

Management practices and performance of saccos



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INTRODUCTION

The background gives a brief history of the savings and credit cooperative societies, highlights its importance to the society and touches on the problems that have influenced its performance of its roles and finally on the possible solutions or causes of actions. This preambles the statement of the problem, the purpose, significance, scope and limitations of the study together with the research questions.

BACKGROUND OF THE STUDY

One of the basic principles of Cooperative Savings and Credit Movement 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-banks institutions. With finances mobilized through such joint efforts the savings and credit society members build up the capital which they can use through local arrangements to finance their own social as well as economic development.

The traditional form of cooperation involved working together on farms, hunting and gathering. All people have basic needs of food, shelter, security and belonging. People would invite neighbors to come and give a hand. Also people did not have money and resources, which enables individuals to employ people or machinery to do the work for them.

In any community cooperation usually exists in the form of associations of people who come together as a group driven by their social and economic needs in order to cope with their problems and improve their conditions of living MOCD (2006)

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According to Odepo and Nyawinda (2004) , savings and credit cooperatives societies (commonly referred to as SACCOs), accept monthly payments 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. They say that growth in SACCOs in the last twenty years has been spectacular. According to statistics from Kenya Union Of Savings and Credit Cooperative 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. 80billion by 2003. Credit outreach similarly recorded significantly, having risen from 357 million in 1978 to kshs. 70 billion by 2003. Saccos active members numbered over 1. 5 million by 2002 having risen from 378, 500 members in 1978. Their rapid growth indicate that they have filled a need which had not been made by the financial institutions. Of the Kshs. 110 billion in the current share capital and deposits held by cooperatives, the statistics show that Kshs. 90 billion has been lent out to customers. However, the recent statistics from the ministry of cooperative development and marketing shows the position as below

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 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 boon for this country and many people would not be where they are now were it not for <https://assignbuster.com/management-practices-and-performance-of-saccos/>

the harvests of the opportunities sowed in the garden of the movement. 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. 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 cooperative bank, which all the saccos have a stake in, should be considered exhaustively. Besides they should think outside the box and get organizations willing to empower members economically by allowing loans at a rate less than what saccos offer to its members. The saccos umbrella body- Kussco- has a fund to assist the member saccos when they are in need of the funds.

Saccos face numerous challenges that hinder the exploitation of their full potential. Mudibo(2005) raised concerns 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 certain number of shares so that he has something to loose if he mismanages the sacco. Non remittance and delayed remittance of cooperative dues by employers has led to inconveniences and loss of income by the societies. New rules have however provided stiff penalties for errant employers. Members are also at risk due to HIV/AIDS and ways to attract new members are required.

Ngumo (2005), in his article the cooperative movement in Kenya; the eagle that wont fly Nairobi, Kenya institute of management raises several

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unsettled issues affecting the sacco. First the government should decide on whether to control or facilitate the cooperatives. Cooperative roles should be re-emphasized. One member one vote 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 cannot milk a cow, refuse to feed it, cry that it was wonderful cow and blame God for its demise.'

According to National Micro and Small Enterprise (MSE) Baseline Survey (1999/2000), Kenya has a relatively well developed banking and formal financial sector. This consists of the Central Bank, 43 commercial banks, 16 non-bank financial institutions, 2 mortgage finance companies, 4 building societies, 8 developed financial institutions about 3870 cooperative savings and credit societies, 38 insurance companies, the Nairobi stock exchange and venture capital companies. The survey further indicates that nearly 89.6% of MSEs had never received credit and other financial services.

The unserved credit needs portrayed by the statistics in the table 1. 2 in the background section above signifies a wealth of opportunities untapped by all the financial institutions. The proof of the existence of market implies that a lot needs to be done to raise what it takes to serve a market. The most basic need is the finance to lend in a discipline way. Voluntary savings from members is therefore imperative. Saccos abilities to improve their members' wealth is determined by a number of factors, among them is the funding levels due to members' marginal propensity to save, contributions;

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remittance by the employers, legal and regulatory framework, internal management principles and practices (e. g customer service, marketing, dividend / interest payment etc) amongst other factors. These factors' level of influence on sacco's ability to perform captured the attention of the researcher. It was the intention of the researcher to examine them and possibly recommend on the best way to mitigate the underlying challenges and take advantage of the available opportunities by exploiting existing strengths.

Voluntary deposits / savings as a source of commercial finance for micro credit institution have generated a lot of interest and debate in recent years. Locally mobilized voluntary savings is potentially the largest and the most immediately available source of finance for some micro credit institutions, most of all the sacco's. Bearing this in mind, one is left to wonder what is hindering the sacco's from prosperity, given the access to its resources and the wealth of its opportunities. The purpose of this research is to broaden the discussion of what, when, why and how a sacco should use its resources, get the right framework, apply effective policies for improvement of the wealth of its members. Getting these elements right is a crucial part of meeting the demand for the unmet credit needs. The researcher will also seek to bridge the gap that exist between Saccos that have exemplary performance in their services to members and excellent returns and some others which barely afford to offer loans, leave alone dividends.

According to Armstrong, performance is often defined in output terms - the achievement of quantified objectives. But performance is a matter not only of what people achieve but how they achieve it. High performance result

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from appropriate behaviour, especially discretionary behaviour, and the effective use of the required knowledge, skills and competencies.

STATEMENT OF THE PROBLEM

Quite a number of Saccos e. g TENA sacco, have a long string of pending loan applications from members SACCO star (2006) . Some saccos pay out little or no dividends/ interests on members savings. Some others still have a low loan multiplier and / or limited concurrent loans compared to some well performing counterparts e. g Stima Sacco, Sacco star,(2006)- which has even started ATM services for FOSA customers and manages to advance more than three times the members' deposits, can give up to four concurrent loans without closing any applications for the year and gives loans almost immediately it is applied for by the member , (mwaura (2004). Among the major problems hindering this is the unavailability of much needed cash to lend, when it is required. This therefore causes a mismatch in the availability of funds and the demand for loans. Other reasons could be poor investment decisions or lack of investment opportunities or delayed cash flow from employers/ members among others.

Rutherford (1999) wrote that funding these large sums of money is the main management problem. The only reliable and sustainable way is to build them from savings. Saving- 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 recognize the need to build savings into lump sums and contrary to the popular belief, the poor want to save and try to save, and all 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 for lack of understanding or of will.

Most of the saccos have succeeded in mobilization of savings from members. In spite of this, still they have a huge backlog in terms of loans advanced to members (Sacco star, 2005). Furthermore, most of the saccos pay little dividends/interests on deposits or none at all, in spite of trading with the deposits/savings. It was therefore the intention of the researcher to seek to establish the determinants of saccos capabilities to improve its members' well being.

OBJECTIVES OF THE STUDY

Main Objective

The main purpose of this study was to investigate and refine our understanding of the major factors that determine the performance of SACCOs to enable them maximize their members wealth.

Specific objective

Specifically, the study sought:

1. To find out the extent to which the nature of business/ check off system affects performance of SACCOs
2. To establish the relationship between management practices and performance of SACCOs
3. To examine the level of education and training of general members, committee members & staff and their effects on performance of SACCOs

4. To determine if long term investment affects performance of SACCOs

RESEARCH QUESTIONS

1. To what extent does the nature of business/ check off system affect performance of SACCOs?
2. Do management practices affect performance of SACCOs?
3. Is education and training of general members, committee members & staff a factor that affects the performance of SACCOs?
4. Does long term investment affect the performance of SACCOs?

SIGNIFICANCE OF THE STUDY

This study is aimed at developing an understanding on major factors determining the accessibility to funds to process and dispense all loan requisitions in time by saccos in Kenya. It is seeking to examine and underscore the salient principles that have a bearing in the success in similar or related areas of focus, and hence suggest ways and means of overcoming failure.

The study is aimed at benefiting, among others, the management teams. These are the people entrusted by the members to take care of their interests in saccos. They will study to understand and improve on policy setting and implementation for overall sustainability of the sector. The entire sacco membership will also get enlightened. The members of the common bond will appreciate their role in sustaining their welfare through sacco as a vehicle. They will be more willing to take a center role instead of quitting when they feel their interests are not being taken care of by the people they entrusted them with. It will also benefit the sacco staff/secretariate; these

are the people who get their daily bread from the sacco. They will understand their role in the growth of the organization, hence acting to secure their source of livelihood.

It will also be of good use to the government department in charge of cooperatives. The report will bring to light issues requiring framework and only them can attend to for the overall sustainability of the sacco industry. Finally other researchers in this area will find this useful. They will get recommendations for further research from this study. The beneficiaries will have access to the information on the findings from the compiled report. The final report will be available in selected major libraries, organized groups, especially the respondents will get a copy of the report on the findings.

SCOPE OF THE STUDY

This study's scope was the saccos based in Eldoret. The researcher selected a suitable sample from the population by purposive convenience sampling. According to the statistics from MOCD/M, there are about 10 such saccos within Eldoret town. About 40 % of the population (4 saccos) were covered by the study. The study targeted the members of the central management committee (CMC) in the selected SACCOS.

LITERATURE REVIEW

Introduction to literature review

This section contains literature that has been reviewed and continues to be reviewed relating to the problem. Literature review involves locating, reading and evaluating reports of previous studies, observations and opinions

relating to the planned study. It therefore enables the researcher to know what has been done in the particular field of study, makes one aware of what has been made and what challenges remain, and gives suggestions on the variables and procedures that could be used. Literature review logically leads to objectives on the study.

Past studies in the area

Background information

According to Mwaura (2005) sessional paper No. 4 of 1987 on renewed growth through the cooperative movement highlighted the significance of the movement in national development. By this time there were 3500 registered cooperatives with more than 2million members and an annual turnover greater than 6billion. The paper noted that one in every two Kenyans derived its livelihood from the cooperative either directly or indirectly. The cooperative movement in Kenya is reputed to be the most advanced in the African continent. The Kenya Nordic agreement of 1967led to the establishment of the Cooperative college of Kenya at Lang'ata, which is the main training ground for both ministry staff and the movement employees.

According to MOCD (2002) the first Savings and credit Cooperatives in Kenya were started in the sixties. The Government annual economic survey shows that as at December 2002 there were more than 2, 400 active SACCOS with membership in excess of 1. 5 million people. Share capital stood at Kshs. 65 billion while outstanding loans were Kshs. 59 billion.. The structure of the cooperative movement in Kenya comprises of four tiers. These include the

primary societies, secondary cooperatives, tertiary cooperatives and nationwide cooperatives.

The Kenya Federal of Cooperatives (KNFC) is the only apex society in the movement. It was formed with an objective of promoting, developing, guiding, assisting and upholding ideas of the cooperative principles. KNFC is the link between cooperatives in Kenya and the international cooperative alliance. Of special mention here is the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA), which is registered under the Societies Act, Chapter 108 of the laws of Kenya. Its area of operation is Africa and the adjacent islands. Its head-quarters is in Nairobi. It has twenty five affiliated organizations. It is affiliated to the International Cooperative Alliance through its members in the world council of Credit Unions (WOCCU).

According to the cooperative Societies Act (Cap 490), persons desirous of forming a cooperative society must fill the prescribed form from the commissioner for cooperatives. It requires that at least ten members will sign the form, though for savings and credit the commissioner has been asked for more people. The form requires that the society makes its by-laws. For ease of convenience the commissioner has prepared model by-laws for the cooperative societies. The societies are nevertheless free to change these or come up with their own by-laws. The by-laws must detail the following; the name of the society, objects of the society, purposes to which its funds may be applied, disposal of surplus funds, qualifications for membership and terms and conditions of admission of members.

For savings and credit cooperatives, the following are also included, the rate of interest, the maximum amount loan-able, extension, renewal and recovery of loans and the consequences of default in the repayment of any sums due. On receipt of the application form the office of the commissioner will register the cooperative society on the advice of the cooperative officer in charge of the area of operation.

Chapter 490 provides that no companies registered under the company's Act or any un-incorporated body of persons shall become a member of a registered society except with the written permission of the commissioner. It also provides that no person can join more than one cooperative society with unlimited liability. A member may nevertheless be allowed to join two or more cooperatives with limited liability if the two are in different areas of operation. A cooperative society just like a company, may be registered with or without limited liability. The commissioner has power to refuse to register a cooperative society. Nevertheless, the refusal must be given to the applicants in writing. Applicants can appeal to the minister for cooperative developments and finally to the high court. The commissioner may register the cooperative either provisionally or fully. A provision registration is given where some requirements for registration have not been met. The applicants are given a period of one year to satisfy all conditions. A provisionally registered cooperative society may act as a fully registered in all ways. Upon registration such a cooperative society is deemed to have been registered on the date of the provisional registration. Upon registration a society becomes a body of corporate.

According to Ouma(1980), the term “ cooperative” in its widest sense simply means working together. In this context cooperation is as old as mankind and exists wherever the human family is found. Indeed such cooperation exists among animals, insects, bees and ants. Thus cooperation generally means working together for a common purpose. Thus group effort through traditional form of cooperation may be traced in all communities of the world. However its narrow sense as a movement, it means an association of people whose purpose for group work yields good results not only for the members but to the community in general and even to the humanity at large. Cooperative is a business organization by profit, but rather the result of mutual association whose objective is equitable economic betterment of man and the society in which he lives.

According to the MOCD, cooperatives are regulated by a set of principals. These principles were formulated by a group of people who lived in a village in England known as Rochdale, and they are therefore referred to as Rochdale pioneers. They formed the first successful cooperative society in 1884. This society which was a consumer cooperative society was formed in 1844 when Britain was undergoing industrial revolution. As a result of the revolution, a lot of people lost their jobs in the factories as machines were introduced to replace them. In addition to this there was general lack of credit and supply of essential commodities like salt, sugar, flour and cooking fat. Businessmen also took advantage of this situation and started offering impure products at high prices.

It is against this background that Rochdale Pioneers decided to draw up some sort of principles which would guide their operation as cooperative

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society. These principles were intended for the regulation of cooperative society as indicated by the great stress on the sale of pure products and the sale of goods for cash only. It was therefore found necessary to formulate the principles for adoption by other types of cooperatives.

The International Cooperative Alliance (ICA) Commission of 1966 adopted the following principles which are genuine for the running of a genuine cooperative society:- Open and voluntary membership, democratic administration (one man, one vote), limited interest on share capital, payments of dividends and bonuses to members, promotion of education and cooperation with other cooperatives at local national and international levels.

According to Ouma (1980), the traditional cooperatives have been in existence in Kenya, as it has been elsewhere, from time immemorial. Examples of such cooperative practices are to be found in Kenya. The group association is normally based on lineage according to the natural geographic environment in which the members of the group are born. This is usually based on clan or people who live within the same village. It can be stated with fair amount of certainty that the traditional forms of cooperation do generally speaking, form the basis for the establishment of modern cooperative organizations. There is for instance in Luo, Saga whereby a group of people do ploughing, weeding or harvest for each member of the group in turn. In Kwath, members of the group look after their cattle together for three or more days consecutively, in turn. In Kikuyu there is what is called ngwatio (Mwethya in Kamba) whereby members of the group get together to build houses for themselves, each member of the group bringing what is

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required for the construction e. g. grass and poles. When the first house is completed then the members start on the next one.

In Kisii, there is what is called obituary wherby men go on a job hunting exercise, and when they kill an animal, they will either divide it or take it home (village) where it mis cooked and eaten communally by all the villagers.

Among the Kalenjin there is the practice of Kokwet wherby a group of people would go out to harvest or weed the garden of their members in turn. The Kalenjin also have Loget whereby the men go in a joint effort to kill animals for food.

According to Ouma(1980), practically all the ethnic groups in this country, whether small or big, has since time immemorial practiced mutual association in order to satisfy their needs socially, economically or otherwise. It is also necessary to point out that in the traditional forms of cooperatives, in contrast to the modern cooperatives, members had a great sense of commitment and belonging.. They had mutual trust and were voluntarily involved in their activities and affairs.. It is of course not possible and it may not be expected that with the development of cosmopolitan populations consisting of different ethnic groups and tribes that members can still hold together without some form of regulations. Hence the necessity to resort to legal reinforcement and education in order to develop efficient cooperative organizations.

Although these associations of group effort could be deemed self help which is infect a for of cooperative , it is nevertheless true to say that the modern <https://assignbuster.com/management-practices-and-performance-of-saccos/>

cooperative movement, born in Kenya during the beginning of twentieth century owed much of the cooperative idea to these earlier practices. It is also true that the modern cooperative associations in this country took a different approach and mainly because of expediency. Its founders the British settlers- merely wanted to use it as a cheap means of business for easy profit making. They never spontaneously involved the indigenous people who already were familiar with cooperative effort.

The early settlers were beset by very many problems as regards their agricultural activities. For instance prices for Agricultural products were very low, transport of the agricultural inputs and outputs to the markets by each individual settler were classical nightmares. Therefore this new system of farming with its large scale production caused the needs for associations by the few European farmers who undoubtedly had conceived the cooperative idea from the British cooperative movement back home. It will of course be recalled that the formal and successful cooperative organisations started in Britain in 1844.

In 1908, they resolved to join together at a place called Lumbwa and formed Lumbwa cooperative Society Ltd. Although not registered as such under any cooperative Societies' Act, it is deemed to be one of the modern cooperatives in Kenya. The main objective was to purchase merchandise; i. e. fertilizers, chemical seeds, and other agricultural inputs through collective effort, and to market their produce collectively thus taking advantage of the economy of scale. It would appear quite clear at this point that cooperatives in Kenya did not start as a " poor man's defensive weapon" against the exploitation by the middlemen, as it had started in Europe and elsewhere. It

was on the contrary an easier means to enable the white settlers to receive high returns from their agricultural produce. Thus it was rather an economic necessity for the well to do and not the ordinary man with little or no means at all.

It will be remembered that during this time, there was no cooperative societies' ordinance to regulate and to assist the management of these cooperative efforts in Kenya. It is also not clear whether or not Lumbwa Cooperative society ltd was registered even under the companies Act, otherwise calling it a " co-operative society" was misleading. However one thing remains certain, and that is that the settlers wanted to maximize their profits by trading under the pretext of a co-operative organisation, thereby enjoying its privileges.

According to Ouma (1980) many self help groups, most of which were very small and un-economic, were started all over the country. But these were not economically viable and consequently had to be amalgamated into larger economic units. These were for instance Kenya farmers' association (co-operatives), Kenya planters co-operative union, Kenya cooperative creameries and Horticultural cooperative union. It is a fact that these institutions formed the backbone and the base for formal cooperative movement in this country. These initial cooperative ventures in Kenya were unfortunately not quite in the spirit of the Rochdale Pioneer Cooperative Society. They never for example, observed the principle of membership, for no African could participate in it until later. The need to form formal cooperative organisations arose when some African peasant farmers realized

that they were being exploited, especially by the Asian traders who were paying very low prices for their agricultural produce.

As early as in the 1930's there were attempts to form cooperatives by the indigenous people of Kenya, in spite of lack of proper guidance. Of these early attempts two examples can be mentioned here, The Taita vegetable company and the Kisii coffee Growers cooperative. The farmers had 239 members and bought 3 lorries at the cost of \$1170 out of the profits made from the operations. The group was producing, grading, transporting and selling on the mombasa market over 900, 000Lbs of vegetables a year and the growers received over \$4, 500 out of a gross selling price of \$ 6300. This was indeed too substantial an enterprise to be left without a legal basis. It was later registered as cooperative society. The Kisii coffee growers Association which was able to raise from the sale of its coffee a sum of \$2470 of which \$1240 was paid out to the 251 members who had cultivated only 159 acres, but had already accumulated a surplus of \$1065.

In 1994, the British Colonial Office in London appointed Mr. W. K. H Campbell to come to investigate the possibilities of African participation in the cooperative organisations. He carried out his investigations by touring and visiting many towns and districts in the republic of Kenya and talking to the people. After all his investigations Mr. Campbell submitted his recommendations that subject to availability of capable staff attempts to organise cooperatives were worth while. It was also during this time that the first African - Mr. Eliud Mathu was nominated to the legislative assembly, as the Kenya parliament was called then. He demanded in parliament and such

people as Ex chief Koinange from outside, that the Government should come out openly to encourage African participation in the cooperative movement.

It was as a result of Campbell's recommendation that the cooperative societies (Registration) Amendment, Ordinance of 1932 was repealed and the cooperative societies Ordinance of 1945 was enacted under Cap. 287. It was as a result of this new ordinance that the department of cooperatives was created, although it was placed under different ministries at various times.

Consequent to the establishment of the department, a registrar (now called commissioner for cooperative Development) was appointed and together with his staff was responsible for registration and promotion of cooperative societies in the country. The 1945 cooperative societies ordinance further gave the registrar certain powers over cooperative societies, for example refusal to register a cooperative society, cancellation of certificate of registration, to audit society's books of accounts, authority to inspect books of society, authority to settle disputes in cooperatives only to mention but a few examples.

The new cooperative societies ordinance thus subsequently enabled the Government to establish the department of cooperative development. The department was charged with the responsibility of promoting, controlling and educating the members as well as the public on the need and usefulness of cooperative efforts, with particular emphasis on the rural areas. The Registrar of cooperative Societies as the head of cooperative department was designed then and was given staff in ranks of Assistant Registrars and

cooperative inspectors, though very limited in number. The assistant registrars worked very closely with the department of Agriculture, in organizing cooperatives which served as the nucleus for the introduction and expansion of various types of cooperatives such as Pyrethrum, Maize, vegetables, dairy, cotton, consumer thrifts and others.

According to Ouma (1980), traditionally, people of different nations used barter methods of exchange. That is the exchange of goods for goods. It therefore requires a change of attitude and new outlook towards life in order to be able to accommodate and apply this new mode of economy usefully and