

THE ROLE OF SACCO'S IN ENHANCING THE GROWTH OF MICRO AND SMALL ENTERPRISES: A CASE STUDY OF SELECTED SACCOs IN MOMBASA ISLAND**Fred Momanyi Ondieki**

Masters Student, Jomo Kenyatta University of Agriculture and Technology, Kenya

Dr. Fred Mugambi

Jomo Kenyatta University of Agriculture and Technology

CITATION: Ondieki, F. M. & Mugambi, F. (2013). The role of SACCO's in enhancing the growth of Micro and Small Enterprises: A case study of selected SACCOs in Mombasa Island. *International Journal of Social Sciences and Entrepreneurship*, 1 (5), 228-242.

ABSTRACT

The purpose of this study was to examine the role of SACCO's in enhancing growth of MSEs in Mombasa Island. It did so by examining the contribution of SACCO's on growth of MSE and also assessing the outcome of SACCO's loans on the growth of MSE. The study used descriptive statistics where research questionnaires were administered among the sample group population of 100 respondents who were interviewed by the researcher and with the help of Sacco officials. Statistical Package for Social Scientists (SPSS) was used to analyze data starting with preparation, data capturing, cleaning and coding. Data processing and analysis involved editing to detect any errors or omissions and data classification that involved arranging data into common categories. Tabulation enabled responses for each category in the questionnaire to be counted. Data presentation was in form of frequency tables, pie charts, graph and percents. From the findings, thirty five percent of respondents felt that Sacco services were not tailored towards ensuring the growth of MSE since 35 respondents disagreed with the statement that the Sacco services offered to entrepreneurs were tailored towards ensuring MSE growth. On the relationship of the Sacco services, 30 respondents (30.0%) strongly disagreed with the statement that there was no relationship between Sacco services and business growth with 32 respondents (32.0%) only disagreed. From the findings, loan borrowed was used for business purposes that translated to 49.0% and 72.0% of the loan borrowed for business was used to increase stock. Good percent of respondents also agreed that the loan terms were favorable for the growth of MSE. The key findings from the study assisted in establishing how the Sacco services can be improved and tailored towards improving the MSEs and provided knowledge on how to address the growth of MSE using the Sacco facilities. For example the government should boost Sacco's by offering interest free loans to Sacco members so that they can spur the economic growth. The government should provide constant support and empower SASRA to carry out its functions without political interferences. Saccos should develop more products tailored towards business growth of the enterprises established by Sacco members.

Key Words: *growth, SACCO, micro and small business enterprise*

Background of the Study

Many studies have shown that a dynamic and growing Micro and Small Enterprises (MSEs) sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction Edward, (2006). According to Beck et al (2005); micro and small enterprise sector can help in creation of employment, savings mobilization and production of goods and services that meet the basic needs of the poor. The MSEs have very limited access to financial services from formal financial institutions to meet their working and investment needs. However, the generation of self-employment in the MSEs requires investment in working capital, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans can help the poor to accumulate capital and investment in employment generating activities Beck et al, (2005). Loans enable the individual's member or enterprises to enjoy the benefit of economies of scale and development of new technology. Availability of credit to small business and low income households could greatly enhance their economic strength and eventually break the vicious economic circle of low income – low saving – low investment – low income. Commercial banks, which were traditionally looked upon as powerful catalyst of economic development through mobilization and the provision of credit to profitable ventures do not offer credit to the rural poor or small business. Stringent lending policies and collateral requirements, cumbersome procedures and their perception of small business and the rural poor as risky, often leads to exclusion.

Statement of the Problem

In the study on the Sacco and formal credit facilities in Kenya by Edward, (2006), one of the key constraints mentioned as facing Micro and Small entrepreneurs in Kenya is lack of access to formal credit and financial services to enable them to take advantage of economic opportunities to increase their level of output and grow. The MSEs have very limited access to financial services from formal financial institutions to meet their working and investment needs and rolling Sacco's services closer to these low income earners is seen as one of the way to meet this shortage and bridge the gap of financial inaccessibility among micro and small business enterprises. Whether this approach has succeeded or not is a question which has not been answered and therefore, this study answered this question by determining the role of Sacco's in enhancing the growth of micro and small business enterprises. This was accomplished by examining the situation in Mombasa Island and providing empirical evidence on the role of Sacco in enhancing the growth of micro and small business.

General Objective

The main objective of this study was to assess the role of SACCO services in enhancing the growth of MSE's.

Specific Objectives

Specifically the study attempted to:

1. To determine the role of Sacco services in the growth of micro and small business enterprises among Sacco's members.
2. To determine the purpose of loan and its effect in the growth of micro and small scale enterprises among Sacco's members.

3. To determine the loan terms and its effect on the growth of micro and small business enterprises among Sacco members.
4. To determine cost of accessing Sacco loans and its effect in the growth of micro and small business enterprises.

Research Questions

This study was guided by a number of questions in line with its specific objectives. These included the following:

1. What are the SACCO services extended to the active micro and small scale entrepreneurs?
2. What is the purpose of the loan advanced to the Sacco members in the growth of micro and small scale business enterprises?
3. What are the loan terms applied to borrowed loans and its effect in the growth of micro and small business enterprises?
4. What are the costs that micro and small enterprises incur when accessing SACCO financial services?

Literature Review

According to Mosley (1999), microfinance makes a considerable contribution to the reduction of poverty through its impact on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Mosley and Hulme (1998) found evidence of a trade-off between reaching the very poor and having substantial impact on household income. They found that programmes that targeted higher-income households (those near the poverty level) had a greater impact on household income.

Fatchamps (1997) noted that with insufficient funds, farmers and fishers cannot invest in new equipment and machinery, and it becomes difficult to reach out to new markets and products. He further contends that without financial assistance, small farmers and artisanal fishermen cannot cope with temporary cash flow problems, and are thus slowed down in their desire to innovate and expand. Mosley (2001), in his research on microfinance and Poverty in Bolivia, assessed the impact of microfinance on poverty, through small sample surveys of four microfinance institutions. Two urban and two rural, using a range of poverty concepts such as income, assets holdings and diversity, and different measures of vulnerability. All the institutions studied had on average, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. The studies revealed also that in comparison with other anti-poverty measures, microfinance appears to be successfully and relatively cheap at reducing the poverty of those close to the poverty line. However, it was revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty. Nichols (2004) used a case study approach to investigate the impact of microfinance upon the lives of the poor in the rural China and found that the participation of poor in MFI program had led to positive impact in their life.

However, the Kenyan MSEs policy recognizes that MSEs are confronted with unique problems including heavy costs of compliance resulting from their size KUSSCO (2003). Other constraints

include insufficient working premises and limited access to finance, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are undeveloped and not readily available. SMEs lack information as well as appreciation from such services and can hardly afford to pay the services. As the result, operators of the sector have rather low skills Tache, (2006). The SACCO movement spread all over Europe, Northern and 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.

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. GoK, (2008). 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 who constitute 37% do not take part in cooperatives. SACCOs play a critical role in entrepreneurship development, through the delivery of, responsive, affordable and market oriented financial services tailored to the specific needs of its members.

Conceptual framework

Independent variable

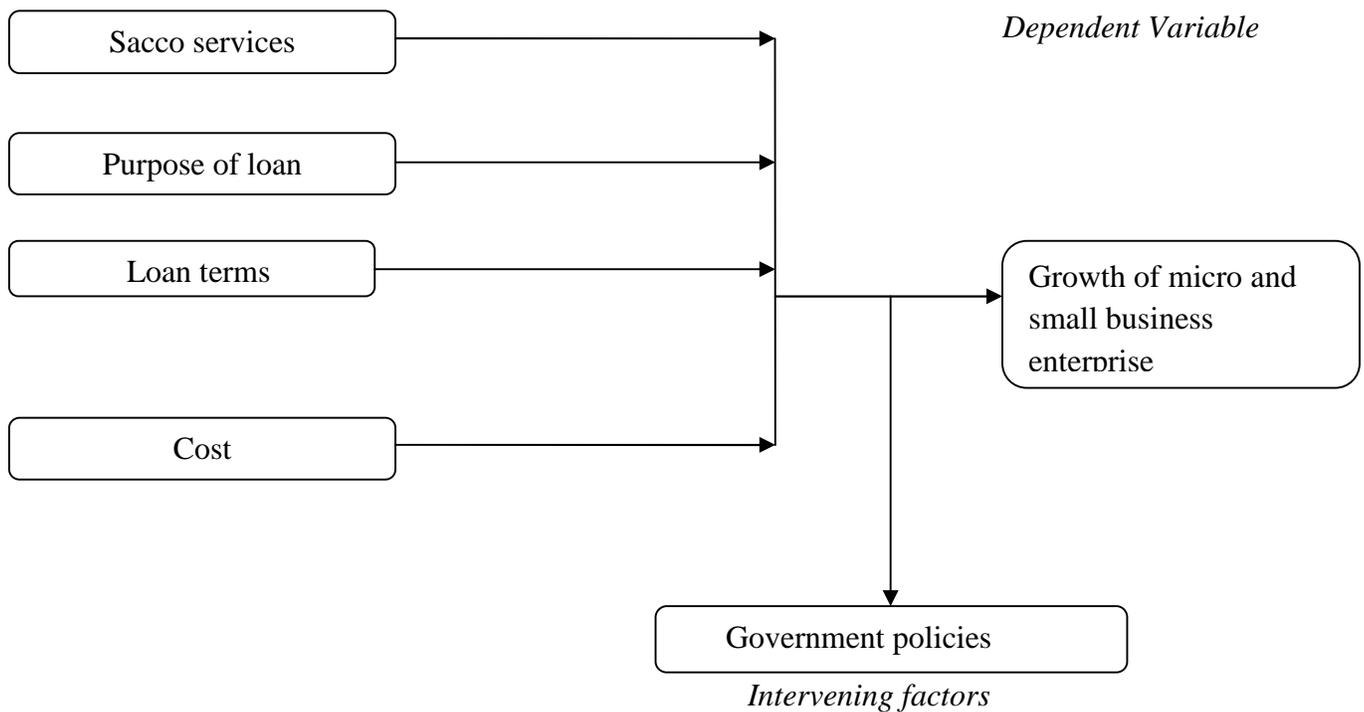


Figure 2.0: Conceptual framework

Sacco services

SACCO offer different services to micro and small business enterprises, they include; training services where the entrepreneurs are trained on different aspect of business management, financial management and business planning services. SACCO's play an important role in lower income groups through increasing their assets via establishing a credit relationship, establishing an enterprise, accessing working capital, increasing income through business expansion, meeting housing credit needs and increasing wealth through savings Branch and Cora (1999). Branch and Cora (1999) said that, SACCO today emphasizes scale and depth of outreach of financial services to large numbers of the working poor through financially sustainable organizations.

Purpose of loan

Some borrowers might want a loan for business Launching/startup or boosting of an existing enterprise. A few other businesses are capital intensive whereas others are labor intensive. Therefore a Sacco member might borrow for the intended purpose of improving his or her business or for a start up hence improve his or her socio-economic status.

Loan terms

Loans awarded to members are supposed to uplift the well being of an enterprise; however the mainstream financial institutions, Sacco's excluded do offer strict terms and conditions that cannot be met under the prevailing economic conditions.

Cost

Borrowing costs are any costs incurred by a company, business or individual in the process of borrowing funds from lenders in an effort to grow business or self. The most obvious and significant of these costs are interest payments, which are offered to loanees in addition to the return of the principal loan. In addition, borrowing costs may arise from penalties incurred by making late payments or over drawing of accounts.

Growth of MSE's

In order for the micro and small business enterprises to grow, the entrepreneur needs to formulate an exact, clear mission and vision for his or her business. Strategic planning can be considered important in driving business enterprise growth, Skrt and Antoncic (2004). Precisely formulating visions and strategy, incorporating the elements of internationalization and networking in the business enterprise vision, focusing on growth, profit, and market, performing analysis of market and competition, accurately formulating generic business strategies and achieving company wide support for strategies can all be beneficial for the growth of micro and smaller firms (Amina, 2003). Most micro and small scale enterprises do not only fail as a result of lack of financial services but also as a result of poor planning Weinzimmer, (2000).

Research Methodology

Research Design

The researcher adopted descriptive survey method for this study. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. Descriptive studies are not only restricted to facts finding, but might often result in

the formulation of important principles of knowledge and solution to significant problems. This design was therefore adopted for this study as it enabled the researcher in obtaining a cross-referencing data and some independent confirmation of data, as well as a range of options. The sample frame for this study was determined from the population of the five selected Sacco's operating within Mombasa Island.

Target Population

Five SACCOs were studied and they included; Mzalendo Sacco- members are Mombasa hospital employees, Tumaini Sacco-Bombolulu Workshops (APDK Mombasa Branch), Royal Court Sacco – Royal Court Hotel, Kivuko Sacco- Kenya Ferry services employees and Trace crest Sacco- Tracecrest Security Services, who have borrowed loans in order to uplift their business or startups. The targeted groups were Sacco members who own small businesses and those who have benefited from the SACCOs in the growth of MSEs.

Sampling Techniques

Sampling is a means or technique used in selecting a given number of subjects from a defined population as a representative of that population, Mugenda and Mugenda (2003). Sampling is the process of selecting a number of individuals for a study in such a way that the selected individuals represent the large group from which they are selected, Mugenda and Mugenda (2003). The purpose of sampling was to secure a representative group which would enable the researcher to gain information about a population.

In the study, cluster sampling technique was applied to select respondents from the five SACCO's. Out of the five Sacco's, simple random sampling was used to select the sampling size.

Sample Size

A sample size is a smaller part of the population which is carefully selected to represent all the main traits of the accessible population (Mugenda and Mugenda 2003). According to Gay in Mugenda and Mugenda (2003), 10% to 30% is adequate for analysis and reporting. In this study, 13.64% of the target population was used as the sample size.

Table 2.0: Sample size

SACCO	Total population	Percentage	Sample size
Kivuko Sacco	124	16%	20
Tumaini Sacco	98	15%	15
Trace crest Sacco	112	18%	20
Mzalendo Sacco	312	10%	30
Royal Court Sacco	87	17%	15
Total	733	13.64%	100

Research Instruments

The researcher used structured questionnaire to collect primary data from the respondent. This enabled the researcher to collect data within a short period. Secondary sources like journals were also referenced.

Validity of the Instruments

The researcher was constantly checking and verifying questions and any other collected information during the process of data collection to ensure completeness and accuracy of data. The researcher administered pre-testing of instruments to ensure that respondents were able to understand the questions correctly. The researcher used peer review for fair judgments. Lastly, to ascertain the validity (for instance content validity) of the instruments, the researcher was constantly in touch with the supervisor in charge for advice and guidance.

Data Analysis

Before data analysis, data processing was done. This involved editing to detect errors or omissions and data classification that involved arranging data into common categories. Tabulation enabled responses for each category in the questionnaire to be counted. This information was put in tabular form hence easier analysis. Descriptive statistics enabled the researcher to meaningfully describe the distribution of phenomenon, Mugenda and Mugenda (2003). Descriptive statistics such as frequency distribution and percentages were used to analyze the characteristics of the sampled respondents. Data presentation was in form of frequency tables, pie charts, bar charts and percent.

Data Analysis and Findings

Gender of the respondent

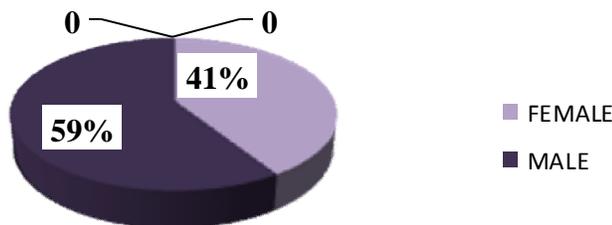


Figure 4.0: The gender of the respondents

From the findings forty one (41.0%) of the respondents were female while fifty nine (59.0%) of the respondent were male. It can therefore be indicated that there were more male than female taking up Sacco services from the SACCOs sampled.

Age of the respondent

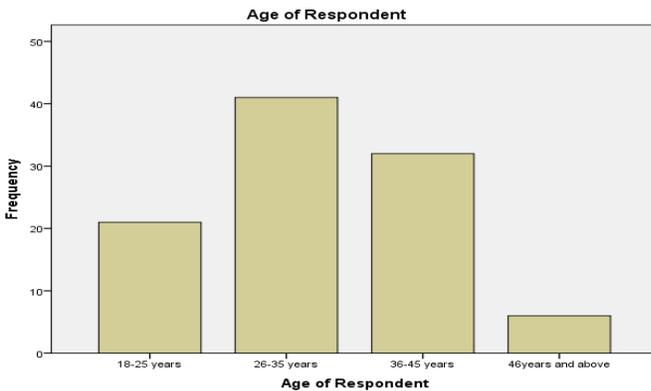


Figure 4.1: Age of the respondents

From the findings, twenty (20.0%) of the respondent are aged between 18-25 years of age, forty one (41.0%) are aged between 26-35 years of age, thirty two (32.0%) were aged between 36-45 years of age and only six (6.0%) of the respondents were aged 46 years and above only. It can therefore be indicated that most people who are consuming Sacco services are youths between ages eighteen to thirty five years.

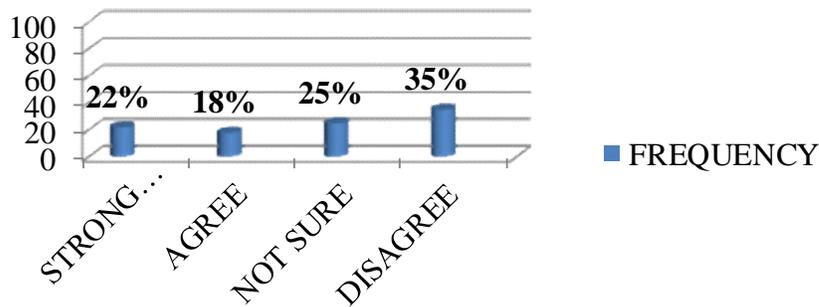


Figure 4.2: Are the SACCOs services tailored towards improving the MSE operations hence encourage its growth

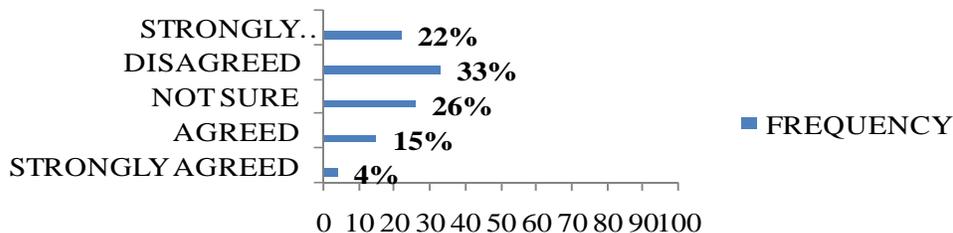
From the findings, twenty two (22.0%) strongly agree with the statement, eighteen (18.0%) just agreed with the statement, twenty five (25.0%) of the respondent were not sure with the statement, while thirty five (35.0%) disagreed with the statement. It can therefore be indicated that most of the services offered by Sacco's are not tailored towards enhancing the growth of micro and small business enterprises. On the statement whether there is no relationship between the services one get from the Sacco and the growth of business, the findings are summarized as below

Table 4.0: There is no relationship between the services I get from the Sacco and the growth of my business

Level of agreement	Frequency	Percent
Strongly disagreed	30	30.0%
disagreed	32	32.0%
Not Sure	23	23.0%
Agreed	11	11.0%
Strongly agreed	4	4.0%
Total	100	100.0%

From the findings, thirty (30.0%) strongly disagreed with the statement, thirty two (32.0%) just disagreed, twenty three (23.0%) of the respondent were not sure, eleven (11.0%) disagreed with the statement and only four (4.0%) strongly agreed. Therefore it was evident that there is relationship between the Sacco services one gets and the business growth.

On the statement whether Sacco Services are not helpful to MSE owners in anyway, the findings are summarized in the table below.

Figure 4.3: Need to increase services offered by Sacco in order to meet the current demand of changing business environment

From the findings, four (4.0%) strongly agree with the statement, fifteen (15.0%) just agreed with the statement, twenty six (26.0%) of the respondents were not sure with the statement, while thirty three (33.0%) disagreed with the statement and twenty two (22.0%) strongly disagreed with the statement. Therefore it was evident that there is need to change the current services offered by the Saccos to MSE and come up with more proactive services that suit the ever changing business environment.

Purpose of loan

The researcher sought to know the purposes of the loans which were being borrowed by the entrepreneurs. The findings are summarized in the tables below.

Table 4.1: Loan uses

Loan use	Frequency	Percent
Business	49	49.0%
school fees	32	32.0%
To buy house item	19	19.0%
Total	100	100.0%

From the findings, forty nine respondents (49.0%) use the loans borrowed for business purpose, thirty two respondents (32.0%) pay school fees, while nineteen respondents (19.0%) buy house items. It was evident that most entrepreneurs borrow loans for business purposes. On the question on how the entrepreneurs who borrowed loan for business purposes spend it, the findings are summarized in the table below.

Loan Terms

The researcher sought to analyze the terms and conditions of loans borrowed and how they affect business growth.

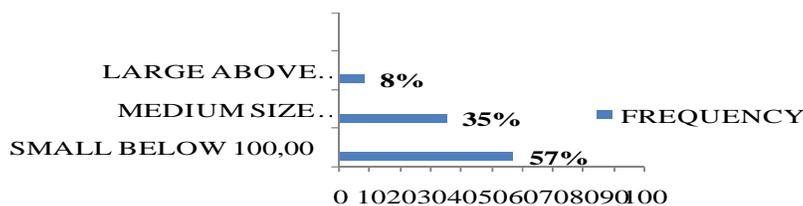


Figure 4.4: Loan size borrowed

From the findings, fifty seven respondents (57.0%) do borrow small size loans, thirty five respondents (35.0%) do borrow medium size loans and eight respondents (8.0%) borrow large size loans. This indicated that most entrepreneurs borrow small loan sizes to suit their needs in business.

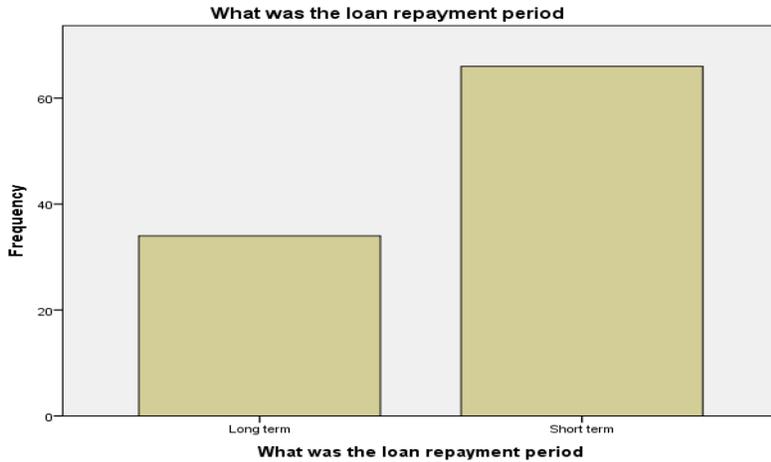


Figure 4.5: Loan repayment period

From the findings, thirty four respondents (34.0%) borrow long term loans while sixty six respondents (66.0%) borrow short term loans. The indication was that most entrepreneurs borrow short term loans. The researcher, further asked the question, if the repayment period of most loans borrowed is not favorable to entrepreneurs hence hinders business growth, and the findings are summarized below

On the statement whether the loan size given by Sacco cannot accelerate business growth, the findings are summarized in the table below

Table 4.2: The loan size given by Sacco cannot accelerate business growth

Level of agreement	Frequency	Percent
Strongly agreed	6	6.0%
Agreed	15	15.0%
Not Sure	14	14.0%
Disagreed	30	30.0%
Strongly Disagreed	35	35.0%
Total	100	100.0%

From the findings, six respondents (6.0%) strongly agree, fifteen respondents (15.0%) agree with the statement, fourteen respondents (14.0%) were not sure with the statement, while thirty respondents (30.0%) disagreed with the statement and thirty five respondents (35.0%) strongly disagreed with the statement. The findings indicate that loan size is able to accelerate the growth of MSE. On the procedures of loan processing, the researcher sought to find out if the procedures

of processing Sacco loan are too tedious and consume a lot of time which can be used in ensuring progress of the business. From the findings, sixteen respondents (16.0%) strongly agreed, thirty four respondents (34.0%) just agree with the statement, eight respondents (8.0%) were not sure with the statement, while twenty four respondents (24.0%) disagreed with the statement and eighteen (18.0%) strongly disagreed with the statement. From the findings it was evident that the loan processing procedures were tedious and hinder growth of micro and small business enterprises as shown in the figure below.

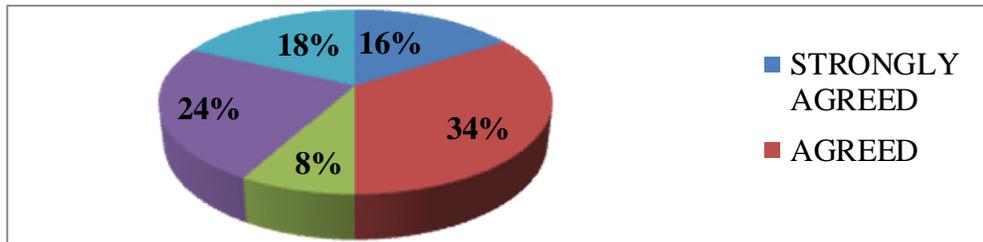


Figure 4.6: The procedures of processing Sacco loan are too tedious and consume a lot of time which can be used in ensuring progress of the business

The researcher also sought the opinion of the respondents on the terms and conditions of the Sacco loans and if they can favor growth of MSE. The findings are summarized in the table below.

Table 4.3: The term and condition of the Sacco loans are favorable and enables business growth

Level of agreement	Frequency	Percent
Strongly agreed	41	41.0%
Agreed	22	22.0%
Not Sure	17	17.0%
Disagreed	7	7.0%
Strongly disagreed	13	13.0%
Total	100	100.0%

From the findings, forty one respondents (41.0%) strongly agreed with the statement, twenty two (22.0%) agreed with the statement, seventeen respondents (17.0%) were not sure, while seven respondents (7.0%) disagreed with the statement and thirteen (13.0%) strongly disagreed with

the statement. From the findings it was evident that the terms and conditions of the loans are favorable for business growth.

Costs involved in accessing loans
Table 4.4: Do Sacco charge interest rate

Response	Frequency	Percent
No	0	0.0%
Yes	100	100%
Total	100	100.0%

From the findings, it was clear that all Saccos charge interest on the loan borrowed. The general comment that was evident is on the need to lower the interest further from the current, depending with the different Sacco’s interest.

On the cost of accessing Sacco credit facilities is high hence hinders business growth, the following were the findings:

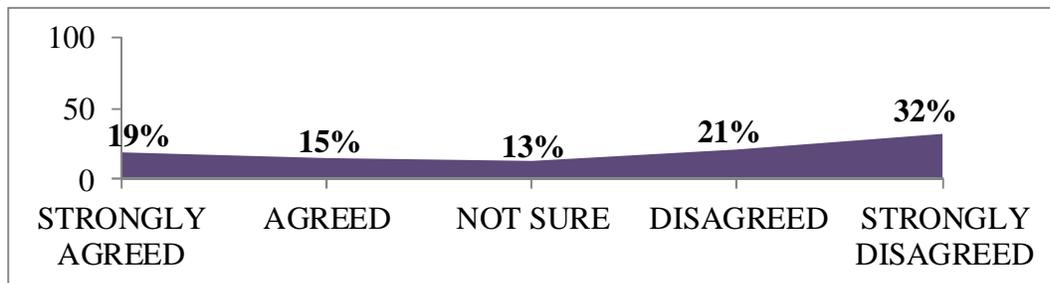


Figure 4.7: The cost of accessing Sacco credit facilities is high hence hinders business growth

From the findings, it was evident that the costs of accessing Sacco loans are not high and does not hinder the growth of business. The entrepreneur was only charged interest and negotiation fees as the overall cost of accessing the loans.

Conclusions

Sacco’s are very important tools for economic development and enhancement of growth and development of MSE within any country and should be considered for stimulating growth and development.

Recommendations

Government should provide conducive environment for growth and development of Sacco's so that the informal sector of economy can also benefit from cheap and accessible financial credit facilities and other service.

SACCOs should develop more products tailored towards the growth of micro and small business enterprises for example loans for start up businesses, working capital loans etc. The tailored products would actually boost the morale of the young entrepreneurs hence take up loans for the right use and purpose.

SACCOs should come up with mechanisms to ensure that loans borrowed are used for the right purpose: for example encourage borrowers to have a business plan, vision and mission when applying for the loans hence these could make them to use the loans properly. Probably the Sacco officials can make a follow up to ascertain whether the loan borrowed was rightfully used.

References

- Amina Abdul (2003). *Impact of micro finance institutions on the growth of small and micro enterprises and owners in Tanzania*, PhD proposal
- Branch, B. and C. Baker (1999). *Credit Unions: Overcoming Governance Problems – What does It Take*, Inter-American Development Bank
- Beck, T. A. Demirgüç-Kunt, and V. Maksimovic. (2005), “*Financial and Legal Constraints to Firm Growth: Does Firm Size Matter?*” *Journal of Finance*, Vol. 60,
- Fatchmps, K (1997). *Working Together: The Principles and Practice of Co-operation and Partnership. Managing Development: Understanding Inter-organizational Relationships*.
- Government of Kenya (2008) *Second Report on Poverty in Kenya, Ministry of Finance and Planning*, Nairobi
- KUSSCO. (2003). “*Entrepreneurship In Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia.*” Inter-American Development Bank with KUSSCO.
- Mosley N. (1999) *Life cycle characteristics of small professional service Firms*, *Journal of Small Business Management*, Vol. 44,
- Mosley N. and Hulme Niskanen, J (1998) *The determinants of firm growth in small and micro firms Evidence on relationship lending effects*, *Small Enterprise Development*, Vol. 24,
- Mudibo E. K (2006), *Integrating financial services into poverty reduction strategies Economic Survey 2005*, Central Bureau of Statistics, GoK
- Mugenda and Mugenda (2003) *Research methods, qualitative and quantitative Approaches*, African centre for Technology studies press, Nairobi
- Nichols S (2004) *A Case Study Analysis of the Impacts of Microfinance upon the Lives of the Poor in Rural China*, RMIT University, Melbourne, 2000
- Skrt B, Antoncic B (2004). *Strategic Planning and Small Firm Growth: An Empirical Examination*, *Managing Global Transition* Vol 2 Number 2.
- Weinzimmer, L. G. (2000). *A Replication and Extension of Organizational Growth Determinant*, Emerald Group publishing, UK.