

A Comparative Study of Effects of Interest Rates on Deposits Mobilization among Sacco Members in Kakamega County

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ABSTRACT : *In Kakamega County, various cooperative societies have been registering losses and even some have gone out of business which has always been ascribed to reduced deposits by their customers. For instance, SACCOs such as Mumias Out growers Sacco Society (MOSSACO) was temporarily closed down in 2009 because of withdrawal of majority of its members thus leaving the SACCO with low capital base to facilitate its operations. The interest rate at the time was at five percent while the one offered on loans was at 15 percent which considered low on deposits and high on loans. With regard to this, the proposed study sought to carry out a comparative study of interest rates offered by Kakamega Teachers Savings & Credit Co-operative Society (KATECO), Sukari Savings & Credit Co-operative Society and Mumias Out growers Savings & Credit Co-operative Society (MOSSACO) to determine the effect that the interest rates have on deposits mobilization among Sacco members in Kakamega County. The Objectives were to; analyze how interest rate for members' deposits in SACCOs is established; examine the constraints faced by SACCOs in mobilizing deposits and evaluate the relationship between interest rates and deposits mobilized by SACCOs. The study found out that interest rates affect the growth of SACCOs deposit positively but negligibly. This result suggests that trying to influence the SACCOs deposits by manipulating interest rates is not likely to be a practical policy option in Kakamega County. However, the SACCOs should attempt to maintain competitive positive real interest rates relative to that of other financial institutions in order to increase the savings. The present paper only used the simple mathematical and statistical tools to analyze the effects of interest rates on deposits mobilization in savings and credit co-operative societies operating in Kakamega County. However, there is room for in-depth analysis using more sophisticated econometric methods and quarterly or monthly data.*

KEYWORDS: *-Deposit Mobilization, Customer Information, Monitoring, Trust, SASRA Regulation*

I. INTRODUCTION

Background of the Study

Notably, SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas (Gardeklint, 2009)[1]. This has made SACCOs more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Karki, 2005)[1]. Importantly, the core objective of cooperative societies is to ensure that their members are empowered through encouragement of savings and provision of credit. In Kenya, for example, cooperative societies have mobilized over Kshs.200 billion in savings, which accounts for over 30% of the National Domestic Saving (Jensen, 2001)[3]. For that matter, the proposed study seeks to establish the impact of interest rate provided by the cooperative societies on members' deposits.

However, performance of these SACCOs is determined by various factors. One of the most significant factors that determine performance of a SACCO according to Funkor (2000)[4] is the interest rate provided. Funkor affirms that this determines the level of deposits by the members. In Western Countries, classical theorists regard the interest rate as a factor which brings the demand for investment and the willingness to save. In a study done in the Southern African Development Community (SADC) region by Funkor (2000)[4] on influences of interest rates on performance of financial institutions, it was established that high interest rates are important because they control the flow of money in the economy and more importantly encouraging customer deposits. This was also supported by Kariuki (2005)[5] who carried out a study in the former Central Province of Kenya on "Impact of interest rates on saving culture of the SACCOs' clients" and established that high interest rates will always motivate customers to save more while low interest will discourage savings.

With respect to this, the proposed study seeks to carry out a comparative study of interest rates offered by Kakamega Teachers Savings & Credit Co-operative Society (KATECO), Sukari Savings & Credit Co-operative Society and Mumias Out growers Savings & Credit Co-operative Society (MOSACCO) among other Savings & Credit co-operative Societies operating within Kakamega county in order to determine the effect interest rates have on levels of deposits among Sacco members in Kakamega County.

II. STATEMENT OF THE PROBLEM

The Ministry of Commerce and Tourism (2013)[6] posits that low rates of interest on deposits have always been an obstacle to savings mobilization. The ministry also notes that several financial institutions collapse due to poor rates of interests that are offered on their products. Therefore, in order to mobilize savings on large scale, the ministry affirms that cooperatives must offer interest rates that are attractive to savers. Also, Pelrine (2005)[7] observed that when interest rates increase, borrowing becomes more expensive, dampening consumer demand for loan products. In Kakamega County, various cooperative societies have been registering losses and even some have gone out of business which has always been ascribed to reduced deposits by their customers. For instance, SACCOS such as Mumias Out growers Sacco Society (MOSACCO) was temporarily closed down in 2009 because of withdrawal of majority of its members thus leaving the SACCO with low capital base to facilitate its operations. The interest rate at the time was at five percent while the one offered on loans was at 15 percent which considered low on deposits and high on loans. With regard to this, the proposed study seeks to carry out a comparative study of interest rates offered by Kakamega Teachers Savings & Credit Co-operative Society (KATECO), Sukari Savings & Credit Co-operative Society and Mumias Out growers Savings & Credit Co-operative Society (MOSACCO) to determine the effect that the interest rates have on deposits mobilization among Sacco members in Kakamega County.

OBJECTIVE OF THE STUDY

Examine the constraints faced by SACCOS in mobilizing deposits

RESEACH QUESTIONS

What are the constraints faced by SACCOS in mobilizing deposits?

III. LITERATURE REVIEW

3.1 Introduction

This chapter summarizes the information from other researchers who had carried out their research in the same sphere of study. The study specifically covers the theoretical discussions, conceptual framework and research gap.

3.2 Kenyan SACCOS

The first SACCO Society, in Africa, was introduced in Ghana in 1959. The SACCO was intended to assist villagers improve their economic conditions (Ng'ombe&Mikwamba, 2004)[8]. English speaking nations were the first to adopt SACCOS. The first entrants into SACCO community include Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating SACCOS in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011)[9]. The formation of SACCOS in Africa grew tremendously to the extent that the African countries formed a continental association of SACCOS, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng'ombe&Mikwamba, 2004)[8]. There are 28 countries in Africa that have established SACCOS (Savings Plus, 2010)[10].

In Kenya, the first Co-operative Society was Lumbwa Co-operative Society formed in 1908 by the European Farmers with the main objective of supporting agricultural activities and products to take advantage of economies of scale (Kenya Union of Saving and Credit Co-operatives [KUSCCO], 2006)[11]. Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation. Accordingly, steps were taken by the Government which saw the rapid growth and expansion of the SACCO Society movement in the country (Gardeklint, 2009)[1]. In fact, the SACCO movement is considered by the government as one of the economic pillars of the nation. By the year 2010, Kenya had over 5,000 registered SACCOS with a membership of about 7 million. These SACCO societies had mobilized savings of over Ksh.200 billion (Republic of Kenya (RoK), 2008[12]; Ndung'u, 2010[13]).

In 1945, the Co-operative Ordinance Act was passed where the Government of Kenya (GoK) legally controlled the co-operatives. The act was amended in 1997 removing much of the control from the government through the Commissioner of Co-operatives under the Co-operative Societies Act 1997. This Act was enacted to provide a policy framework for co-operative development in Kenya therefore delineating these co-operatives from the control of the Government by necessitating the withdrawal of state control over the co-operative movement. The aim was to make co-operatives autonomous, self-reliant, self-controlled and commercially viable institutions. The role of the government was redefined from one that sought to control co-operative development, to one that now seeks to regulate and facilitate their autonomy. This allowed the co-operatives to compete with other private enterprises in the marketing of agricultural produce (Republic of Kenya, 1997a[14]). The 1997 Act was amended in 2004 through the Co-operative Societies (Amendment) Act of 2004 which was enacted to re-enforce state regulation of the co-operative movement through the office of the Commissioner for Co-operatives Development. The SACCO Societies Act of 2008 was enacted later to provide for the licensing, regulation, supervision and promotion of savings and credit co-operatives by the SACCO Societies Regulatory Authority. Thus, this Act provides for the establishment of the SACCO Societies Regulatory Authority (SASRA) whose functions include licensing SACCOs to carry out deposit-taking business as well as regulating and supervising SACCOs (Republic of Kenya, 2008b[12]; Wanyama, 2009[15]).

From the foregoing background literature, (Mudibo, 2005[16]; Ademba, 2010[17]; Ndung'u, 2010[13]; Thabo, et. al., 2003[18]; Agrawal et al., 2002[19]; Adeyemo&Bamire 2005[20]; Deji, 2005[21]; Asher, 2007[22]); it emerges that the objective of SACCO Societies is member empowerment through savings mobilization, disbursement of credit and ensuring SACCOs' long-term sustainability through prudent financial practice. However, they contend that there are a number of challenges in promoting quality financial management such as limited capital funding sources, loan delinquency, and assessment and management of risks in addition to negative cash (liquidity), poor governance and poor investment decisions. That wealth generation is hampered by poor financial stewardship, under-capitalization of co-operative enterprises, high cost of funds, and delayed member payments. Over time, SACCOs have been trying to address members' demands by mobilizing funds and granting credit to members. However, they have not been able to grow their wealth sufficiently through accumulation of enough institutional capital to finance non-withdrawable capital funded assets, provide cushion to absorb losses and impairment of members' savings.

3.3 Theoretical Review

The classical theory of interest otherwise called the demand and supply theory of interest, maintains that the rate of interest is determined by the demand for and the supply of funds by businessmen and households respectively. The supply of funds is governed by the time preference and the demand for capital by the expected productivity of capital. The classical theory fails to proffer solution hence indeterminate. Meanwhile, the Keynesian liquidity preference theory is a stock theory. The theory determines the interest rate by the demand for and supply of money. It emphasizes that the rate of interest is purely a monetary phenomenon and distinct from the real theory of the classicals. It is a stock analysis because it takes the supply of money as given in the shortrun and determines the interest rate by liquidity preference or demand for money. In discussing the modern theory of interest, the Hicks-Hansen ISLM model evidently shows that no single theory of interest rate is adequate and determinate. An adequate theory to determine interest rate must take into consideration both the real and monetary factor that influences the interest rate. Recall that $M_d = M_s(i) + M_t(Y)$.

Thus, money demand is also a function of output Y . When output rises, the money demand curve will also rise and therefore the equilibrium level of interest rate (r^*) rises as well. In like manner, the McKinnon-Shaw Hypothesis expressed in McKinnon and Shaw (1973)[23] argued that financial repression and indiscriminate distortions of financial prices including interest rates reduces real rate of growth. One of the basic tenets of McKinnon-Shaw model is that investment function responds negatively to the effective real loan rate and interest, and positive to the growth rate. McKinnon-Shaw school expects financial liberalization to exert a positive effect on the rate of economic growth in both the short and long run. In addition to the classical theory of interest rate, the study also reviews the loanable funds theory to provide the theoretical justification for the relationship between real interest rate and savings mobilization. The concept of loanable funds in economics is central to the theory of interest rates. It explains how the demand for and supply of credit decides the financial market interest rate. Bannocks, et al (1998)[24] defined loanable funds as money available for lending to individuals, government and institutions in the financial markets. It comprises the current savings of private individuals and firms, as well as any increase in money supply made available by the actions of depository institutions, governments and monetary authorities in the financial markets. Thus, loanable funds represent a flow of money into the financial markets for loans of all kinds. According to Pearce (1992)[25], loanable funds or credit is strictly the term used for funds that are available for lending in the money and capital market, and is usually considered within the context of the theory of interest rate. According to Uremadu (2005)[26], loanable

funds results out of planned and mobilized savings. Accumulated savings when invested translate into capital formation which is a stock of real productive asset.

3.4 Theories of Interest Rate Determination

The term capital is used in two senses; (1) money capital, i.e. stock of money that could be loaned out, and (2) physical assets e.g. land, building, plant, machinery etc. Money capital in the form of bank deposit, share and debenture yields different forms of incomes - interest and dividend. Investment in physical capital yields income called return on capital. Money capital finally takes the form of physical capital and interest paid on money capital takes in the form of cost of capital. Because of this reason, the monetary theory of interest is given more importance than that of real theory of interest.

The common peculiarity of monetary theories of interest is that the interest is a monetary phenomenon. And monetary theorists believed that interest rate varies inversely with supply of money and positively with the purchasing power (value) of money. The defenders of the monetary theories of interest argued that when supply of money increases, purchasing power (value) of money falls and, hence the rate of interest also come down. Economists agree that the real interest rate is determined in the market for investment and savings and thus by the forces of productivity and thrift. Hence, the real interest rate adjusts to equilibrate desired savings (providing the net supply of funds) with desired investment (generating the net demand for funds). In an increasingly integrated world economy with internationally mobile capital, the real rate of interest is determined largely by global forces of saving and investment. For relatively small open economies, the world real rate of interest is somewhat independent of domestic circumstances, especially over the medium to long term. There are various theories, which explain the determination of interest rates. Classical theory posits that interest rate is a real phenomenon and hence real factors determine the level of interest rate. The real factors are the supply and demand for capital. It is argued that the supply of capital comes from savings (thrifts) and the demand for capital comes from the productivity of capital. Interaction of supply of and demand for capital gives us the equilibrium level of interest rate. Therefore, if there is recession in the economy, the return from investment will be low. This will bring down the overall demand for capital. Given the level of savings (the supply of capital), the lower level of demand for capital will bring down the level of interest rates.

The Neoclassical or loanable fund theory includes both real and monetary factors as the determinants of interest rate. This is an acknowledgment of the fact that monetary factors also influence the level of interest rates. According to Keynes Liquidity Preference Theory, interest rates are purely monetary phenomena. On the basis of these theories, a number of factors, which influence the level of interest rate, can be discussed. Among the factors influencing the level of interest rates, the size of government borrowing is very important. The higher the size of the budget deficit, the higher is the level of interest rate and vice-versa. This fact has been one of the factors affecting the level of interest rates in Kenya (Thapa, 2005)[27]. It is to be noted that both the government and the private sector borrow from the domestic market. Obviously, funds that can be borrowed from the domestic financial market are given. With the given funds, when the government domestic borrowing increases, it puts pressure on domestic interest rates. With the rise in domestic interest rates, the government borrowing crowds out the private sector investment. The second factor relates to business conditions. When economic recovery takes place, economic activities increase, putting an upward pressure on interest rates and vice-versa. The third factor relates to the role of lobbies and pressure groups. In the society, the different interest groups play their roles in raising or lowering interest rates. Retirees will like to see deposit rates going up. Likewise, households will also prefer higher interest rate on their deposits. On the other hand, industrialists and business community will put pressure for lower interest rates. Whether market determined or determined by the monetary authority, there are two aspects of interest rates. The first is the level of interest rate and the second aspect relates to the structure of interest rates. In an interest rate deregulated economy, market forces determine the level and the structure of interest rates. With respect to the former, one of the questions that are very often asked is about the appropriate level of interest rate. For that matter, one can ask: what is an optimal rate of interest for an economy? Nonetheless, there could be a number of ways of judging the appropriate level of interest rate. First, real rate of interest, which should be positive to encourage savings. It discourages low yielding investment and thus has positive impact on growth. Again the question remains unanswered, what should be the optimum level of real interest rate. If some inferences can be drawn from the Taylor's monetary policy decision rule, the level of real interest rate should be 2.0% (Woodford, 2001)[28]. Once we agree to this and add the inflation rate to the 2.0% desired real interest rate, optimal nominal interest rate can easily be calculated. Second, interest rates abroad should also be taken into account while judging the optimum level of domestic interest rate. It is important to attract foreign capital to accelerate the economic growth of the country. In this case, the domestic interest rate must be higher than international interest rates.

3.5. Deposit Mobilization

It has been argued that the low deposit ratios in SACCOS are affected by capital flight as Africa has amongst the highest ratios of offshore deposits to domestic bank deposits (Honohan & Beck, 2007)[29]. There has also been recognition that amongst government owned banks and private politically connected banks, there is an over-reliance on government and parastatal deposits which can be unreliable if there is a change in government (Brownbridge, 1998b). Besides this, there is very little work done on the constraints that banks face when raising deposits. It can be argued that the overemphasis in the literature on the moral hazard issues surrounding deposit insurance schemes means that not enough attention has been placed on the actual ability of banks to raise deposits, more so SACCOS.

There have been very few studies that attempt to understand the constraints faced by banks when trying to mobilize deposits in Kenya. The only study that mentions that the reputation of owners is a problem for local banks when raising deposits is Brownbridge (1998b)[30]: "Because of the perception that they are less secure than larger foreign and government-owned banks, the local financial institutions face much higher deposit costs. The chairman of one of the local banks estimated that his average cost of deposits was around 10 percentage points higher than those of Barclays or Standard Chartered. Competition for deposits among the local financial institutions is strong..." Brownbridge (1998b: 90)[30] Stiglitz and Weiss (1981)[31], in their seminal work, put information asymmetry at the heart of the lending relationship and incorporated interest rates and default rates into the model. In their model, banks try to maximize their profit by obtaining a margin between the deposit and loan rate. Borrowers try to maximize their profits by their choice of project. Due to information asymmetry, banks are unable to distinguish good borrowers from bad borrowers. Furthermore, due to adverse selection and moral hazard, the normal market clearing system – raising prices, in this case interest rates, does not work. It simply encourages riskier borrowers to apply for loans. Therefore banks operate a rule of thumb keeping interest rates lower than market conditions warrant. The main conclusion from the model is: "there are no competitive forces leading supply to equal demand, and credit is rationed" Stiglitz and Weiss (1981)[31]

3.6 Factors Contributing to Constraints to Deposits Mobilization

Poor Cash Management

SACCOS have been presumed as institutions to be run by those even with little or no basic knowledge in finance management (Citizen, 2010)[32]. This has seen mismanagement gain an increase as is demonstrated in the failure to adhere to rules and regulations governing the issuance of loans. Slow adoption of the modern technological financial applications has also been blamed on the inefficient managers. Likewise, Mudibo (2005)[16] raised concerns on the caliber of leaders who run SACCOS noting that since these are voluntary, democratic organizations, members can elect anybody they like, who may not necessarily have the skills to run the Co-operatives. Cases of declaring inappropriate high dividend rates have been blamed on poor managers.

Low interest loans to Sacco Members verses High Interest rates on Sacco Loans by Commercial Banks.

The financial capacity of majority members has been worrying specifically with SACCOS located in rural areas getting less contributions from unsalaried employees. This has left Cooperative societies with the challenge of seeking costly alternative sources of funding in order to meet the increasing demand for loans from members (Kirimi, 2012)[33].

High loan defaulting rate

According to the Citizen (2010)[32], the rate in most cases has been below 30 percent as opposed to the recommended 70 percent repayment rate. Non remittance and delayed remittance of cooperative dues by employers has led to inconveniences and loss of income by the societies (Wanyama, 2007)[34]. New rules have however provided stiff penalties for errant employers.

Declaration of Inappropriate Dividends

Sacco Board of Directors falsify reports to declare high dividends even if the Sacco has not made profit to prove high performance and please members in order to remain in office. This forces them to source for external funds to pay the declared dividends

Distinctive Challenges Facing SME finance

Potential providers of external debts to SMEs have always wanted to monitor them after the issuance of the loans to determine whether they are still fulfilling the initial clauses contained in the loan contract (Organization for Economic Co-operation and Development, 2006)[35]. The upholding of the stringent requirements has proved problematic to SMEs since failure to implement some of the clauses makes their access to additional financing a challenge as formal financial institutions are likely to advance credit rationing to them.

Past studies also reveal that the SME sector is characterized by varying growth and profitability when compared to large enterprises. The survival rate of an SME is lower than that of a large firm (London School of Economics, 2012)[36]. It is always very difficult to differentiate between the financial situation and positioning of a firm from that of the owners. Whereas large firms observe recognized standards of corporate governance, SMEs tend to be described more based on the personalities of their owners (London School of Economics, 2012)[36].

3.7 The Effects of Poor Deposit Mobilization

There are a number of effects that are brought about as a result of the poor deposit mobilization. These include Inability to disburse loans to qualifying members on demand, inability to meet operation costs, inability to service Sacco debts, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, falsification of financial reports. These can cause the voting out of elected officials on accusations of fraud, financial mismanagement practices (Wasike, 2012)[37]. In addition, dissatisfied members can quit in large numbers to join alternative and emerging micro-finance institutions for fear of losing their savings if the situation deteriorates.

3.8 Empirical Review

The economic literature on saving provides a long list of factors affecting the saving rates. Studies have found an ambiguous effect of increase in real interest rate on savings because of a positive substitution effect towards future consumption and a negative income effect due to increased real returns on saved wealth. Fry (1995)[38] has found a small but positive interest rate elasticity of savings while Giovannini (1985)[39] has found savings to be insignificantly related to real interest rates. The empirical evidence on the effects of real interest rates on savings has proven to be inconclusive (Schmidt-Hebbel et al., 1999)[40]. Aron and Muellbauer (1999)[41] present the determinants of private saving in South Africa, separately examining personal and corporate sector saving behavior over nearly three decades, from the late 1960s to 1997. This paper confirms that the main factors behind personal saving in South Africa include direct negative effects of wealth and of financial liberalization and the direct positive effects of real interest rates and uncertainty. Moreover, corporations save more when dividend tax rates rise, while in the absence of capital gains tax, higher inflation encourages corporate saving.

3.9 Conceptual framework

The conceptual framework shows the relationship between the independent variable, the interest rate and the dependent variable the deposit mobilization. The interest rate is determined by the customer information, their ability to monitor and trust. On the other hand, the deposits determine the money lent out, the dividend and the security. The two variables are moderated by the regulation and the Sacco societies Regulatory Authority (SASRA).

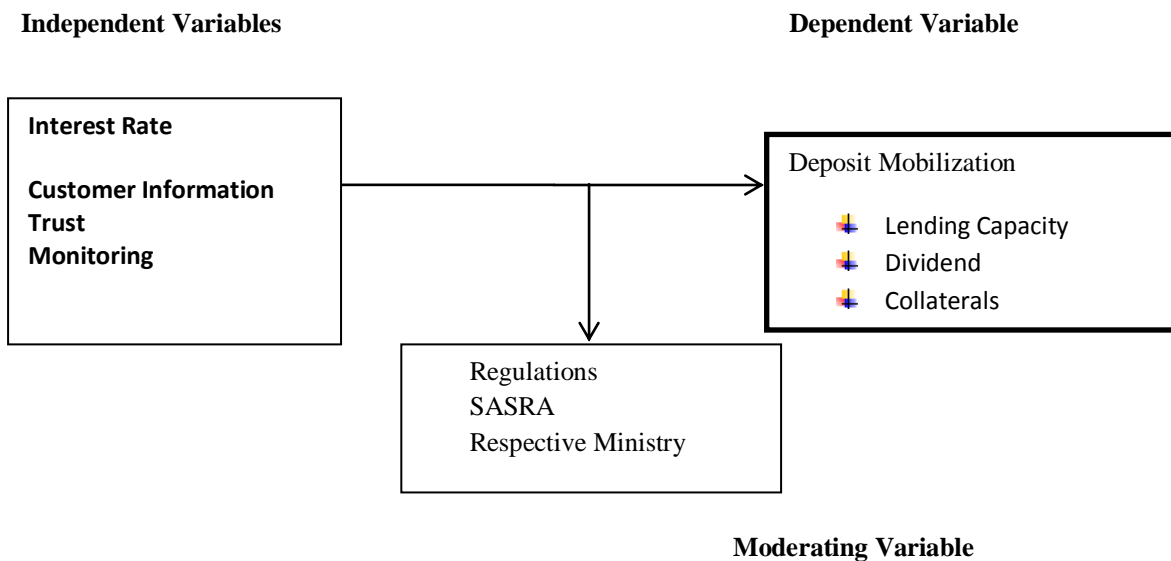


Figure 1: Conceptual Framework

IV. RESEARCH METHODOLOGY

4.1 Introduction

This chapter contains research methodology and covers research design, population of study, sampling method, sample size, data collection instruments, data analysis techniques.

4.2 Research Design

In general this study follows a comparative case study approach. "A case study is defined as an in-depth, multifaceted investigation into a particular object or theme, where the object or theme gives it its unity" (Lee, 2002)[44]. Case study approach is appropriate when a phenomenon is not easily distinguishable from its environment (Yin, 2003)[45]. It is particularly applicable when there are more variables than data points (Yin, 2003)[45]. Therefore, this method is best suited to understand the research questions outlined above. However, it should be noted that as the interviews are non-attributable, this is not a typical case study approach.

4.3 Target Population.

A population is the subject on which the measurement is being taken. It is a unit of study (Cooper & Schindler, 2003)[42]. The target population of this study will be all the members of SACCOs in Kakamega County. The study will focus more on the officers who are involved in the lending, the management and the clients. Currently there are about 16,000 depositors at KATECO while there are about 14,000 depositors at Sukari SACCO and about 7,000 depositors at MOSACCO according to data as at December 2013

4.4 Sampling Design

This study will adopt a stratified simple random approach since the population of the study from which the sample will be drawn does not constitute a homogeneous group. Then, simple random sampling may be adopted. In simple random sampling each element of the population has an equal chance of being selected into the sample (Cooper and Schindler, 2003)[42]. This sampling method will be adopted because it helps in preventing bias and it is simple to understand and use. Stratified sampling will be used to determine the various depositors i.e. fixed, FOSA Savings account holders, fully paid shares (Non-withdraw-able depositors) and partly paid shareholders (withdraw-able depositors).

4.5 Sample Size

The determination of the sample size was based on the premise that sample adequacy is assessed by how well it represents the whole population of participants from which the sample is drawn as granted that the degree of accuracy of the sample, usually expressed as a percentage error, such as $\pm 3\%$, $\pm 5\%$ or $\pm 10\%$. Final determination of the sample size also will take into consideration financial availability and constraints of time. The table 3.1 is an aid in selecting the correct sample size (Research Advisors, 2006)[43]. The evaluation study, worked on a sample with a percentage of error of $\pm 10\%$, and selected the row which corresponds to the size of the group from which the sample was drawn. Consequently, a sample size of 293 will be selected and used in the study; 100 from each of the categories for KATECO and Sukari Sacco and 93 from MOSACCO.

4.6 Research Instruments

The study used intensively researcher administered questionnaires as the main instrument for data collection. The questionnaires were preferred because: questionnaires act as a source of reference hence can be used at a later time for prove that the research was carried out, a large number of sampled population can be realized within a short time and it is a cheaper way of conducting a research and anonymity of the respondents filling the questionnaire may help them be honest.

4.7 Data Analysis and Presentation

Data will be edited, coded and entered into the computer system and then analyzed by use of descriptive statistics with the aid of SPSS. Thereafter, data will be presented in the form of tables.

V. RESEARCH FINDINGS AND DISCUSSION

Respondents' Demographic Characteristics

5.2 Response Rate

The study targeted 293 respondents in collecting data. 268 out of the 293 targeted respondents filled in and returned the questionnaires resulting in an 91.5% response rate. These are shown in Table 4.1 and this response rate was considered acceptable.

Table 1:Response Rate

Response Rate	Frequency	Percentage
Responded	268	91.5
Not responded	25	9.5
Total	293	100.0

This study was composed of mainly staff/Management and members of SACCOs in Kakamega County. The SACCO staff included savings clerks, credit officers, accountants, registry officers, supervisors and management

5.3 Education level of the Respondents

The study sought to determine the education level of the respondents. The results are shown in Table 2

Table 2: Education Level of the Respondents

	Frequency	Percent
Master	37	13.8
Degree	56	20.9
Diploma	99	36.9
Certificate	22	8.2
O'level/others	54	20.1
Total	268	100.0

The findings indicate that most of the respondents (36.9%) had diplomas, 20.9% had degrees, 20.1% had O level/other education levels, 13.8% had Masters Level of education while 8.2% had certificate level of education.

5.4 Number of years worked with the SACCO

The study sought to determine the number of years the respondents had worked and been with the SACCO. The results are shown in Table 3

Table 3: Number of years worked with the SACCO

	Frequency	Percent
Less Than 2 Years	6	2.2
2-5years	50	18.7
5-10years	79	29.5
More Than 10 Years	93	34.7
Total	268	100.0

The findings indicate that out of a total of 268 respondents few 2.2% have been with the SACCO for less than 2 years, 18.7% for a period of 2-5 years, 29.5% for a period of 5-10 years and 34.7% for more than 10 years. This means that the SACCOs have a capability of retaining majority of their employees and members who are skilled and with experience to deal with SACCO issues or they are comfortable with the SACCO services.

5.5 Savings in Saccos and Dividends

The study sought to determine whether the respondents save in the SACCO because of the dividends they expect. The results are shown in Table 4.23

Table 4: Savings in SACCOs and Dividends

		MOSACCO	SUKARI	KATECO	TOTAL
Strongly Disagree	Count	12	8	1	21
	%	17.1%	10.3%	1.3%	9.2%
Disagree	Count	14	3	4	21
	%	20.0%	3.8%	5.0%	9.2%
Not Sure	Count	10	8	6	24
	%	14.3%	10.3%	7.5%	10.5%
Agree	Count	7	16	17	40
	%	10.0%	20.5%	21.3%	17.5%
Strongly Agree	Count	27	43	52	122
	%	38.6%	55.1%	65.0%	53.5%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that the majority of the respondents (53.5%) strongly agreed that they save in the SACCO because of the dividends they expect, 17.5% agreed, 11% were not sure, 9.2% strongly disagreed while 8.8% disagreed. This indicates that the majority of the customers strongly agreed that they save in the SACCOs because of the dividends they expect.

5.6 Deposits and Collateral When Taking Loans

The study sought to determine whether the respondents deposit savings because that will be security in future when taking loans from the SACCO. The results are shown in Table 5

Table 5: Deposits and Collateral When Taking Loans

		MOSACCO	SUKARI	KATECO	TOTAL
Strongly Disagree	Count	12	8	1	21
	%	17.1%	10.3%	1.3%	9.2%
Disagree	Count	2	0	4	6
	%	2.9%	.0%	5.0%	2.6%
Not Sure	Count	12	0	0	12
	%	17.1%	.0%	.0%	5.3%
Agree	Count	0	9	0	9
	%	.0%	11.5%	.0%	3.9%
Strongly Agree	Count	44	61	75	180
	%	62.9%	78.2%	93.8%	78.9%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that the majority of the respondents (78.9%) strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO, 9.2% strongly disagreed, 5.3% were not sure, 3.9% agreed while 2.6% disagreed that they deposit savings because that will be security in future when taking loans from the SACCO. This indicates that the majority of the customers strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO.

5.7 Relationship between Loans and Deposits

The study sought to determine whether the respondent's deposits are as a result of the loans they have taken pro rata. The results are shown in Table 6.

Table 6: Relationship Between Loans and Deposits

		MOSACCO	SACCOS SUKARI	KATECO	TOTAL
Strongly Disagree	Count	6	0	0	6
	%	8.6%	.0%	.0%	2.6%
Disagree	Count	6	2	0	8
	%	8.6%	2.6%	.0%	3.5%
Not Sure	Count	48	38	28	114
	%	68.6%	48.7%	35.0%	50.0%
Agree	Count	10	38	46	94
	%	14.3%	48.7%	57.5%	41.2%
Strongly Agree	Count	0	0	6	6
	%	.0%	.0%	7.5%	2.6%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that most of the respondents (51.3%) were not sure whether their deposits are as a result of the loans they have taken pro rata, 42.1% agreed, 3.9% disagreed, 2.6% strongly disagreed while 2.6% strongly agreed. This indicates that most of the customers were not sure whether their deposits are as a result of the loans they have taken pro rata.

5.8. SACCO Management and Investment Decisions

The study sought to determine whether the respondents believe the SACCO management makes the best investment decisions for them as far as their deposits are concerned. The results are shown in Table 7.

Table 7: SACCO Management and Investment Decisions

		MOSACCO	SUKARI	KATECO	TOTAL
Strongly Disagree	Count	2	0	0	2
	%	2.9%	.0%	.0%	.9%
Disagree	Count	40	19	11	70
	%	57.1%	24.4%	13.8%	30.7%
Not Sure	Count	28	53	47	128
	%	40.0%	67.9%	58.8%	56.1%
Agree	Count	0	6	20	26
	%	.0%	7.7%	25.0%	11.4%
Strongly Agree	Count	0	0	2	2
	%	.0%	.0%	2.5%	.9%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that most of the respondents (57%) were not sure whether they believe the SACCO management makes the best investment decisions for them as far as their deposits are concerned, 31% disagreed, 11% agreed while 1% strongly agreed and strongly disagreed. This indicates that most of the customers were not sure whether they believe the SACCO management make the best investment decisions for them as far as their deposits are concerned.

5.9 Best Value for Deposits at the SACCOs

The study sought to determine whether the respondents always get the best value for their deposits at the SACCOs. The results are shown in Table 4.27

Table 8: Best Value for Deposits at the SACCOs

		MOSACCO	SUKARI	KATECO	TOTAL
Not Sure	Count	2	0	0	2
	%	2.9%	.0%	.0%	.9%
Agree	Count	67	58	58	183
	%	95.7%	74.4%	72.5%	80.3%
Strongly Agree	Count	1	20	22	43
	%	1.4%	25.6%	27.5%	18.9%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that the majority of the respondents agreed that they always get the best value for their deposits at the SACCO, 18.9% strongly agreed while 0.9% were not sure. This indicates that the majority of the respondents agreed that they always get the best value for their deposits at the SACCO.

Management and Laws and Regulations

The study sought to determine whether the respondents believe the management follows the laws and regulations strictly when handling issues relating to interests. The results are shown in Table 9.

Table 9: Management and Laws and Regulations

		MOSACCO	SUKARI	KATECO	TOTAL
Strongly Disagree	Count	2	0	0	2
	%	2.9%	.0%	.0%	.9%
Disagree	Count	10	3	0	13
	%	14.3%	3.8%	.0%	5.7%
Not Sure	Count	48	39	28	115
	%	68.6%	50.0%	35.0%	50.4%
Agree	Count	10	36	50	96
	%	14.3%	46.2%	62.5%	42.1%
Strongly Agree	Count	0	0	2	2
	%	.0%	.0%	2.5%	.9%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that most of the respondents (46.1%) were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests, 41.2% strongly agreed, 5.3% disagreed, 0.9% strongly agreed while 0.9% strongly disagreed. This indicates that most of the respondents were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests.

VI. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings

The study found out that that 56.7% of the respondents were male while the female respondents were 43.3%. This shows that there is no gender discrimination on the members and employees of the SACCOs. The study found out that majority of the respondents which is 47.8% were in the age bracket of 31-50 years, 22.4% were aged between 18 -30 years old, 20.5 % of the respondent in the bracket of 51-60 years old and only 9.3% were above 60 years of age. This means that members and employees of the SACCOs are still productive (young and skilled) to make deposits for various reasons. Some are compelled due to the financial needs they are faced with currently and in the intervening future. Most of the respondents (36.9%) had diplomas, 20.9% had degrees, 20.1% had O level/other education level, 13.8% had Masters Level of education while 8.2% had certificate level of education.

The study also found out that out of a total of 268 respondents few 2.2% have been with the SACCO for less than 2 years, 18.7% for a period of 2-5 years, 29.5% for a period of 5-10 years and 34.7% for more than 10 years. This means that the SACCOs have a capability of retaining majority of their employees and members are

faced with currently and in the intervening future. Most of the respondents (36.9%) had diplomas, 20.9% had degrees, 20.1% had O level/other education level, 13.8% had Masters Level of education while 8.2% had certificate level of education. The study also found out that out of a total of 268 respondents few 2.2% have been with the SACCO for less than 2 years, 18.7% for a period of 2-5 years, 29.5% for a period of 5-10 years and 34.7% for more than 10 years. This means that the SACCOs have a capability of retaining majority of their employees and members who are skilled and with experience to deal with SACCO issues or they are comfortable with the SACCO services.

The study found out that the majority (37.5%) agreed that information is provided to the SACCO members, 10% strongly agreed, 17.5% disagreed, 27.5% were undecided while 7.5% strongly disagreed. The majority of the respondents (45%) agreed, 17.5% were undecided, 22.5% strongly agreed while 10% disagreed. This reveals that most of the members and employees are satisfied with the SACCO services. The study found out 45% of the respondents agreed that they believed the deposits were safe, 27.5% strongly agreed, 17.5% disagreed, 5% were not sure while 5% strongly disagreed. This means that the SACCO provides safety for their deposits. This gives them confidence to deal with the SACCOs. The study found out that 35% of the respondents agreed that the SACCOs follow the regulations when determining the interest rates, 22.5% strongly agreed, 20% were not sure, 17.5% disagreed while 5% strongly disagreed. This means that the regulations are believed to be followed and this affects their decision on investment and hence interest rate.

The study found out that 35% of the respondents agreed that investment decisions SACCOs make are in the best interest of their customers, 20% strongly disagreed, 17.5% strongly agreed, 15% disagreed while 12.5% were uncertain. The majority believed that investment decisions are made in their best interest. The study found out that 22.5% of the respondents agreed that they believe the SACCOs are doing their best to mobilize savings, 22.5% were uncertain, 30% strongly agreed, 20% strongly disagreed while 5% disagreed. This indicates that the respondents agreed that they believe the SACCOs are doing their best to mobilize savings. From the findings most of the respondents (32.5%) strongly agreed that they believed the SACCOs can do better on dividends, 22.5% agreed, 22.5% were uncertain, 12.5% disagreed while 10% strongly disagreed. This implies that there is still an opportunity for the SACCOs to take advantage of.

The study also found out that the majority of the respondents (78.9%) strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO, 9.2% strongly disagreed, 5.3% were not sure, while 3.9% agreed that that they deposit savings because that will be security in future when taking loans from the SACCO. This indicates that the majority of the customers strongly agreed that they deposit savings because that will be security in future when taking loans from the SACCO. The study also found out that most of the respondents (51.3%) were not sure whether their deposits are as a result of the loans they have taken pro rata, 42.1% agreed, 3.9% disagreed, 2.6% strongly disagreed while 2.6% strongly agreed. This indicates that most of the customers were not sure whether their deposits are as a result of the loans they have taken pro rata.

The study also found out that most of the respondents (57%) were not sure whether they believe the SACCO management makes the best investment decision for them as far as their deposits are concerned, 31% disagreed, 11% agreed while 1% strongly agreed and strongly disagreed. This indicates that most of the customers were not sure whether they believe the SACCO management makes the best investment decisions for them as far as their deposits are concerned. The study also found out that the majority of the respondents 80.2% agreed that they always get the best value for their deposits at the SACCO, 18.9% strongly agreed while 0.9% were not sure. This indicates that the majority of the respondents agreed that they always get the best value for their deposits at the SACCO.

The study also found out that most of the respondents (46.1%) were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interest rates, 41.2% agreed, 5.3% disagreed, 0.9% strongly agreed while 0.9% strongly disagreed. This indicates that most of the respondents were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interest rates.

VI. CONCLUSIONS OF THE STUDY

The study concludes that most of the members and employees are satisfied with their respective SACCO services. This means that the SACCOs provide safety for their deposits. This gives them confidence to deal with the SACCOs. The study also concludes that the regulations are believed to be followed and this affects their decision on investment and hence interest rates and that investment decisions are made in their best interests. This implies that there is still an opportunity for the SACCOs to take advantage of. The study also

concludes that most of the members became SACCO members voluntarily and most of the members were attracted by SACCO services to become members of their respective SACCOs. The study also concludes that most SACCO members believe they always get the best value for their deposits at their respective SACCOs, most members were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests and were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests rates.

VII. RECOMMENDATIONS

In conclusion, the interest rate affects the growth of SACCOs deposits positively but negligibly. This result suggests that trying to influence the SACCOs deposits by manipulating interest rates is not likely to be a practical policy option in Kakamega County. However, the SACCOs should attempt to maintain competitive positive real interest rates relative to those offered by other financial institutions in order to increase their savings. The present paper only used the simple mathematical and statistical tools to analyze the effects of interest rates on deposits mobilization in savings and credit co-operative societies operating in Kakamega County. However, there is room for in-depth analysis using more sophisticated econometric methods and quarterly or monthly data.

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