This provided a chance to review the laid down policies and environmental effects on their operations.

3.5 Data Analysis

The data was analyzed mainly by use of descriptive statistics which included: tables, charts, percentages and other measures of central tendency such as mean, mode and median. The researcher used computer application packages: SPSS and EXCEL to help in analyzing and communication of the findings.

CHAPTER FOUR

4.0 Data Analysis and Presentation of the Results

4.1 Introduction

This chapter presents the analysis and findings of the study. These are presented in 3 major sections: First section profiles the SACCOS studied while the second section outlines the extent of delays in payment of loan requests. Third section outlines the factors contributing to delays in servicing the members' loans requirements. The study was a sample survey that targeted SACCOs operating in Nairobi province. Senior members of SACCOs committee were the respondents. A questionnaire was used to collect the information. These questionnaires had both multiple choice and rating scale questions. The data collected was analysed using percentages and mean scores. The intended sample was 66 SACCOs, however, the researcher managed to interview only 26. Thus study achieved 40% response rate.

4.2 Profile of SACCOs studied

SACCOs are registered by the Ministry of co-operative development. Respondents were asked to state the year of inception of their Saccos. Table 4.1 below outlines period Saccos studied had in operation. 38.5% of saccos studied have in operation less 5 years, 19.2% have been in operation for 5- 10 years, 3.8% for 10- 15 years while 34.6% have been in operation for over 15 years. It can then be said that over half of the respondents (58.7%) were experienced, having worked for over 11 years.

Table 4.1 SACCOs period in operations

Years in operational	Frequency	Percent
Less than 5 years	10	38.5
5-10 years	5	19.2
10-15 years	1	3.8
Over 15 years	9	34.6
No response	1	3.8
Total	26	100.0

The respondents were asked to state their highest level of education. Table 4.3 below shows that majority of respondents have university education with 50% having first degree and 7.7% with post graduate degree. 26.9 % have secondary education. Only 15.4% have no formal education as shown in table 4.2. These findings indicate that the respondents (Saccos managers) have skills and knowledge to perform their duties effectively.

Table 4.2: Respondents level of education

Education level of respondents	Frequency	Percent	Cumulative Percent
Secondary education	7	26.9	26.9
University education	13	50.0	76.9
post graduate education	2	7.7	84.6
No formal education	4	15.4	100.0
Total	26	100.0	

In regard to the number of members in each organization, it was found minimum number was 30 members while the maximum was 11500 members. On average, sacco studied has 1164 members.

Table 4.3: SACCOs Membership

	Minimu	Maximum	Mean	Std. Deviation
Total number of Sacco members	30	11500	1164.08	2884.96

Again the respondents were asked to state their SACCOs share capital, 3.8% has share capital of less than 5 million, 30.8 between 10-15 million while 65.4% has over 15 million.

Table 4.4: SACCOs share capital

Share capital	Frequency	Percent	Cumulative Percent
Less than 5 million	1	3.8	3.8
10-15 million	8	30.8	34.6
over 15 million	17	65.4	100.0
Total	26	100.0	

Assuming that Saccos studied share capital is the minimum amount per each range then the minimum total saccos share capital is 340 million. Given that, on average, sacco studied has 1164 members, then during the study period each member had Ksks 292,096.

4.3 Extent of Delays in payment of loan application by Saccos

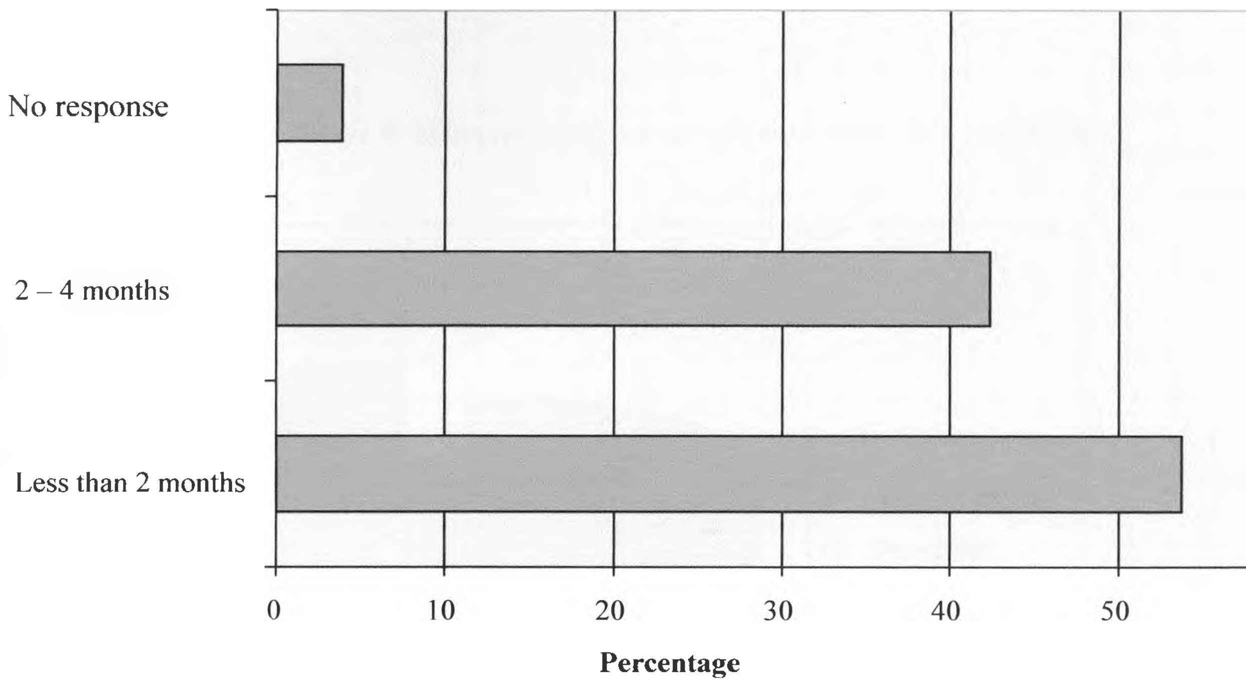
Respondents were asked to state the time period it takes to receive loans after making an application. Their responses are tabulated in the table below. 53.85 reported that it takes less than 2 months, 42.4% idicated that it takes between 2-4 months while 3.85 did not respond.

Table 4.5: Period of time it takes to receive loan money after application

	Frequency	Percent	Cumulative Percent
Less than 2 months	14	53.8	53.8
2 - 4 months	11	42.4	96.2
No response	1	3.8	100
Total	26	100.0	

The above responses are tabulated in graph 4.1 below;

Graph 4.1: Measure (in months) of delays in payment of loan application by Saccos



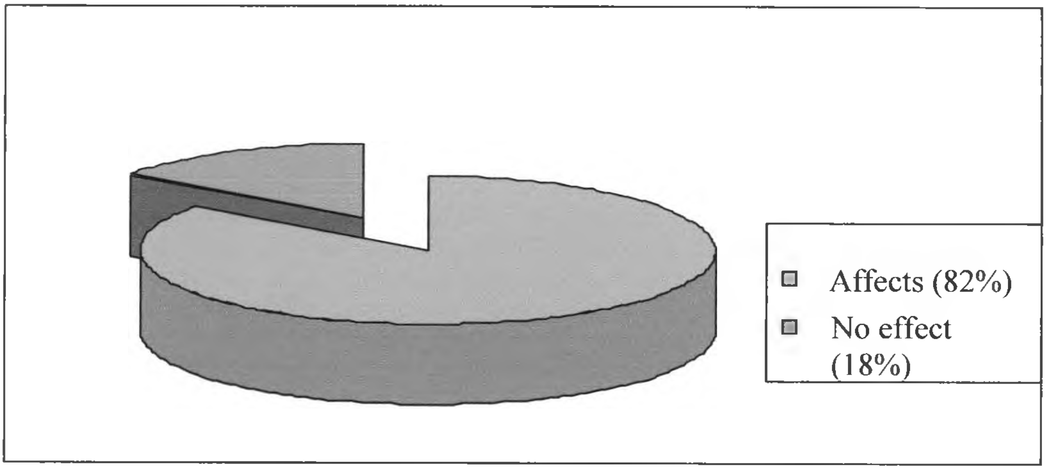
Respondents reported causes of the delays to include slow release of loan application forms, a lot of paper work in the process and lack of know how among applicants on the application process.

Table 4.6: Respondents rating of the extent of loan delays

	Minimum	Maximum	Mean	Std. Deviation
Respondents rating of the extent of delays in loan processing after request	1.00	5.00	3.0385	1.11286

Respondent were asked whether delays in loan processing has an affect on satisfaction of Sacco's customers. 82% reported that delays have an effect on customers' satisfaction while 18 reported that there is no effect. However, it was not possible to determine the type of effect since no data was gathered on this. However, members of Saccos consulted indicated that the effects has been negative.

Graph 4.2: Effects of delays in loan processing on satisfaction of Sacco's customers



4.4 Factors contributing to delays in processing and paying loan to Saccos members

4.4.1 Savings Mobilization

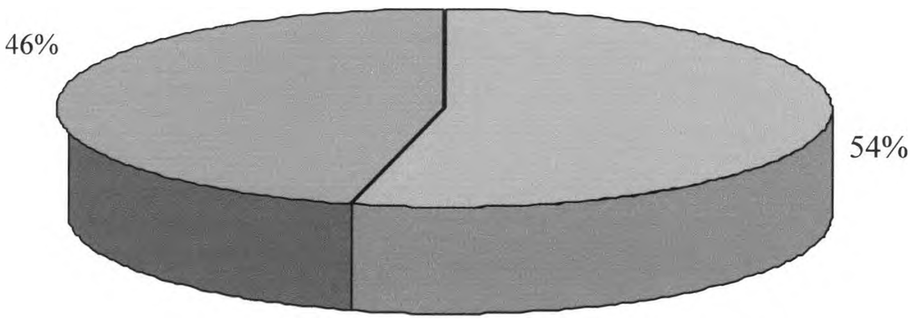
Respondents were asked whether their Saccos have enough savings form Members to meet all loan requests. Their responses are tabulated in table 4.7 below;

4.7: Respondents views on adequacy of savings to meet members loan requests

	Frequency	Percent	Cumulative Percent
Yes	10	38.5	38.5
No	16	61.5	100.0
Total	26	100.0	

54% of respondents reported that savings mobilization affects/contributes to delays in payment of loans. Most of the times saccos do not have enough savings to pay loans application up front implying most of the times members has to wait before loan requests are paid.

Graph 4.3: Respondents views on whether savings mobilization affects/contributes to delays in payment of loans.



Respondents were asked to rate the extent to which savings mobilization affects/contributes to delays in payment of loans using 5 likert scale: very great extent = 5, great extent = 4, moderate extent = 3, low extent = 2 and very low extent = 1. The mean score was 3.0; implying extent to which savings mobilization affects/contributes to delays in payment of loans is moderate.

Table 4.8: Extent to which savings mobilization affects/contributes to delays in payment of loans

	Minimum	Maximum	Mean	Std. Deviation
To what extent does savings mobilization contribute to delays in loan payments	2.00	5.00	3.0400	1.01980

These results indicated that low saving mobilisation is a contributing factor towards delays in payment of loans. Respondents suggested that employers should be encouraged to remit members savings to Saccos without delays.

4.4.2 Long-term investments

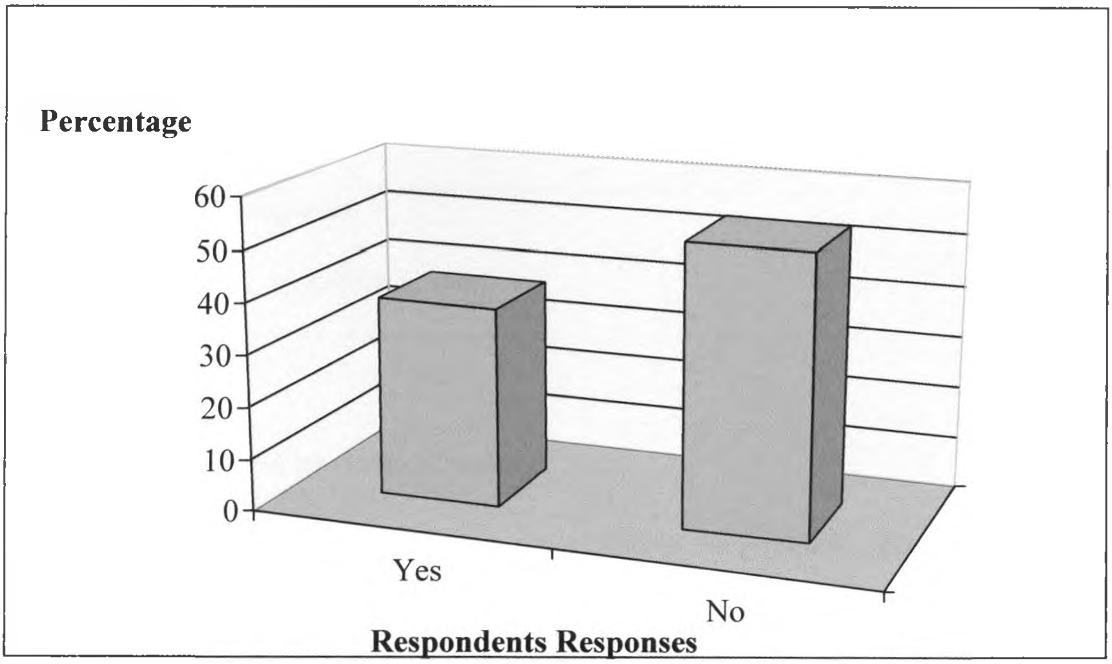
Respondents were asked whether their Sacco invest in long-term investments. Responses were 46.2% yes and 53.8% not as indicated in the table below;

Table 4.8: Responses on whether long term investment contributes to delays in payment of loans

Responses	Frequency	Percent	Cumulative Percent
Yes	12	46.2	46.2
No	14	53.8	100.0
Total	26	100.0	

54 % of respondents reported that long-term investments do not affects or contributes to delays in payment of loans while 38% respondent that they does. 8% did not respond to this question. This responses support above results. With long term investment, returns are ploughed back to the Saccos implying more many to pay loans. Respondent suggested that there need to invest on long-term investment with high income returns.

Graph 4.4: Respondents views of respondents on whether long-term investments contributes to delays in payment of loans



Respondents were asked to rate the extent to which long-term investments affects/contributes to delays in payment of loans using 5 likert scale: very great extent = 5, great extent = 4, moderate extent = 3, low extent = 2 and very low extent = 1. The mean score is 2.2 skewed towards 2=low extent. This result indicates that extent to which long-term investments affects/contributes to delays in payment of loans is low.

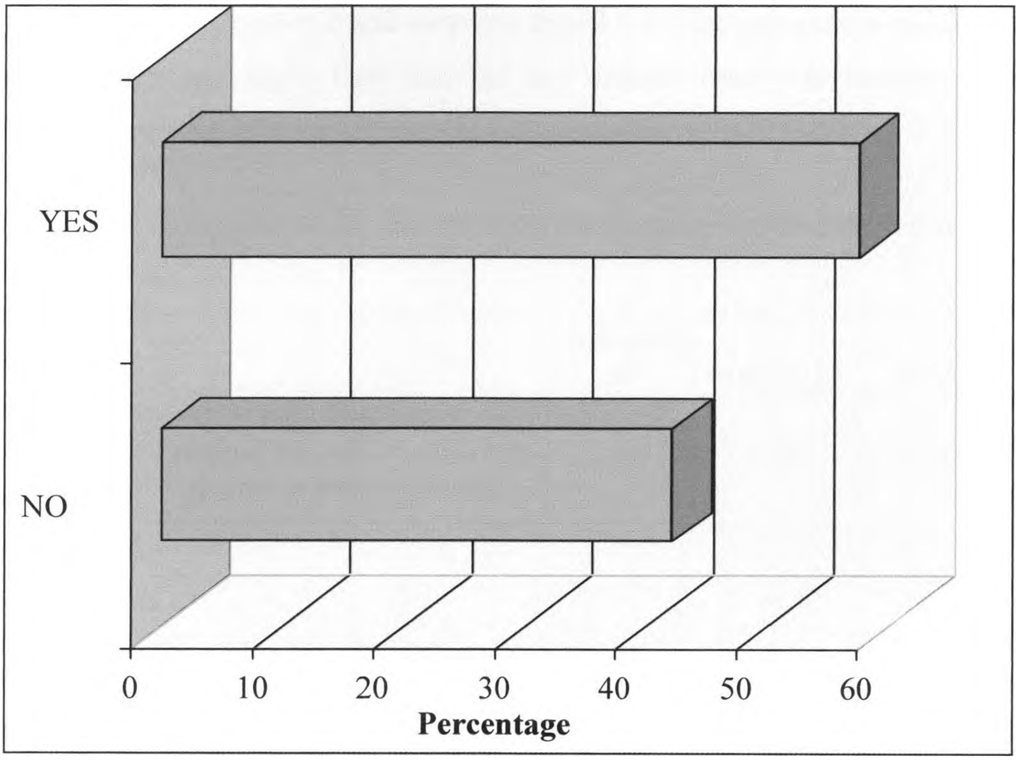
Table 4.9: Extent to which long-term investments affects/contributes to delays in payment of loans

	Minimum	Maximum	Mean	Std. Deviation
To what extent do long-term investments By Saccos contribute to delays in loan payments	1.00	5.00	2.20	1.01980

4.4.3 Loan Repayment period (duration)

Respondents were asked whether loan duration affects the payment of loan requests. 56% reported that it does while 40 reported that it does not as shown in the graph 4.5 below. Respondents indicated that there is need to charge higher interest rates for loans with repayment period above three years.

Graph 4.5: Respondents responses on whether loan duration affects the payment of loan request



Respondent who responded yes were asked to indicate the loan duration period which affects the payments of loan requests. Majority of respondents (42.3%) reported less than 5 months, 23.1% reported 37-48 months. These results indicate that respondents misunderstood the question. Perhaps 42.3% reported the period it takes them to repay the loan.

Table 4.10: Responses on whether Loan repayment period contributes to delays in payment of loans

	Frequency	Percent
Less than 5 months	11	42.3
5-12 months	2	7.7
13-18 months	3	11.5
19-36 months	2	7.7
37-48 months	6	23.1
No Reponses	2	7.7
Total	26	100.0

Respondents were asked to rate the extent to which loan duration affects the Society's payments of loans using 5 likert scale: very great extent = 5, great extent = 4, moderate extent = 3, low extent = 2 and very low extent = 1. The mean score is 2.5 skewed towards neither low nor high. One can not use results from this statistic to evaluate the affects/contributes of loan duration to delays in payment of loans.

Table 4.11: Extent to which loan duration affects/contributes to delays in payment of loans

	Minimum	Maximum	Mean	Std. Deviation
To what extent do loan duration (repayment period) by Saccos members contribute to delays in loan payments	1.00	4.00	2.541	.721

4.4.4 Strategic alliances with other institutions

Respondents were asked whether their Sacco have strategic alliances with other institutions. 54% reported that they have while 46% said they do not as shown in graph 4.6 below;

Graph 4.6: strategic alliance with other institutions

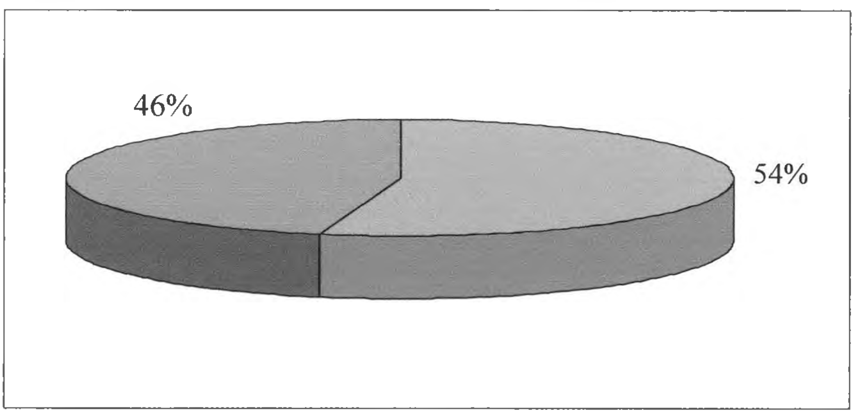


Table 4.12: Respondent views on the whether alliance with other institutions would help reduce delays in loan request

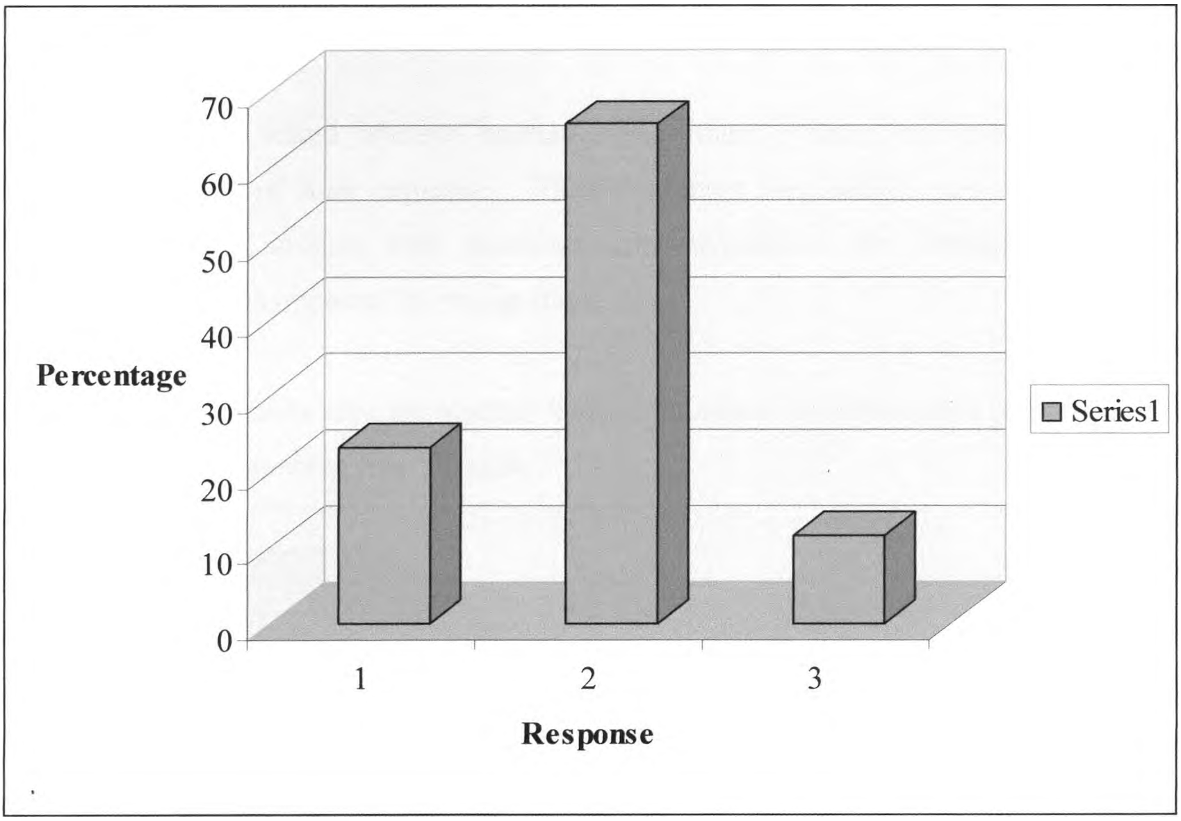
	Frequency	Percent	Cumulative Percent
Very low extent	6	23.1	23.1
Low extent	10	38.5	61.5
Moderate extent	4	15.4	76.9
Great extent	6	23.1	100.0
Total	26	100.0	

Above rrespondents responses were rated using 5 likert scale: very great extent = 5, great extent = 4, moderate extent = 3, low extent = 2 and very low extent = 1. The mean score is 2.7 skewed towards moderate extent. This implies that strategic alliance with other institutions reduces the delays in loan payments.

4.4.5 Employers Check-off remittance system

Respondents were asked whether time taken by employers before they remit dues through Check-off system has an effect on loan requests. 65.4% said yes while 23.1 said no.

Graph 4.7: does time taken by employers to remit check off dues to your sacco affect loan requests



Respondents were asked to state the date they mostly do their receive most of the funds from your members' employers. Mojority (38.5%) indicated between 10-15th day of the month, 30.8% reported between 5^{th} and 10^{th} while between 15-20th day was reported by 11.5. Only 7.7 reported 5^{th} day of the month.

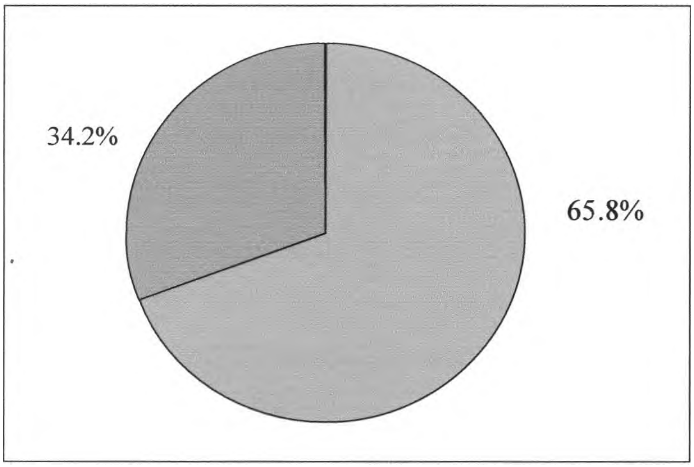
Table 4.14: Day of the month when Saccos receive funds from your members' employer

Responses	Frequency	Percent
By 5th day	2	7.7
Within 5-10th day	8	30.8
Within 10-15th day	10	38.5
Within 15-20th day	3	11.5
No responses	3	11.5
Total	26	100.0

4.4.6 SACCOs management policies and practices

Respondents were asked whether internal management policies and practices affect Sacco's payments of loan requests. Their responses were 65.8% yes while 34.2% reported no. This implies loan payments after requisition are affected by length bureaucratic process imposed by management.

Graph 4.8: Respondents view on whether internal management policies and practices affect Sacco's payments of loan requests



However 50% of the respondents reported that internal management policies and practices are members friendly and that central management committee members are well trained on loan advance matters.

Respondents were asked for their opinion on several factors thought to contribute to delays in payments of loan requests. Their opinions were rated using the five Likert scale: very great extent = 5, great extent = 4, moderate extent = 3, low extent = 2 and very low extent = 1. Their responses were analyzed through calculating their mean and the respective standard deviations. Table 4.18 below displays this descriptive statistics.

Table 4.14: Analysis of factors thought to contribute to delays in payment of Sacco loan requests by members

Factors	Minimum	Maximum	Mean	Std. Deviation
Savings mobilization	1.00	4.00	2.56	1.325
Long-term investment	1.00	5.00	2.40	0.957
Loan duration	1.00	5.00	3.20	1.040
Remittance check-off system	1.00	5.00	2.56	0.960
Strategic alliances	1.00	5.00	2.52	1.357
Management policies and practices	1.00	5.00	2.88	1.013

Source: Field data (2008)

Since the rating very low extent was assigned one and the rating very great extent was assigned five, then a mean close to one indicates that respondents were not in agreement with the factor under consideration. However, any mean close to five indicates that they are in agreement with the factor in question. Therefore from the table above, all factors excluding long-term investment had a mean score greater than 2.5, implying that they are skewed towards five. One can therefore say that savings mobilization, loan duration, borrower check-off remittance system, strategic alliances and management policies and practices are some of factors contributing to delays in payment of loan application by Saccos. However, the effect of loan duration is most high followed by the management policies and practices then strategic alliances and savings mobilization. Strategic alliances with other institutions have the least effects.

CHAPTER FIVE

5.0 Summary of Findings, Conclusions and Recommendations

5.1 Introduction

This chapter presents summary of the findings of the study and conclusions, and then suggests some policy implications. At the end of the chapter areas for further research are provided.

5.2 Summary of the findings

The study was undertaken in order to determine the extent of delays in payment of loan requests and investigate factors contributing to delays in loan payment to the members after requisition. The study was a sample survey that targeted SACCOs operating in Nairobi province. Senior members of SACCOs committee were the respondents. A questionnaire was used to collect the information. The data collected was analysed using percentages and mean scores. Below are main finding of the study:

5.2.1 Extent of Delays in payment of loan application by Saccos

The finding revealed that 38.5% of Saccos studied were registered with the Ministry of co-operative development less than five years ago while 34.6% have been in operation for over 15 years. With regard to the number of members in each organization, it was found minimum number was 30 members while the maximum was 11500 members. On average, sacco studied has 1164 members. Majority of Saccos (65.4%) have share capital of over 15 million. Assuming that Saccos studied share capital is the minimum amount per each range then the minimum total saccos share capital is 340 million. Given that, on average, sacco studied has 1164 members, then during the study period each member had Kshs 292,096.

53.85% of respondents reported that it takes less than 2 months to receive loan money after making an application while 42.4% indicated that it takes between 2-4 months. Discussion with members of the Saccos who have borrowed from Saccos indicated that there has been delays in receiving loan money. Respondents reported causes of the delays to include slow release of loan application forms, a lot of paper work in the process and lack of know how among applicants on the application process. 82% reported that delays have an effect on customers' satisfaction while 18% reported that there is no effect. Members of Saccos consulted indicated that these effects has been negative.

5.2.2 Factors contributing to delays in processing and paying loan to Saccos members

54% of respondents reported that savings mobilization affects/contributes to delays in payment of loans. Most of the times saccos do not have enough savings to pay loans application up front implying most of the times members has to wait before loan requests are paid. The finding revealed that the extent to which savings mobilization affects/contributes to delays in payment of loans is moderate.

54 % of respondents revealed that long-term investments do not affects or contributes to delays in payment of loans while 38% respondent that they does. Members of the saccos consulted said that with long term investment, returns are ploughed back to the Saccos implying more many to pay loans. Further the finding indicated that the extent to which long-term investments affects/contributes to delays in payment of loans was low.

With regard to loan duration, 56% of respondents reported that loan duration period affects the payments of loan requests. Majority of respondents (42.3%) reported that it takes less than 5 months to repay, 23.1% reported 37-48 months. These results indicate that respondents misunderstood the question. Perhaps 42.3% reported the period it takes them to repay the loan. One can not use results from this statistic to evaluate the affects/contributes of loan duration to delays in payment of loans.

The result revealed that 54% of respondents reported that Sacco with strategic alliance with other institutions reduce delays in loan payment. Also, the time taken by employers before they remit dues through Check-off system has an effect on loan requests as reported to 65.4% of respondents. Saccos indicate that their receive most of the funds from your members' employers as follows; 38.5% between 10-15th day of the month, 30.8% reported between 5^{th} and 10^{th} while between 15-20th day was reported by 11.5. Only 7.7 reported 5^{th} day of the month.

65.8% of rrespondents identified internal management policies and practices have an affect Sacco's payments of loan requests. Members indicated that loan payments after requisition are affected by length bureaucratic process imposed by management. However 50% of the respondents reported that internal management policies and practices are members friendly and that central management committee members are well trained on loan advance matters.

5.3 Conclusions

From the finding above it can be concluded that there has been delays in receiving loan money by Sacco members after making loan requests. This delays has taken main forms such as delay in release of loan application forms, a lot of paper work in the process and lack of know how among applicants on the application process. These delays affect customers' satisfaction negatively.

Further, it can be concluded that savings mobilization, loan duration, borrower check-off remittance system, strategic alliances and management policies and practices are some of factors contributing to delays in payment of loan application by Saccos. However, the effect of loan duration is most high followed by the management policies and practices then strategic alliances and savings mobilization. Strategic alliances with other institutions have the least effects.

5.4 Recommendations

This study established that there are delays in loan payments after requisition and application by SACCOs members. In order to address this, the study recommends the following: 1) employment of additional personnel to handle large number of applications, 2) computerization of the application process and 3) there is need to charge higher interest rates for loans with repayment period above three years as indicated by respondents.

5.5 Suggestion for Areas for further research

There is need to carry a study to establish how Saccos invest members` money.

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APPENDICES

Appendix 1: Research Questionnaire

Part one: Introductory Letter

T0: ....

RE: RESEARCH QUESTIONNAIRE

I am a student at the University of Nairobi undertaking a Masters Degree Course in Business Administration (MBA), which requires one to carry out a research project. My research project title is: Financial Challenges Contributing to Delays in Payment of Loan Requests in Saccos in Kenya – Case of Saccos based in Nairobi.

I kindly request you to participate in this research by responding to the attached questionnaire. I (or my assistant) will collect the document once you are through with it. You will be privileged to have a copy of the final results once you participate. This may be useful to your organization.

I assure you that the research is only meant for academic purposes and your response will be kept confidential. I am looking forward to your response.

Thank you in advance.

Yours faithfully,

Thomas K. Korir.

Student No: D61/8386/05

University of Nairobi.

Part Two: Research Questionnaire

Questionnaire No.: ....

Section A: Introduction

1. Name of the Respondent (optional): ....

2. The Name of your Society: ....

3. Designation: ....

4. Years Served in your Society (A) 0 – 5 Years (B) 5 – 10 Years (C) 10 – 15 Years (D) Over 15 Years

5. Education Level (A) Primary (B) Secondary (C) University (D) Post Graduate (E) Other (specify)..............................

6. Number of Members of the Sacco: ....

7. Share Capital: (A) Less than 5 Million (B) 5 – 10 Million (C) 10 – 15 Million (D) Over 15 Million.

Section B: The Extent of Delays in Payment of Loan Requests

8. How long does it take for an applicant to receive a loan once requested?
   (A) 0 – 2 Months (B) 2 – 4 Months (C) 4 – 6 Months (D) Over 6 Months

9. Essentially Sacco loans should be received as soon as possible once the applicant meets all the requirements. What is the cause of the delays where applicable?
....
....

10. To what extent can you say there are delays in loan payment of loan requests in your Sacco?
   (A) Very great extent (5)
   (B) Great extent (4)
   (C) Moderate extent (3)
   (D) Low extent (2)
   (E) Very low extent (1)

11. What do you recommend should be done to reduce delays in loan requests?
....

12. Has the delay affected satisfaction of customers?
(A) Yes (B) No

13. Has there been incidences of turnover as a result of the delays?
....

Section C

14. Do you have enough Savings of Members to meet loan requests?
(A) Yes (B) No

15. Does Savings Mobilization affects or contributes to Delays in Payment of Loans?
(A) Yes (B) No

16. If yes, to what extent
(A) Very great extent (5)
(B) Great extent (4)
(C) Moderate extent (3)
(D) Low extent (2)
(E) Very low extent (1)

17. Suggest what can be done on Savings mobilization from members to reduce delay in payment of loan request.
....

Section D

18. Has your society invested in Long-term investments?
(A) Yes (B) No

19. Does the long-term investments affects or contributes to delays in payment of loans?
(A) Yes (B) No

20. If yes, to what extent?
A) Very great extent (5)

(B) Great extent (4)
(C) Moderate extent (3)
(D) Low extent (2)
(E) Very low extent (1)

21. Suggest what can be done on long-term investments to reduce delays in payment of loan requests.
……………………………………………………………………………………………
……………………………………………………………………………………………
……………

Section E

22. In your Society does the loan duration affects the payments of loan requests?
(A) Yes (B) No

23. If yes, indicate the loan duration period which affects the payments of loan requests
(A) 0 – 5 Months (B) 5 – 12 Months (C) 12 – 18 Months (D) 18 – 36 Months
(E) 36 – 48 Months (F) Other

24. To what extent does your answer to Question 23 above affects the Society's payments of loans?
(A) Very great extent (5)
(B) Great extent (4)
(C) Moderate extent (3)
(D) Low extent (2)
(E) Very low extent (1)

25. Suggest what can be done on loan duration to reduce delays in payment of loan requests
……………………………………………………………………………………………
………

Section F

26. Does your Sacco have strategic alliances with other institutions?
(A) Yes (B) No

27. If yes, to what extent does this alliance helps to reduce the delays in loan requests?

A) Very great extent (5)
(B) Great extent (4)
(C) Moderate extent (3)
(D) Low extent (2)
(E) Very low extent (1)

28. Suggest any strategic changes you would wish to see in your Sacco to reduce delays in loan payments.

……
………

29. Does the time taken by employers before remitting Check-off dues to your Sacco affects your loan requests? (A) Yes (B) No

30. On average, by what date of the following month do you receive most of the funds from your members' employers?

(A) By 5^{th} (B) Between 5^{th} and 10^{th} (C) Between 10^{th} and 15^{th}
(D) Between 15^{th} and 20^{th} (E) After 20^{th}

31. Suggest some of the methods your Sacco can implement to ensure timely remittance of the dues from members' employers.

……
……
……………

Section G

32. Do your internal management policies and practices affect your payments of loan requests?

(A) Yes (B) No

33. Do you feel your Sacco's management policies and practices are member-friendly?

(A) Yes (B) No

34. Do you consider your CMC members as adequately trained? (A) Yes (B) No

35. What additional training would you recommend?

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……
………………

36. Suggest any policy changes you would wish to see in your Sacco for better service to members in terms of loan payments.

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……………

Section H

37. Rate how each of the following affects your payments of loan requests on a scale of 1 (very low extent) to 5 (very high extent)

(1) Savings Mobilization	1	2	3	4	5
(2) Long-term Investments	1	2	3	4	5
(3) Loan duration/legislation	1	2	3	4	5
(4) Remittance of Check-offs	1	2	3	4	5
(5) Strategic Alliances	1	2	3	4	5
(6) Training, Skills & Competence	1	2	3	4	5

38. Give any other general comments on your Sacco's payments of loan requests.
....
....

- Thank You for Participating -