INFLUENCE OF COOPERATIVES POLICY FRAMEWORK ON MEMBERS' INVESTMENT IN KENYA

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ABSTRACT

Cooperatives are effective vehicles for economic growth. Cooperatives, like other financial services providers, can be used to achieve Kenya's vision 2030 on financial services. This is only possible if cooperatives can formulate good policy framework that can enhance their members' investment. The investment culture is very low in Kenya. This study, therefore, sought to investigate into the influence of cooperatives policy framework on members' investment in Kenya. A descriptive research design guided the study. Whereas Periodicals, internet and published SACCO reports enabled the collection of secondary data, closed and open ended questionnaires were used to collect primary data. Simple random sampling aided the selection of 379 respondents from a population of 25145 SACCO members. Editing and sorting of data was done. Analysis of data was carried out using percentages. The study concluded that a good cooperative policy framework lends in time, at low interest rates, provides members with education and training on viable investment opportunities, provides a diversity of loan products and gives attractive dividend payouts to their members. Based on the above findings, the following recommendations were proposed: cooperatives should formulate and embrace good policy framework as this was found to enhance cooperative members' investment. This would accelerate the achievement of Kenya's vision 2030 on financial services.

Key Words: *cooperatives policy framework, members' investment, Kenya*

Introduction

Investment increases income and enhances productivity. According to Keynes (1936) investment is the most certain way of enhancing income and promoting productivity with the intention to break through the vicious cycle of poverty. Savings and Credit Cooperative Societies (SACCOs) have been classified as vehicles for economic growth (Afrian Confederation of Cooperative Savings and Credit Association [(ACCOSCA], 2011). Thus SACCOs play 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 investigating the influence of cooperative policy framework on members' investment in Kenya. 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). 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.

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.

The policy governing cooperatives in Kenya is provided by sessional paper number 6 of 1997 (RoK, 1997a). The policy is on cooperatives in a liberalized economic environment (RoK, 1997b). This policy was formulated when the state withdrew control over cooperative movement following the liberalization of the economy. The policy made cooperatives autonomous and changed the government's role from that of control to that of regulation. However, the 1997 policy did not provide for the government's supportive role of development of cooperatives and was also silent on the cooperative societies Act of 2004. This prompted the MCDM to formulate a revised policy framework called Kenya Cooperative Development Policy 2008 which addresses restructuring, strengthening and transforming cooperatives into successful economic entities.

In legislation, the Cooperative Societies Act of 2004 (RoK, 2004) guides the formation and management of cooperatives in Kenya. The Act enhances state regulation of the cooperative movement through the office of the commissioner for cooperative development. In addition to this legislation there is the SACCO Societies Act of 2008 (RoK, 2008b) that provides for the licensing, regulation, supervision and promotion of SACCOs by the SACCO Societies Regulatory Authority (SASRA). SASRA licenses SACCOs to carry out deposit- taking businesses called Front Office Service Activity (FOSA) and can also intervene in the management of SACCOs that are mismanaged. SASRA is a Government agency under the MCDM. For example, in intervening in management of mismanaged SACCOs the MCDM has suspended senior managers and tellers of Ogembo tea SACCO in Gucha district over Ksh 20 million fraud (Moraa & Ambala, 2012). SACCOs have characteristics that differentiate them from other financial institutions. The characteristics include non- profit motive, tax exempt status, common bond membership and mutual ownership (Mishkin & Eakins, 2007).

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. 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. 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 investigate into the influence of cooperatives policy framework on members' investment in Kenya.

Statement of the Problem

Investment is the most certain way through which a country can sustain its growth and development. However, the levels of domestic savings and investment in Kenya have been very low (Lawrence, Benjamin, Desterio, & George, 2009). 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). 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). With this liberalization and diversification, SACCOs have come up with policies in order to serve their members better. This study therefore, sought to investigate the influence of cooperatives policy framework on the members' investment in Kenya.

Objective of the Study

To investigate the influence of cooperatives policy framework on members' investment in Kenya

Hypothesis

Ho_1: Good SACCO policy framework has no effect on members' investment

Ha_2: Good SACCO policy framework enhances members' investment

Methodology

Methodology describes the overall approach to research design. It is a strategy or a plan of action that links methods to outcomes. According to Creswell (2003) methodology governs choice and use of methods. A descriptive research design guided the study. Whereas Periodicals, internet and published SACCO reports enabled the collection of secondary data, closed and open ended questionnaires were used to collect primary data. Simple random sampling aided the selection of 379 respondents from a population of 25145 SACCO members. Editing and sorting of data was done. Analysis of data was carried out using percentages.

Results and Discussion

The number of respondents were 272 which represents a response rate of 71.77%. The response rate is the ratio of the number of completed interviews divided by the number of eligible sample units, where eligible sample units are the sample units that have met certain eligibility criteria (Richardson & Meyburg, 2003). According to Mugenda and Mugenda (2003) a response rate of 70% and over is very good. This study had a response rate of 71% which is representative sample for meaningful generalization. The study sought to test whether good cooperative policy framework enhances members' investment. The following hypothesis was tested:

Ho_3: Good cooperative policy framework has no effect on members' investment
Ha_3: Good cooperative policy framework enhances members' investment

From the findings it was found that 83.82% of the respondents stated that their SACCOs had policies on members' investment while 16.18% said that their SACCOs did not have policies on members' investment. Among the respondents who accepted that their SACCOs had investment policies also said that their SACCOs were large and that the SACCO policy on investment was good. The large SACCOs were evaluated in terms of large membership base, large floor area covered by SACCOs, large amount of capital invested and large number of employees serving in the respective SACCOs.

Moreover, 16.18% of the respondents said that their SACCOs did not have policies on members' investment. The respondents stated further that their SACCOs were small in terms of low membership, small floor area covered by the SACCO, low number of employees and little amount of capital invested. This finding showed that lack of policy in SACCOs made SACCOs remain small as opposed to SACCOs that were large given that they had a good SACCO policy framework in place.

On whether the SACCO policy motivated members to invest 85.29% accepted that good SACCO policy motivated them to invest whereas 14.71% rejected to have been motivated to invest by good SACCO policy. The respondents (85.29%) explained further that the good SACCO policy enhanced their investment skills and that they were able to make well informed investment decision. The respondents who rejected (14.71%) that their SACCO policy motivated them to invest explained that they lacked the ability to make viable investment decision. The members would not make well informed investment decisions because in the first place their SACCOs lacked a good SACCO policy framework that would enhance their investment.

On training 80.88% of the respondents accepted to have received training from their SACCOs on investment whereas 19.12% denied having received any training from their SACCO. The respondents who received training stated that they were able to make well informed investment decisions. This led to the rejection of the null hypothesis that good cooperative policy framework has no effect on members' investment.

Conclusions and Recommendations

Based the above findings the study concluded that a good cooperative policy framework enhances members' investment. A good cooperative policy lends in time, at low interest rates, provides members with education and training on viable investment opportunities, provides a diversity of loan products and gives attractive dividend payouts to their members. This is in line with Saunders and Cornet (2007) who found that the basic function of SACCOs is to provide credit facilities at low cost. Hence the government and other stakeholders should support cooperatives to ascertain that they have trained and competent management personnel in place to guide in appropriate policy formulation that would enhance their members' investment. This would accelerate the achievement of Kenya's vision 2030 on financial services.

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