

DOES SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCOs) HAVE ANY EFFECT ON MEMBERS' INVESTMENT CULTURE IN KENYA?

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ABSTRACT

A high saving economy accumulates assets faster and thus grows faster than a low saving economy. The investment culture is very low in Kenya. Kenya's vision 2030 for financial services is to create a successful and globally competitive financial sector that promotes high levels of saving and financing for Kenya's investment needs. This vision can be fully achieved if cooperative societies in Kenya can improve the savings hence investment culture of their members. This study, therefore, sought to determine the effect of savings in Savings and Credit Cooperative Societies (SACCOs) on members' investment culture in Kenya.

The study adopted descriptive research design. A population of 25145 members of all the 8 registered Saving and Credit Cooperative Societies (SACCOs) in Gucha district was targeted. Simple random sampling was used to select a random sample of 379 respondents from a population of 25145 SACCO members who save in various SACCOs. Both closed and open ended questionnaires were used to collect primary data. Secondary data was obtained from periodicals, internet and published SACCO reports.

Data was analyzed using statistical techniques with the help of Statistical Package for Social Scientists (SPSS) computer software. Simple linear regression was used to model the relationship between the study variables. The findings in this study showed that SACCOs influence the investment culture of their members. The regression model connecting investment (dependent variable) and savings (independent variable) was found to be $Y = 59969.931 + 0.635X_1$. The study concluded that savings and credit cooperative societies improved the investment culture of their members.

Based on the above findings, the following recommendations were proposed: the government should mobilize the formation, strengthening and restructuring of SACCOs with the aim of enhancing investment in order to achieve vision 2030 on financial services; the government, donors and other stakeholders should assist SACCOs to undertake member education about SACCOs operations, credit, shares and investment.

Key Words: Savings, Investment, Consumption, culture

1.1. INTRODUCTION

Investment plays an important role in sustaining growth and development of any country. High rates of investments depend on high rates of saving (Pelrine & Kabatalya, 2005). Many scholars have written on this subject but little effort has been made in determining the effect of savings in savings and cooperative societies (SACCOs) on members' investment culture. According to Lipsey and Chrystal (1995) a high saving economy accumulates assets faster and thus grows faster than a low saving economy. SACCOs link borrowers and savers (Tache, 2006). The savers pool their money as savings and shares against which they borrow in form of loans. SACCOs are not-for-profit organizations as their basic purpose is to help members save (Kyendo, 2011). Bailey (2001) defines SACCOs as cooperatives which provide their members with convenient and secure means of saving money and obtaining credit at affordable interest rates.

Tache (2006) has shown that SACCOs were invented in south Germany in 1846 by two community business leaders: Freidrich and Herman. The two are the founding fathers of SACCO movement. In Italy, Luigi Luzzatti established saving and credit cooperatives which combined the principles established by the two business leaders. The SACCO movement spread all over Europe, Northern America, Latin America, and Asia from 1900 to 1930 and thereafter to Ghana by a catholic Bishop. Towards the end of 1950s African farmers promoted and registered cooperatives for cash crops like pyrethrum and coffee. Mudibo (2005) suggests that cooperatives have played a prime role in the development of the economies of Kenya, Uganda and Tanzania.

According to the Republic of Uganda report of 2008, cooperative movement in Uganda was started in 1913 to involve Ugandans in domestic and export marketing. SACCOs emerged in Kenya in the years 1965-1970 (Chao-Beroff, et al, 2000). The SACCOs came as a result of the credit systems of the farming cooperatives. In these cooperatives farmers would access financial services through the union's banking sections. In the cooperatives' banking sections farmers saved and obtained advances that were serviced from income earned from the harvest. The SACCOs' banking services are provided even today in Kenya with already 219 SACCOs that offer banking services spread all over the country (Kyendo, 2011). The first co-operative society in Kenya was Lumbwa cooperative society (Bottleberge & Agevi, 2010). In 1908 the European Farmers made this cooperative formal. Its main objective was marketing and purchasing of farm inputs. According to KUSCCO report of 2011 cooperatives in Kenya have led to the development in agriculture, storage, housing, fishing and credit. The Ministry of Cooperative Development and Marketing (MCDM) conference report of 2010 indicates that there are currently over 5200 registered SACCOs with over 5.6 million registered members in Kenya.

Like in most African countries, cooperatives in Kenya have developed through two main eras, that is, the era of state control and the era of liberalization (Wanyama, 2009). According to Wanyama, the first era made cooperatives platforms for implementing socio-economic policies to the extent that failure of state policies expressed themselves in the cooperative movement. The failures saw the need for the liberalization of the cooperative movement in early 1990s (Porvali, 1993). Wanyama (2009) argues that the new economic

environment that Africa experienced in the 1990s steered Kenya to formulate new policy and legislation framework in 1997 in order to liberalize cooperatives.

The Government of Kenya recognizes cooperatives as the major contributor to national development with the total population of Kenya estimated at 37.2 million people (Republic of Kenya [RoK], 2008a). The ministry of cooperative development and marketing [MCDM], 2008) estimates that 63 % of Kenya's population participates directly or indirectly in cooperative based enterprises. Thus, the remaining Kenyans which constitute 37% do not take part in cooperatives.

Kenya's vision 2030 for financial services is to create a successful and globally competitive financial sector capable of promoting high levels of saving and financing for Kenya's investment needs (Adam, Collier & Ndungu, 2011). The county's vision 2030 recognizes the role of financial services in mediating between borrowing and investment. The move to attain the vision 2030 has lead to the government through the act of parliament to establish a regulatory body to oversee the operations of all saccos that operate FOSA accounts. However, access to financial services is a stumbling block which has led to low investment culture in Kenya. This is confirmed by the World Council of Credit Unions [WOCCU], 2008) that 38.3% of the Kenyans are still not included in financial services and use. Kenya's deteriorating infrastructure and rising costs has made many foreign investors to divest or consolidate their activities outside Kenya (United Nations Conference on Trade And Development [UNCTAD], 2005). Moreover, the World Bank's World Business Environment Survey [WBES], 2000) indicates that investors rated the infrastructure quality very poorly, especially roads, water and telecommunications. The vision 2030 for financial services in Kenya can be fully achieved if SACCO members can transform their savings into viable investments. Hence, this study sought to determine the effect of savings in SACCOs on members' investment culture in Kenya.

1.2. **Statement of the Problem**

Investment is a prime component in any development effort as it is believed to be the most certain way of enhancing income and promoting productivity with the intention to break through the vicious cycle of poverty (Keynes, 1936). However, the levels of domestic savings and investment in Kenya have been very low (Lawrence, Benjamin, Desterio, & George, 2009). The deterioration of public infrastructure, governance problems and insecurity have discouraged private investment in Kenya (UNCTAD, 2005). Moreover, some of the installed capacity has deteriorated due to lack of investment or maintenance. World Bank (2003) approximates capacity utilization in Kenya at 63%. Kenya's vision 2030 for financial services is to create a successful and globally competitive sector that drives savings and investments in the country. However, the vision 2030 argues that access to financial services still remains low (Adam et al., 2011). WOCCU (2008) has shown that 38.3% of Kenyans are not included in financial services and use. All these indicate low levels of investment in Kenya. The problem of low savings and investment comes at a time when African Confederation of Co-operative Savings and Credit Association [ACCOSCA], 2011) workshop has classified SACCOs as vehicles for economic growth. Moreover, the government of Kenya recognizes cooperatives as the major contributor to national development with the country's population approximately 37.2 million (RoK, 2008). Kyendo (2011) confirms that most SACCOs have been lending at 12% per annum, which is lower than what banks have offered. The basic function of SACCOs is to provide credit facilities at low cost (Saunders & Cornet, 2007). This is done through pooling together members' savings. SACCOs have been pooling together members' savings until 1990s when sector liberalization enabled them to diversify their financing sources through offering of FOSA services (Owen, 2007). According to Landi and Venturelli (2002), diversification of financing sources improves the performance of the diversifying institution. The improved performance of

SACCOs is assumed to translate into improved service delivery to members including affordable loans that hopefully should enhance the investment culture which is low in Kenya (Lawrence et al., 2009). This study therefore, sought to investigate the influence of savings in cooperative societies on the members' investment culture in Kenya.

1.3. Objective

To determine the effect of savings in SACCOs on members' investment culture in Kenya.

Hypothesis:

H₀₁: SACCOs do not influence the investment culture of their members

H_{A1}: SACCOs do influence the investment culture of their members

1.4. Methodology

This study was conducted through a descriptive research design. Simple random sampling was used to select a random sample of 379 respondents from a population of 25145 SACCO members. Both closed and open ended questionnaires were used to collect primary data. Secondary data was obtained from periodicals and published SACCO reports. Editing and sorting of data was done with the help of SPSS computer software. Analysis was carried out. Pearson's product moment correlation coefficient was used to establish the nature of the relationship between savings and investment. Simple linear regression was used to model the relationship between savings and investment. The relationship between savings and investment was believed to obey the regression model: $Y = a + bX_1$ Where: Y= investment, X₁= savings in SACCOs, a is the intercept term and b is the beta coefficient. The Pearson's product moment correlation coefficient, r, was determined at 1% level of significance using SPSS computer software. The coefficient of determination, R, was determined.

1.5. RESULTS AND DISCUSSION

The study sought to test whether SACCOs influence the investment culture of their members. This study used the loans advanced by SACCOs to members to represent the SACCOs influence on members' investment culture. It is from the loans that the members invested in various business activities. The findings revealed that there was a strong positive relationship between savings in SACCOs (independent variable) and investment (dependent variable) as shown in **table 1** where $r = 0.673$. Based on these findings then the null hypothesis is rejected and alternative accepted (H_{A1}: SACCOs do influence the investment culture of their members). These findings were in line with Balassa (1989)'s study who established a relationship between savings and investment. However, the results contradicted Agu (1988) who concluded that the relationship between savings and investment is insignificant. Karl Pearson's product moment correlation coefficient, r obtained for savings and investment was positive. This implied that the two variables, that is savings in SACCOs (independent variable) and investment (dependent variable) were positively related. Thus, as savings increased so did investment and as savings decreased so did investment. This was in line with Devita and Abbot (2002) who argued that there is high correlation between savings and investment in the United States of America. However, these research findings negated Wahidi (2008) who found that there is low correlation between savings and investment in Bangladesh, India, Pakistani, Sri Lanka and Nepal.

The relationship between savings and investment was believed to obey the regression model: $Y = a + bX_1 + e$. From the regression **table 2** the constant = 59969.931 and the coefficient of X₁ = 0.635. Since $b = 0.673$, the null hypothesis was rejected. Hence the study found that SACCOs influence the investment culture of their members. The regression model connecting investment and savings was found to be $Y = 59969.931 +$

$0.635X_1$ and therefore the study supported Anginon and Roldan (1994) who found that saving causes investment without a feedback effect. The coefficient of determination $R = r^2 = 0.453 = 45.3\%$. This showed that 45.3% of the variation in investment (dependent variable) was explained by savings (independent variable). The remaining 54.7% was explained by stochastic variables (e). Moreover, to support the finding that SACCOs influence members' investment culture, 69.85% of the respondents stated that they invested more after joining than before joining SACCOs as shown in **table 3**

1.6. Conclusions

From the foregoing, it follows that SACCOs influence members' investment culture. The study developed the model connecting investment, savings and consumption. SACCO members invested more after joining than before joining SACCOs (69.85%). The study further concluded that consumption reduces investment. On the influence of cooperative policy framework on members' investment culture the study concluded that good SACCO policy framework enhanced members' investment culture. 85.29% of the respondents explained that good cooperative policy framework enhanced their investment skills gave rise to the rejection of the null hypothesis that good SACCO policy does not enhance members' investment culture. The alternative hypothesis was favored and the study concluded that good SACCO policy framework enhances members' investment culture. Thus SACCOs need to be supported to ensure that they have trained and efficient management in place to guide in proper policy formulation to ensure members funds saved with them can be accessed when an investment opportunity arises.

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LIST OF TABLES**Table 1: Correlation analysis**

		Savings	Investment
Savings	Pearson correlation	1	.673(**)
	Sig. (2-tailed)		.000
	N	272	272

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

Table 2: Regression analysis

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	59969.931	11080.377		5.412	.000
Savings	.635	.042	.673	14.965	.000

Dependent Variable: Investment

Table 3: Members Investment Before and After Joining SACCO

Category	Frequency	percentage
Members who invested more after joining SACCO	190	69.85
Members who invested more before joining SACCO	73	26.84
No effect	9	3.31
Total	272	100