

## Sacco Investment Products and Financial Growth of Members in Bungoma County

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### Abstract

*In Kenya people join savings and credit co-operative societies with an aim of improving their economic status. SACCOS have uplifted the economic standards of most of their members by assisting them with affordable loans and other products. This has led to the expansion and growth of SACCOS across the County. The objective of this study was to determine the effect of investment products on financial growth of SACCO members in Bungoma County. The target population for the study was 12, 000 members in Bungoma County from the following Savings and Credit Co-operative Societies; Ng'arisha, Mwalimu, Metropolitan and Mt. Elgon. A sample size of 387 members was selected using stratified random sampling. A descriptive survey research design was adopted and data was gathered by use of questionnaires and interview schedules. Both qualitative and quantitative data was collected using structured and unstructured questionnaires. Descriptive and inferential statistical analysis was employed on the quantitative data collected. Data was presented by use of graphs, tables and charts. From the study, it can be concluded that teachers SACCO provide their members with investment products for their financial growth. It is also evident that there is a higher positive correlation between investment products and financial growth of members. The study recommends that teachers SACCO should invest heavily in providing investment products to their members because they a higher financial growth of members.*

**Keywords**-Investment Products, SACCO, financial growth, County Government

### 1. Introduction

Savings and credit cooperative societies (SACCOS) are organizations created by people and registered by the societies' Act. SACCOS are deposit taking institutions that enable their members to save money and borrow loans usually four times the amount of their accumulated shares at a lower rate compared to commercial Banks. SACCOS were invented in South Germany in 1846 at the time of drought in Europe and agricultural crisis by two community business leaders; that is Reifeisen and Schultze (1846) who are thus considered as the founding fathers of the SACCO movement. The history of SACCO shows that they were formed with the main aim of relieving of the poverty among the poorer economic classes in U S, Europe and India.

In Kenya, nearly every profession or group of persons working under an employer organize themselves into a SACCO. Teachers for example, who work under the TSC, belong to various SACCOS. According to co-operative societies rules (2004) the SACCOS are either organized based on their sub-counties where they work or come

from. Teachers' SACCOS are formed to assist members access loans at reasonable rates so that they can improve their economic well-being. They have been in existence for long and have contributed to the growth of the Kenyan economy through creation of employment opportunities and giving out loans which in turn improve the cash flow within the economy.

As per the co-operative societies Amended Act (2004) Savings and credit cooperative societies for teachers usually based at the district (sub-county) draws membership from teachers mainly from primary school teachers from within that particular sub-county.

They are supposed to encourage teachers to save and obtain loans at affordable interest rates so that they can afford to pay for their expenses like school fees for their secondary and college going children. They also save a portion of their money so that upon retirement they can withdraw their accumulated savings to help them financially. According to Alila & Obado (1990), SACCOS in Kenya are currently leading in providing co-operative credit for socio-economic development as compared to other financial entities like the banks. Cooperatives movement in Kenya was started in 1908 with membership limited to colonial white settlers. The white

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settlers established the first cooperative at Lumbwa, present day Kipkelion area. It was until 1944 when the colonial officers allowed Africans to form and join cooperatives (Gamba & Komo, 2012).

The day to day expenses in the life of a teacher such as purchase of plots, building of houses, farming and daily upkeep require money and yet the monthly earnings of teachers are not enough to finance them adequately. There is a variety of SACCO products innovated as per the revised Ng'arisha Credit policy (2013) which enable teachers to live up to their daily needs of money and has created a vicious circle of poverty where teachers are trapped in a 'rat race' a situation by borrowing to re-finance and as a result they remain poor making them indebted to the SACCOS to the point of not earning any money at the end of the month. In most cases the purpose for which the loans are put to are usually for consumption and do not generate any income for the teacher.

Management of the SACCOS on the other hand raises questions as many are reported in newspapers for being unable to pay dividends or even have no enough reserve funds for the teachers to continue borrowing. Ndung'u (2010) states that SACCOS are encompassed by mismanagement and poor investment decisions. This study therefore is intended to find out whether teachers' investment products have actually helped the teachers' grow economically.

### 1.2 Statement of the Problem

In Kenya SACCO societies are supposed to formed a source of funds for credit, which shall be lent to qualified members at a fair and reasonable rate of interest as compared to commercial banks and other financial enterprises. As per Ng'arisha Annual Audit report (2017) which is a teacher SACCO in Bungoma County, the members' loan portfolio increased from 889,067,756.99 in 2015 to 1,069,584,806.80 in 2016.

Mudibo (2005) observed that the objective of SACCO is to empower members through savings mobilization and disbursement of credit and ensuring SACCOS' long-term sustainability through prudent financial practice. Ademba (2010) research on problems facing SACCOS found out that lack of members 'confidence and poor governance are some of the factors hindering the growth of SACCO. Ndung'u (2010) study established that SACCOS are encompassed by poor investment decisions and mismanagement. The above researchers did little on SACCO products and growth on members that is why the researcher felt that it necessary to research on this topic. From the above information trend of loans have been increasing year by year but the lifestyle of Members remains the same. Therefore, the researcher seeks to ascertain what hinders most of the SACCO members from growing financially when they enjoy a variety of products from their SACCO, is it as a result of low TSC pay in terms of salary? Unfavorable interest rates making the cost of

borrowing high to them? or it is due to lack of financial discipline. Most of the SACCOS tailor their products to meet the requirements of their members thus increasing the loan portfolio of the members. This could be as a result of favourable products offered by the SACCOS. However increased loan portfolio may not necessarily mean financial growth of the members as most of them are still challenged financially. This study therefore examined this disconnect by examining the effects of investment products on the financial growth of SACCO members.

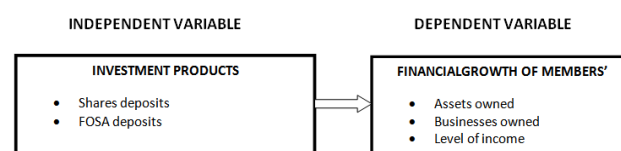
### 1.3 Objectives of the study

To establish the effect of investment products on financial growth of SACCO members in Bungoma County.

### 1.4 Research Hypotheses

H<sub>01</sub>SACCO investment products have no significant effect on financial growth of members in Bungoma County.

### 1.5 Conceptual Framework



**Figure 1.1:** Conceptual framework  
Source: Researcher's own conceptual, 2017

## 2. Literature review

### 2.1 Theoretical framework: The Neo-Classical Growth Theory

Harrod Damar model or Solow model is used to exogenously determine the growth rate of SACCOS under the neo-classical growth theory. Solow-Swan class growth theory which focuses on capital and labor indicates that capital is added when SACCOS invest but is lost due to depreciation. Under this model, when investment exceeds depreciation, there is capital growth in wealth only (Gartner, 2006). Hence the investment should keep on growing to achieve capital growth. The model explains further that capital yields leads to an increase in SACCOS' Wealth growth. The growth in this theory is regarded as a factor of accumulation of capital. The model is strongly supported by Harrod Damar Model of development economics (1946) that explains the growth rate in terms of saving and productivity of capital whereby an in investment results to accumulation of capital.

### 2.2 Investment Products

#### 2.2.1 Types of investment products

Members invests in assets like share deposits, FOSA deposits, buying shares in BUTCOH, buying shares in

SACCO plaza known as Plaza shares. All these are members’ investments that earn dividends. SACCO share deposits are member’s monthly contributions accumulated which serve as security to members’ loans and members contributed through check-off. Another product is FOSA deposits are members contributions that are deducted from member’s FOSA loans that are accumulated and only withdraw able during account closure. They act as security for FOSA loan products and nobody can access any facility in FOSA without this type of shares.

2.2.2 Investments Products and Financial Growth of Members

Simeyo (2013), defined term an investment as outlay of a sum of money in the expectation of a future return. This sum is able to compensate for the original outlay plus a premium to cover inflation, risk and interest foregone. Investment appraisal process should be designed to ensure that the right amount of money is invested in the right projects at the right time.

Pandey (1996) asserts that too little investment, in the long run is more dangerous than too much. Too little investment leads to inefficiency and certain slow stagnation. Too much investment involves unacceptable levels of risk, but at least has the possibility of success but in the short-term, too little of investment is the safer option. These conflicting needs have to be balanced in order to obtain sustainable financial performance, hence, calling for proper regulatory and supervisory mechanisms. It’s one very significant aspect is the task of measuring the prospective profitability of new investments. Any investment decision as source of raising funds for the firm must consider the interests of the shareholders. SACCO members to invest in buildings and share and FOSA deposits but many end up without giving members reasonable dividends as return to capital hence the rationale of investing in the first place.

Cheruiyot (2012) noted that it is desirable that SACCO membership embraces a saving culture so as to improve quality of as a result of low incomes. Furthermore, development is accelerated by saving in that; capital accumulation is as a result of high levels of saving. Whether this is happening in Bungoma County is the subject of this study. Some investments may yield good profits which should translate into dividends for members. But many teachers’ SACCOs as much as they invest in assets have never declared very attractive dividends per share raising questions either of the viability of the investments or simply the management of the investments. This also means that the money invested loses value and may not indeed be of use to the members.

3. Research methodology

The study adopted descriptive survey research design in order to collect a large pool of data across the county

using questionnaires, interview schedules and observation schedules. A detailed description was necessary since respondents have to give personal experiences they have had with the products of the SACCO.

The study was carried out in Bungoma County in Western part of Kenya. Bungoma County has four teachers’ SACCOs namely: Ng’arisha, Metropolitan, Mwalimu and Mt. Elgon.

The target population for the study included all teachers in Bungoma County who are registered members of SACCO’s and they are totaling to 12,000 members (Ministry of Co-operative, 2016). Stratified random sampling technique was employed in order to consider and proportionately on the sample. All SACCOs in Bungoma County involved in the study and there are four (4) SACCOs in Bungoma County. This included: Metropolitan, Ng’arisha and Elgon and Mwalimu SACCOs.

Table 3.1: Sampling frame

	SACCO	POPULATION	SAMPAL SIZE
1	NG’ARISHA	7,000	226
2	MWALIMU	2,800	90
3	METROPOLITAN	1,200	39
4	MT. ELGON	1,000	32
	<b>TOTAL</b>	<b>12,000</b>	<b>387</b>

Source: Bungoma County Ministry of Co-operative and Marketing office (2016)

Questionnaires were used for data collection. In this study, the instruments were given to researcher’s supervisors for examination and determination of their content validity. The research instruments were piloted in two SACCOs in Trans Nzoia County which was not part of the selected SACCOs for study involving 39 respondents because using a sample size of 389, Mugenda and Mugenda (2012) recommends a thumb rule of 10%. The reliability score of the variables constructs were all above acceptable Cronbach Alpha coefficient of 0.70 with an overall reliability of 0.857 as shown in Table 3.2.

Table 3.2: Reliability test

	Cronbach's Alpha if Item Deleted
BOSA loan products	.858
Investment products	.814
FOSA loan products	.837
SACCO factors	.804
Members financial growth	.821
<b>Overall</b>	<b>.857</b>

Source: Field data (2017)

After the field research, all the questionnaires were adequately checked for reliability and verification. After the relevant data was collected and appropriate data selected, the next step was to check and convert the data into formats that was appropriate for analysis and interpretation. Data was analysed by use of both descriptive and inferential statistics. The particular

inferential statistics used were correlation and regression analysis. Data collected from secondary sources and from the questionnaires were tabulated because tabulation makes the data orderly and easier for presentation. The results were presented using tables and figures to give a clear picture of the research findings at a glance.

This study used a simple linear regression model to establish the relationship between the dependent variable and independent variables in the form of:

$Y = a + \beta X_1 + e$  where  $Y$ = Financial growth,  $X$ = Investment Product,  $\beta$ =Beta constant and  $e$ -Is the error term which is assumed to be normally distributed with mean zero and constant variance

The researcher first sought an authorization letter from Masinde Muliro University. Thereafter, the

researcher applied and obtained permission from the National Commission for Science, Technology and Innovation (NACOSTI) to conduct the study. Thereafter, the researcher sought permission and authorization letter from the county commissioner office before visiting the selected SACCO's for study. After being granted the permission the researcher visited selected SACCO departments to inform them about the researcher's intentions, present a research permit and the authorization letter. The researcher also sought consent of the respondents before collecting data.

**4. Results and discussions**

*4.1 Response Rate*

**Table 4.1:** Response rate of respondents

Response	Ng'arisha		Mwalimu		Metropolitan		Mt. Elgon		Total	
	f	%	F	%	F	%	f	%	f	%
Returned	180	79.65	60	66.67	26	66.67	20	62.50	286	73.90
Unreturned	46	20.35	30	33.33	13	33.33	12	37.50	101	26.10
Total	226	100	90	100	39	100	32	100	387	100

Source: Field data (2017)

From Table 4.1 it is evident that the researcher administered a total of 387 questionnaires out of which 286 questionnaires were properly filled and returned. This represents an overall successful response rate of 73.9% which is deemed adequate to be used for data analysis. Babbie (2004) asserted that return rates of 50% are acceptable, 60% is good and 70% is very good to analyze and publish research findings.

*4.2 Descriptive statistical analysis*

**Table 4.2:** Investment products

	N	Mean
Our SACCO provides sufficient investment products	286	1.3042
Our SACCO follow up investment activities of our customers	286	1.7937
Our SACCO members benefit from investment products	286	1.6364
Our SACCO has investment shares which affects its growth	286	1.6119
Valid N (listwise)	286	

Source: Field data (2017)

In regard to investment products, Table 4.2 study findings indicate that most respondents strongly agreed that their SACCO provides them with investment products shown by a mean of 1. It is also evident from the table that most teachers' respondents agreed with a mean of 2 that; their SACCO follow-up their investment activities, they benefit from investment products, and that they own investment shares in the SACCO thus this contribute to their growth.

The results can be interpreted that, the teachers SACCO provides efficient and affordable investment products to their members. The study findings are in agreement with past research findings that found out that investment product leads to increase financial growth of SACCO members (Cheruiyot, 2012).

*4.3 Inferential Statistical Analysis*

**Table 4.3:** Investment product and financial growth of SACCO members' correlation results

		Investment products	Members financial growth
Investment products	Pearson Correlation	1	<b>.652**</b>
	Sig. (2-tailed)		.000
Members financial growth	Pearson Correlation		1
	Sig. (2-tailed)		
		N	286

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Field data (2017)

Correlation results in Table 4.3 reveal that there is a positive and significant relationship between investment products and financial growth of members ( $r=0.652$ ,  $p=0.000$ ;  $\alpha=0.01$ ;  $r=+$ ). From the results, it is clear that teachers who acquire the SACCO investment products are likely to financially grow faster. The study findings are in agreement with past research findings that found out that teacher investment product leads to increase financial growth of SACCO members (Cheruiyot, 2012).

**Table 4.4:** Investment product and financial growth of SACCO members’ regression results

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.652 <sup>a</sup>	.425	.423	.50112		
a. Predictors: (Constant), Investment products						
ANOVA <sup>a</sup>						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	52.764	1	52.764	210.114	.000 <sup>b</sup>
	Residual	71.318	284	.251		
	Total	124.081	285			
a. Dependent Variable: Members financial growth						
b. Predictors: (Constant), Investment products						
Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	
1	(Constant)	.371	.102	3.642	.000	
	Investment products	.890	.061	14.495	.000	

a. Dependent Variable: Members financial growth

Source: Field data (2017)

Model summary results in Table 4.4 indicate that there is a positive relationship between teachers SACCO products and financial growth of members (R=0.652). The results also reveal that teachers investment products account to 42.5% of financial growth of members while 57.5% of financial growth of SACCO members is as a result of other factors a part from teachers investment products (R<sup>2</sup>=0.42.5).

ANOVA results in Table 4.4 show that the overall single regression model is appropriated in measuring the relationship between teachers’ investment products effects on financial growth of members. This is shown by a significant F-statistical test (F=210.114; p=0.000).

Regression coefficient results in Table 4.4 depict that investment products contributes significantly (p=0.00, α=0.05) to the financial growth of members thus an increase in financial growth of members by 1 units leads to an increase of 0.890 units use of investment products. Since β≠0, the study rejects the null hypotheses and concludes that there is a significant and positive relationship between investment products on the financial growth of members. The study findings are in agreement with past research findings that found out that teachers investment product leads to increase financial growth of SACCO members (Cheruiyot, 2012).

**5. Summary, conclusions and recommendations**

*5.1. Investment products and financial growth of members*

The objective of the study was to establish the effect of investment products on financial growth of SACCO members in Bungoma County. The findings based on this objective, the study found out that teachers SACCO provide their members with investment products. The study found also that teachers SACCO; follow-up the investment activities of their members, members benefit from investment products, and members own investment shares in the SACCO thus this contribute financial growth of SACCO members in terms of having loan terms assets, increasing members’ shareholdings and increase income generated through SACCO investment products.

The study found out that there is a higher positive correlation between investment products and financial growth of members at 99% level of confidence. The study regression coefficient results found out that investment products contribute significantly to the financial growth of members thus investment products contribute 0.890 units in every increase in financial growth of members by 1 units. Since the computed beta value was equal to 0.890 and not equal to zero (β≠0.890≠0), the study rejected the null hypothesis and concluded that there is a significant and positive relationship between investment products and financial growth of members in Bungoma County.

*5.2 Conclusion*

From the study, it can be concluded that teachers SACCO provide their members with investment products for their financial growth. It is also evident that there is a higher positive correlation between investment products and financial growth of members.

*5.3 Recommendations*

The study recommends that teachers SACCO should invest heavily in providing investment products to their members because they a higher financial growth of members.

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