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RESEARCH ARTICLE

ROLE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN WEALTH CREATION IN LIMURU SUB-COUNTY

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ABSTRACT

Since independence, Cooperative movement in Kenya has experienced tremendous growth and is actually ranked first in Africa (Sacco Societies Regulatory Authority, 2011). Through the support of the government, the movement has produced some of the biggest players in provision of saving and credit services both to the rural and urban population in Kenya. Since the formalities involved in the formation of the SACCOs are simple, and due to their popularity, the government has continued to register more of these forms of organizations. Although Cooperatives have been there for a long time, poverty is still prevalent amongst the rural population in Kenya. The research objective was to explore the role of Savings and Credit Cooperative Societies in creating wealth for their members in Limuru Sub County of Kiambu County in Kenya. Wealth created to the individual member was measured by the asset such member acquired since joining the SACCO. Descriptive research design was applied. The study population comprised of members of SACCOs in Limuru Sub County where a random sample of five percent of all the members were investigated. Both primary and secondary data was used as sources of data. Primary data was collected using a semi-structured questionnaire distributed to the sampled group. Statistical Package for Social Sciences (SPSS) was used to analyze the data. Descriptive statistics especially, frequencies and standard deviations was applied. Inferential statistics especially regression analysis was run to help establish, trends and relationships, and which made it easier for the researcher to understand and interpret implications of the study. Pie charts and tables have been used to represent data in a pictorial format, which could be easily used and understood by other users. The research findings established that SACCOs play an important role in wealth creation in the Sub County. The most among the four variables tested, loans acquired by members from the SACCOs contribute most to the wealth creation of such a member. The research recommended that women and youth be encouraged to join SACCOs in the region. The conclusion of the research was that all the independent variables contributed positively to the dependent variable.

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INTRODUCTION

Since independence, Cooperative movement in Kenya has experienced tremendous growth and is actually ranked first in Africa (Sacco Societies Regulatory Authority, 2011). It is entrenched in virtually all the sectors of the economy. Through the support of the government, the movement has produced some of the biggest players in provision of credit facilities to the rural and the poor population. In the rural areas there has been an upsurge of SACCOs that are now playing an important role in enhancing economic growth and development. Since the formalities involved in the formation of the SACCOs are simple, and due to their popularity, the government has continued to register more of these forms of organizations. Although Cooperatives have been there for a long time, poverty is still prevalent amongst the rural population in Kenya. These people still struggle to pay school fees for their

children and some cannot afford the basic facilities like school fees and foodstuff (Wanyama, 2007). A SACCO is a form of organization registered under the Cooperative Societies Act. This Act was first enacted in parliament in 1966 but reviewed in 1997 and in 2004. The Act allows at least ten people with a common objective to come together and register a Cooperative Society. A SACCO being one of the several types of Cooperatives is registered by at least ten people with a common objective of saving and then obtaining loans out of their savings (Kibaanga, 2003). The study seeks to establish the role of SACCOs in wealth creation for their members in Limuru Sub County. The study was intended to establish the impact the SACCOs have on the economic status of their members after joining them.

Research Objectives

Two objectives were studies. These were;

- Examine the growth of loans issued to members by the SACCOs in Limuru Sub County

- Establish the growth of investment in share capital/deposits of members by the SACCOs in Limuru Sub County

Cooperatives and Wealth Creation

The main reason for the formation of a cooperative is to pull resources together with an intention of empowering their members economically hence reduces poverty in general. In the developed countries like the United States, Cooperatives are mainly workers based where they have ventured into businesses in many different sectors and industries which include retail, healthcare, manufacturing, technology and education among others. They generate revenue for their members and hence create wealth (Durden, Haight, Hanson *et al.*, 2003). Cooperatives began by enabling people to raise themselves out of poverty and reduced the risks of vulnerability by providing pooling mechanisms for their resources and building up collective approaches to social protection. As the movement developed it became a means by which low and middle-income people continued to accumulate economic advantages (Smith, 2004). Cooperatives raised whole classes of people out of poverty and prevented them from slipping back into it. What of the experience in developing countries? The cooperative form was established early in the twentieth century by colonial governments who passed Cooperative statutes and set up cooperative registrar departments.

From the 1950s onwards, in the emerging post-colonial nations, cooperatives were seen as organizations that could build up national economies, in some cases for example, Tanzania, Zambia and Ghana as a stage on the road to socialism. There were some notable successes. Where an export market or a large local urban market could be created for farmers, agricultural cooperatives became strong: coffee and cocoa cooperatives in Africa, dairy cooperatives in India, and beef production cooperatives in Argentina and Brazil are good examples. Sometimes, as in the Indian dairy cooperatives, these developments helped smaller farmers as well as larger – some 11 million families in India earn part of their income from dairy cooperatives. However, organizations which were supposed to be member-run and democratic, were planned, initiated and often controlled from above, by government departments or cooperative regulators.

Different scholars have different opinions as regards to the SACCOs as vehicles of wealth creation but have not really provided us with the real reason why these organizations have not succeeded in their task in rural Kenya and more so in Limuru Sub County. Turtiainen, (2008) observed that Cooperatives may prove to be a channel able to reach the poor. They provide facilities for savings enabling savers to gradually accumulate financial resources, purchase goods and make investment. Nembhard, (2005) asserts that Cooperatives have income and wealth benefits and spillover effects for their communities that include economic stability, recirculation of resources and accumulation of assets. This is a clear indication that SACCOs do not only benefit their members but also the community through the “spill over” effect. Cooperatives are not designed to help the poor but are rather a chance of the

poor to work them out of poverty by working together and pooling their resources (Munkner, 2012). In the emerging economies, Cooperatives are entrenched in many sectors of the economy and have succeeded in creating wealth for the rural poor. In India rural Cooperatives serve as a tool for providing a sustainable livelihood for millions of rural Indians who don't have a means of livelihood. Cooperative credit was perceived as a powerful tool for enhancing production, productivity and for poverty alleviation (Chakraberty and Ghosh, 2009). A well-knit and efficiently organized Cooperative Society certainly promotes the economic standard of the rural masses. Cooperatives play a very significant role in the process of rural development (Porkodi and Aravazhi, 2013). In South Africa, the Peoples Housing Process (PHP) implemented in 1998 is conceptually a housing Cooperative which lead to Cooperatives being included as part of the strategies for job creation in the Presidential Growth and Development summit of 2003 (Jacobs 2011).

Here in Kenya, Siringi (2011) observed that the government has put in place various policies and resources to fight against poverty. Cooperatives are major players in poverty reduction and wealth creation. Kuria (2012) observes that Cooperatives have immense potential to deliver goods and services in areas where both public and private sectors have not ventured. They are recognized by the government to be major contributor to national development since they are found in all sectors of the economy. Cooperatives are found virtually in all sectors of the economy in Kenya. In some parts of the country, they have succeeded in empowering the members developed the area. A success story is Githunguri Dairy Farmers Cooperative Society in Kiambu County which has transformed people's lives and has been used as a channel for creating wealth (Wanyama, 2007). A study by Kenya Bankers Cooperative concluded that SACCOs are a tool in economic recovery and poverty reduction since they enable ease in accessing credit and other financial services in marginalized areas (Ntothia, 2001). Kenya Rural Enterprise Programme (K.rep) highlighted that micro and small enterprises have proved to empower and reduce poverty. Aleke (1995) as sighted by Tumaini (2011) observes that financial services give poor people the means to increase their assets and improve their living standards.

Growth in Average Investment Levels by Members of SACCOs

Members usually invest in shares and also deposits in the SACCO. The level of investment for each member determines the size of loan which such a member will qualify. In many SACCOs, the maximum amount of loan will be the total shares plus the deposits multiplied by a factor. This then means that a member who has invested more in the SACCO will get a bigger loan which in return will create more wealth to him/her. If the average level of investment in the SACCOs is high in a certain region, then the wealth level will be high as compared with an area where the average investment level is low. Financial Cooperatives provide safe facilities for savings, enabling savers to smooth consumption, prepare for emergencies, gradually accumulate financial resources, self-finance the purchase of durable goods, and make investments (Turto, 2008). Savings and credit cooperatives are the far most

common financial cooperatives in rural areas both in developed and developing countries. In SACCOs, the economic strength of members is determined by the share capital of each of them and also the amount of loans they borrow, thus, the larger the share capital of each member in a SACCO the stronger the member economically. Therefore the SACCO should continuously encourage members to increase their share capital and also to increase their borrowings so as to increase their economic strength. This is done through regular education meetings where members are educated on the products and services offered by the SACCO. They are also educated about the benefits of the SACCO loans as compared with those from banks and other financial institutions since SACCO loans are always cheaper. Most SACCOs charge an interest rate of 1% per month which is far below what banks charge on their loans.

Growth in average Loans to SACCO members

SACCOs are forms of organizations which are in the group of financial services. Their original purpose was to provide small loans to poor farmers or small entrepreneurs, but especially in the developed world they have grown to become everybody's banks. Although originally serving only their members, they now are open also to nonmembers borrowers must, however, usually become members and buy at least one share (Turto, 2008). The size of loan that a member qualifies will determine the economic status of such a member. Small loans for example of less than ten thousand shillings are mostly used for consumption purposes like buying food or paying school fees but in most cases large loans will be invested in businesses or farming which in return may create wealth for such a member. Loans that are invested in businesses or farming enables the member to repay them promptly and apply for more loans which will create more wealth to the member and to the community at large since such wealth will trickle down to the other residents through a multipliers effect. This is because other residents may find employment in the businesses and farms.

For a member to be able to borrow a bigger loan, he or she must increase his/ her investment in the SACCO. The investment includes shares and deposits which are usually multiplied by a factor which may either be two or three or even one and a half so as to arrive at the maximum loan qualified. This ensures increase in wealth for the member since shares and deposits are refundable in a situation where a member is leaving the Cooperative. In most cases, the increase in loan borrowing ability grows proportionately during the life of a member in the Cooperative. The first loan by a member is usually smaller than the subsequent loans. This is because of the SACCOs initiatives of encouraging members to increase their savings/ investments so as to borrow more. SACCOs main source of income is the interest charged on the loans issued to their members. The rate of interest to be charged is a policy decision of the individual SACCO but most of them charge a rate of twelve %per annum on their development loans. Such interest is retained by the SACCO as income and used to cater for the operation expenses. In a situation where a surplus remains after the end of the financial year, the SACCO distributes such surplus back to members in form of dividends

and bonuses. Therefore a SACCO will encourage members to borrow loans so as to charge more interest and hence retain higher surpluses to distribute back to members. This in the long run creates wealth for the members through earning dividends and bonuses and also encouraging them to increase shares and deposits which are refundable.

Findings

The following are the findings from the two objectives indicated above. Respondents were asked to indicate their initial share capital/ deposits when they joined the SACCO. They were required to state whether it was below 5000 shillings, from 5001 to 10000 and above 10000 shillings. All the 138 respondents indicated that their initial share capital was below 5000 shillings. The respondents were also asked to indicate their share capital today. The choices were less than 10000 shillings, 10001 to 50000 shillings and above 50000 shillings. 11 indicated that their share capital/deposits are less than 10000 shillings, 78 have between 10001 and 50000 and 49 have share capital/deposits that 50000 shillings. This is a clear indication that SACCOs facilitate growth in investment for their members. The researcher wanted to establish the level of loans received by the members. A cross check of all the SACCOs indicated that the maximum amount issued as a loan to members is based on the shares and deposits invested by such a member in the SACCO. This is multiplied by a factor ranging from 2 to 4. Thus all the SACCOs were encouraging their members to increase their shares and deposits so as to qualify for bigger loans.

Out of all the respondents, 120 which was 87% of all the respondents indicated that they have obtained loans from the SACCOs while 18 which is only 13% said they had not. 18 received less than Kenya shillings 5000 as their first loan, 27 received between 5000 and 10000 while 75 received more than Kenya shillings 10000 the first time they received a loan. 51 respondents indicated that they utilized the first loan for school fees, 9 bought food while 60 invested the money by either buying land, starting businesses or constructing houses. A total of 42 respondents received between Kenya shillings 10,000 and 50000 as their latest loan, 47 received between Kenya shillings 50001 and 250000 while 21 received more than Kenya shillings 250000. 10 of them did not respond to this question. From the responses, we can conclude that almost all the respondents received a bigger loan than the first one they received from the SACCOs. This is an indication that the SACCOs are assisting members to create more investments hence more wealth. The researcher wanted to know whether members loans increase overtime as the members continue being in the SACCOs.

As indicated in the figure above, only 18% of the respondents borrowed a loan of less than fifty thousand shillings while 39% and 35% borrowed between fifty thousand and two hundred and fifty thousand and above two hundred and fifty thousand shillings respectively. This clearly shows that majority of the respondents have obtains bigger loans than the initial ones. This confirms that members' ability to borrow loans which is the share capital and deposits has been increased. This is an investment for the member hence a wealth which has been

created. It also confirms that wealth is created out of the loans obtained since it was confirmed earlier that most members in the region utilize their loans on investing.

Growth in Members Investment in SACCOs and Wealth Creation

Respondents were asked to rank statements relating to investment in SACCOs in relations to wealth creation according to the level of agreement with 1 being ranked as strong disagreement, 2 as disagree, 3 as neutral, 4 as agreement and 5 as strong agreement. In all circumstances, the highest percentage of the respondents strongly agreed with the statement which is a clear indication that growth in members' investment in SACCOs has a positive relationship with wealth creation in Limuru Sub County. Similarly, the researcher wanted to establish the relationship between growth in members loans from SACCOs wealth creation. The respondents were required to indicate the level of agreements or disagreement in the ranking of 1 to 5 ranked as the previous set of statements. In all situations, the respondents were in strong agreement that growth in members' loans from SACCOs have a positive relationship with wealth creation in Limuru Sub County. The following were the responses. The secondary data which was collected from the Annual Report of all Cooperatives in Limuru Sub County and which was provided by the District Cooperative Officer (DCO) confirmed that the total share capital for the financial year 2011 increased by 14% in the financial year 2012 from Kenya shillings two hundred and fifty five million to Kenya shillings two hundred and ninety one million. This further confirms that there is a substantial growth in share capital hence the members' investment in the region. Tewari, (2011) observes that Co-operatives in India accepted deposits from lenders who are the members and then loaned the funds to the needy farmers at reasonable rates for them to revamp agriculture hence feed the nation. SACCOs should provide cheap loans to their members.

The secondary data which was collected from the Annual Report for all Co-operatives in Limuru Sub County and which was provided by the District Cooperative Officer indicates that the total loans for the financial year 2011 increased by three %in the financial year 2012 from Kenya shillings two hundred and twenty six million to Kenya shillings two hundred and thirty three million. This further confirms that there is a substantial growth in the average loans to members hence the members' wealth in the region. The third area of concern for the researcher was to establish the effectiveness of SACCO operations in relation to wealth creation. The respondents were to indicate their take on the statements related to the effectiveness of their SACCOs and how this affects wealth creation. Respondents were indifferent in some situations but 71% of the respondents strongly agreed that effective management in SACCOs facilitate wealth creation. The two independent variables that were researched on indicated a clear evidence that each of them contribute positively to the dependent variable. On growth in loans by individual members, almost all the respondents indicated that their latest loan is higher than the first loan they took from the SACCO. This is an indication that SACCOs facilitate the growth of loans by the members. It was also observed that most members

borrow loans which they invest in either to invest in businesses construction on houses and buying land all of which are components of wealth creation. The research confirmed that individual member's investment in SACCOs increase overtime which enables them to borrow bigger loans. It was observed that the maximum loan a member qualifies is determined by the investment in shares and deposits in the SACCOs. The investment in shares and deposit is refundable in case the member leaves the SACCO hence it is wealth on the part of the member.

Recommendations

From the research findings, the following recommendations are made: It can be observed that SACCOs play an important role in wealth creation in Limuru Sub County. However the rate of penetration of SACCOs in the region is low hence a need for more sensitization of the population about SACCOs. There is a need to encourage more women to join the SACCOs in the region since their percentage as compared to men is low. Since it has been observed that SACCOs empower members economically, women should also be involved in the wealth creation in the region Youth which forms a large percentage of the Kenya's population should be encouraged to join SACCOs since the research indicated that only 41% of the members are below the age of 25 years. Since youth are important in wealth creation in any region, the authorities in the region should encourage them to join SACCOs. Most of the SACCOs in Limuru Sub County are concentrated in Limuru town. There is a need for more SACCOs to be registered in the other wards of the Sub County in order to spread the wealth which is being created in the region. More products need to be introduced by SACCOs for the members to benefit more. The research found that 47% of all the respondents will appreciate if SACCOs introduced more products hence a need for more research on the products needed.

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