CHALLENGES AND OPPORTUNITIES FACING SACCOS IN THE CURRENT DEVOLVED SYSTEM OF GOVERNMENT OF KENYA: A CASE STUDY OF MOMBASA COUNTY

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ABSTRACT

SACCOs (Savings and Credit Co-operative Societies) are predominant form of external financing for small and micro enterprises in most of the developing countries. Contemporary studies show that SACCOS' role towards developing these enterprises is increasing rapidly. Statistics show that there are 10,800 registered Co-operative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial-based (SACCOS) and, 16% are others. 63% of the Kenyan population depends on Co-operative related activities for their livelihood with over 250,000 benefiting through direct employment. SACCOS have been noted to contribute over 45% GDP and it is estimated that at least one out of every two Kenyans directly or indirectly derives his /her livelihood from these kinds of Cooperatives. From this insight, the study sought to identify the challenges facing SACCOs in Mombasa such as lack of finance, discrimination, problems with the city council, multiple duties, poor access to justice, lack of education, among others and initiatives put in place to counter the challenges. The study realized that despite the challenges, opportunities were available for SACCOs and their impact to the economic development, including capital accumulation and agency business largely arising from access to Government funds for on-ward transmission to youth and women groups. The study employed desktop research. The data in this study was analyzed using statistical package for social sciences. The findings of this study are important for the particular organizations under study to address the challenges so as to improve their service delivery, the industry to anticipate and endeavour to overcome the challenges. This paper recommends policy makers and governments to come-up with policies and strategies that will support the growth of SACCOS which is a pertinent alternative solution for financing micro and small businesses. Further research is however recommended in this area.

Key Words: *Challenges; Opportunities, SACCOs; Devolved, Government*

Introduction

Savings and Credit Cooperative societies (SACCOS) are voluntary associations or cooperative financial institution owned and controlled by their members and operated for the purposes of promoting saving, providing credit at low interest rates and providing other financial services to its members (Waweru 2011). Members regularly pool their savings, and subsequently may obtain loans which they may use for different purposes. Generally, the idea behind establishment of SACCOS is to promote savings and make credits available to the members. SACCOS are the important micro-financing institutions for mobilization of financial resources for various development activities.

Co-operatives are autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspiration through a jointly owned, democratically controlled enterprise (RoK, 2008). As mentioned above, the sole objective of these societies involves mobilization of resources from which individual co-operators may benefit. Generally, co-operatives are organized into service and producer cooperatives (Branco, 2005).

The producer co-operatives objectives are to promote the use of modern technology and contribute to national development through production. The service co-operatives are responsible for procurement, marketing and extension services, loan disbursement, sale of consumer goods and member's education.

In Kenya SACCOS operate under Co-operative societies Act of 2008, but they are not regulated by the central bank. However, under the new regulation, SACCOS that operate front office services are licensed, supervised and regulated by SASRA. Most SACCOS in urban areas are formed by salary and wage earners who have common bond, and whose employers are ready to effect check-off system from members' monthly contributions and loan repayments. On the other hand, most of SACCOS found in rural areas are community-based, and their main activities is agriculture.

World over, systems in these organizations vary from slightly to significantly in terms of total system assets, average institutions' asset price and regulatory control. This ranges from volunteer operations with a few members' organizations to the institutions with several billion asset value. The world council of credit unions (WOCCU) defines a credit union as a non-profit making cooperative institution. In real practice however legal provisions relating to these institutions vary by jurisdiction (WOCCU 2011). For example in Canada credit unions are referred to those that are regulated as non-profit making institutions and view their mandate as earning a reasonable profit to enhance services to members to ensure stability just the same view as was shared in Kenya till the year 1997 whereby these institutions were liberalized by sessional paper NO 6. to be run as commercially viable institutions that saw their financial accounts being prepared as the ones of the other commercial entities within the financial sector

These institutions have a relatively unique structure in that agency problems exist given that the owners of the institutions and users of the services are the same people as captured by one of their universal principles of "democratic member control".

The members who hold accounts in the SACCOS are at the same time the owners, and they conduct their voting mandate on the one member-one vote basis irrespective of the members' shareholding. This means that only the members of these institutions can deposit and borrow from them.

In Africa, the idea of saving and credit societies was first described and discussed in 1955 in Jipara, a small town the upper west town of Ghana, the idea was brought by the Roman Catholic priest, Father John McNulty from Ireland. He decided to assist this village to form a saving and co-operative, he then trained 60 people mainly teachers. The success Jipara story has been widely replicated throughout the African continent (Alila & Obado 1990).Co-operative societies are characterized by the intrinsic values and principles on which they are founded. They are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. The end product of these co-operatives is to attain the high living standards of its members. This paper uses secondary data to study the historical development, contribution of SACCOS and constraints that they encounter through-out their journey in meeting their members' needs.

Kenyans have started living with the administrative reforms as power shifts from the central government to the 47 counties (CoK 2010), following the march 4th 2013 general election. The radical changes are likely to be more tangible to the man on the street but raise question to whether the country is prepared to navigate this brave new system. It is expected that they will have systems of checks and balances to curb abuses by senior public officers. The number of ministries too was reduced to 18, having the former Ministry of Co-operative and development, where all SACCOs were registered is engulfed in the Now, Ministry of Industrialisation as a Department. All these are expected to have an impact to the SACCOs.

Statement of the Problem

The Kenyan SACCO sector has been observed to contribute greatly to the total financial industry and consequently the economy. It contributes to over 45% of the nation's Gross Domestic Product (MOCD&M 2010). With the enactment of the SACCO Act, 2008 (SSA) and the subsequent establishment of the SACCO Societies Regulatory Authority (SASRA), SACCOs have been brought under regulation and supervision

Challenges to the successful implementation of the new devolved system of government in Kenya is seen to significantly affect the running of these entities both because of the location and diversity of the SACCO societies, with inadequate technical skills, both at board and management levels being identified as the key challenge (SASRA Press Release, 2011). Other key areas, identified that need to be continually addressed include governance, management capacity, financial management, credit management and automation. While it must be appreciated that prudential regulation is a prerequisite to integration and mainstreaming of the SACCO societies in the Kenya financial sector, the challenges facing

SACCOs in the new system of governance need to be identified and addressed to ensure that SACCOs exploit their full potential and deepen financial access in the country. There too are opportunities that these SACCOs will be able to encounter and use them to their full potential in minimizing the challenges. This study therefore seeks to provide more insight into the opportunities and challenges facing SACCOs in the new system of devolution in Kenya.

Objective of the study

The main objective of the study was to assess the opportunities and challenges that face SACCOs in meeting their purpose with a focus on SACCOs in Kenya.

Specific Objectives

1. The challenges facing Sacco's operations in Kenya's current Devolved Government.
2. The opportunities available for the Saccos in Kenya.
3. What measures have been put in place by the Kenyan government and other institutions to assist the Saccos?
4. What can be recommended in future for the Saccos?

Literature Review

Introduction to Co-operatives

The International Cooperative Alliance defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned, and democratically-controlled enterprise (Birchall 2004). Cooperatives differ from joint-stock companies primarily in their governance in that voting rights are based on membership rather than size of the shareholding and they also differ from philanthropic foundations in that they are set up to benefit the needs of their members rather than the needs of others.

There are several types of Cooperatives most focus on a particular economic sector, but others focus on the nature of membership. In essence, there are three broad categories of SACCOS:

1. **Community-based - SACCOS**. These SACCOS can be found in urban areas or regional towns, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises;
2. **Employee-based SACCOS**- These represent SACCOS where all the members are drawn from one employer and these SACCOS are generally located in urban areas or regional level. Specific salary based loans are extended which are often guaranteed by the employer.
3. **Agricultural SACCOS** - To date these represent primarily small-scale farmers. Both individual farmers and farmers' associations can be clients of the SACCOS. Loans are extended for various purposes, including agricultural production loans. Many SACCOS

may have a combination of different clients, including women Solidarity groups, individual borrowers for small business purposes, individual salaried clients or farmers.

Other co-operatives include:- Financial co-operatives, Housing co-operatives, Health and social care co-operatives, Consumer co-operatives, Worker co-operatives/ Craftsmen and Transport co-operatives

History of Co-Operatives

The modern co-operative concept started in 1844 in Rochdale village, Manchester, England. It has since developed globally as a social and economic movement with its own distinct identity, history and purpose. (Tache, 2006).

The co-operative form of organization has been around for a long time, though the modern form of co-operatives emerged in the nineteenth century. The co-operative sector is a major economic force in many countries, with agricultural cooperatives being the most dominant.

Financial cooperatives (FC) (including cooperative banks) have large market shares in many countries. Most FCs in developing countries offer savings and credit services. Several FCs also offer more sophisticated financial services such as leasing, payments, and insurance services, often in collaboration with partners.

In Kenya the earliest cooperative was established by white settlers in 1908 at kipkelion kericho District, rift valley province. It was registered under the Companies Ordinance and it was to provide dairy and agricultural support for the white settlers.(Kobia, 2011). Before 1930 cooperative development was very slow due to discouragement by colonial ruler. On the other hand, SACCOS are important form of financial intermediary, which over the years has played a vital role in provision of financial services to their members.

It was very difficult to develop SACCOS during that era. The colonial government considered it was very difficult to find smart people in Africa who could command trust of their fellow members and keep accounts and business of SACCOS' movement (Ongore, 2001; Oyoo, 2002). Government involvement in co-operatives started in 1931 when the first co-operative ordinance was enacted in order to regulate the operations of cooperative societies in Kenya. The Government continued to promote the movement after independence in 1963, the Cooperatives and SACCOS' movements were seen as the means to make people get involved in modern economic development within a short period of time particularly in land acquisition, business and engage in agricultural and agro business activities (Mudibo, 2006)

The movement was supposed to play an important role in wealth creation, food security and generation of employment and therefore alleviating poverty. The cooperatives have employed over 300,000 people besides providing opportunities for self-employment. Co-operatives traverse all sectors of the economy with about 63% of Kenyan population deriving their livelihood directly or indirectly through it (International Monetary Fund, 2007). SACCOS were generally controlled by the government before liberalization in 1997 (Oyoo, 2002). The good example is that in 1985, the Ministry of Cooperative Development and Marketing issued a circular which restrict type of investments by SACCOs to fixed deposits and to some extent, real estate. Financial investments in bonds and private companies were discouraged unless they were guaranteed certain rights or had a high degree of control (Gachara, 1990). These guidelines were aimed to ensure excess liquidity and, will therefore, lead to low returns for the organization. With the current competitive market economy, it may be difficult for such policies to apply. This brought about freedom in SACCOs management approach that involved the partial withdrawal of state involvement in the day-to-day operations of co-operative societies. The liberation that came with government withdrawal resulted in bad governance of the societies and contributed to the decline in the overall performance of co-operatives.

Following widespread bank failures in Kenya in the 1980s and 1990s, rural SACCOs thrived further as the banks generally withdrew from these rural areas. Many rural SACCOs later became associated with the Co-operative Bank. Unlike in many other countries, Kenya's SACCOs play a significant role not only in the rural financial sector but also in Kenya's overall financial sector. According to the Cooperative Bank of Kenya Report (2008), the deposit and loan portfolio in SACCOs amounts to about 34 percent of national savings and about 24 percent of outstanding domestic credit. The World Council of Credit Unions (WOCCU) estimates that the Kenyan SACCO sector is the largest in Africa; in 2005, SACCOs had an estimated membership of more than 2.5 million, share capital and deposits of US$1.66 billion, and a loan portfolio of US$1.24 billion (WOCCU 2005).

Clearly the outreach of these institutions is small; its smallness can be better appreciated when compared to such programs in Asia (the higher populations notwithstanding) and South America (where population densities are comparable). In Kenya growth in SACCOs over the last twenty-five years has been spectacular. The number of these organizations rose from 630 in 1978 to 4,500 by December 31st 2004. Over the same period, savings and share capital rose from Kshs: 375 million to Kshs: 150 billion by December 2004. SACCOs' membership numbered over 3 million by December, 2004 having risen from 387,500 members in 1978. Their rapid growth indicates that they are filling a need, which has not been met by other financial institutions i.e. banks. SACCOs are currently organized as workplace or cash crop based savings and credit associations whereby people with a common bond, e.g. by working together in the same company or institution, save regularly thus building enough deposits for lending within the group. Some of these savings and credit societies are actually larger (in asset terms) than some of the small commercial banks. These include the Harambee, Posta and Mwalimu SACCOs.

In the 21st Century Cooperatives were renewed, restated and adopted co-op values and principles to guide them the internationally acknowledged co-op values and the seven principles are reproduced below.

Co-operative Values

Co-operatives are based on values of Self help, Self-responsibility, Democracy, Equality, Equity, and solidarity. Before that cooperatives believed in the ethical values of honesty openness, social responsibility and caring for others

Cooperative Principles

Cooperatives around the world generally operate according to the same core principles and values, adopted by the International Co-operative Alliance in 1995. Cooperatives trace the roots of these principles to the first modern cooperative founded in Rochdale, England in 1844. These include

1. **Voluntary and Open Membership**
   Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. **Democratic Member Control paraphrase**
   Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.
3. **Members' Economic Participation**
   Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.
4. **Autonomy and Independence**
   Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative’s autonomy.
5. **Education, Training and Information**
   Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.
6. **Cooperation among Cooperatives**
   Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
7. **Concern for Community**
   While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

Membership

In terms of membership table 1 shows that the membership of co-ops increased in just 6 years by a remarkable 4.2million or 89 percent from 4.9 million in 2003 to 8.9million in 2009. The agricultural co-ops led by SACCOs accounted for this huge increase. Their membership increased by 2.8 million or 73 percent from 3.7million in 2003 to 6.5 million in 2009. The contribution by other non agricultural based co-ops to this membership is 6.5 percent or just about 421,000 members. Membership of agriculture based co-ops increased by 50% from 1,153,000 to 1,744,000 noticeable in coffee, sugarcane dairy and other agricultural supported societies.

Kenya has been a success as far as the Co-operative Movement is concerned. It is estimated that there are currently over 11,200 registered Co-operative Societies in Kenya. Out of this, 38% are Agricultural, 46% Financial-based that is SACCOS and, 16% are others. 63% of the Kenyan population depends on the Co-operative related activities for their livelihood with over 250,000 benefiting through direct employment (Mudibo, 2005).

Table 1: Membership of Co-operative Societies by Type and market Share 2003-2009*

Type of society	Membership 2003	Market share %	Membership 2009	Market share %
Agriculture				
Coffee	591,000	12.0	883,000	10.70
Cotton	9,000	0.18	33,000	0.40
Pyrethrum	81,000	1.73	77,000	0.93
Sugarcane	65,000	1.32	53,000	0.64
Dairy	148,000	3.00	342,000	4.14
Multipurpose	38,000	0.77	124,000	1.50
Farm purchase	51,000	1.04	69,000	0.83
Fisheries	10,000	0.20	40,000	0.48
Other agric	156,000	3.17	123000	1.50
Total Agric	**1,153,000**	**23.40**	**1,744,000**	**21.10**
Non Agriculture				
SACCOs	3,500,000	71.16	6,100,000	73.80
Consumer	19,000	0.38	47,000	0.57
Housing	36,000	0.73	41,000	0.49
Craftsmen	17,000	0.34	24,000	0.29
Transport	2,000	0.04	16,000	0.19
Other non agric	191,000	3.90	293,000	3.55
Total non agric	3,765,000	76.60	6,521,000	78.90
Unions			648,000	
GRAND TOTAL			8,913,000	100

Source: Republic of Kenya Statistical Abstract 2010 and Ministry of Co-operative Development and Marketing

* Provisional figures

Figure 1: Membership of Non- Agriculture Based Co-operative societies 2003 – 2009

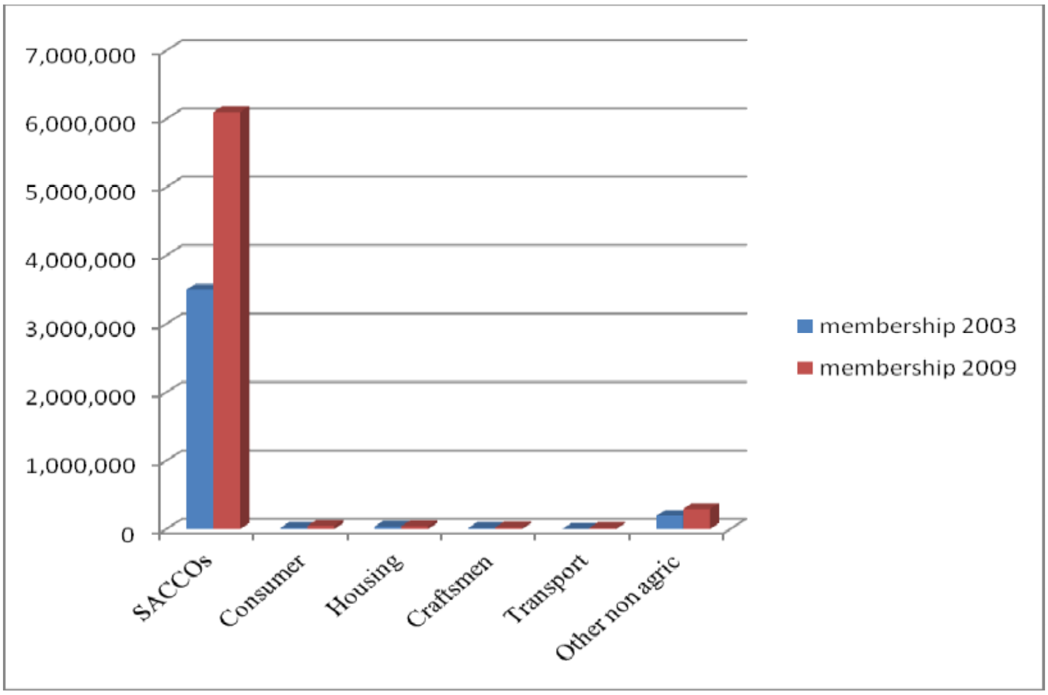
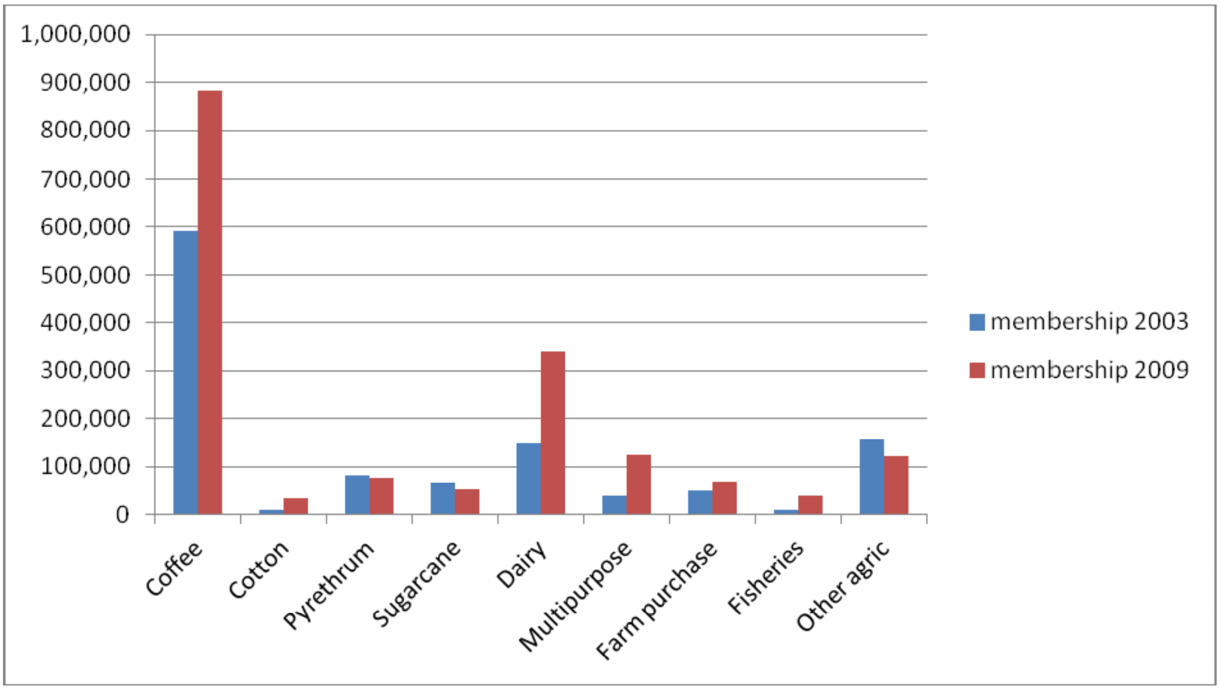


Figure 2: Membership of Agriculture Based Co-operative societies 2003 – 2009



Features of Co-Operatives

They are unique entities that have the following features:

1. Cooperatives are member owned
2. They are democratically controlled; one member one vote basis regardless of the number of shares held.

3. The Board are elected by members and may not work for the cooperative but cost reimbursed for meetings. They serve as unpaid volunteers.
4. Nomination to serve in the board/ committee either directly or by delegates is from members on a one member one vote basis.
5. The Board members are directly accountable to members through co-op democratic electoral procedures.
6. Profits / surpluses are reinvested / returned/ shared proportionately guided by the nature of co-op business.
7. They maximise customer service and satisfaction of people–centred values.
8. They raise resources through members' shares, fees, retained earnings and members' approved borrowings.
9. They promote and assist community development guided by co-op values and principles.

The primary motivation for a co-op is not to make profit but to provide services o members and when surplus or profit is realised, it is distributed to members in reference to their level of patronage or is ploughed back to the society to expand and improve services to their members as will be agreed upon by the general meeting.

Bigger cooperatives have paid managers and staff, but the members still elect among themselves the management organs of the cooperative.

Services Provided by Co-Operatives

In their original form and still nowadays, cooperatives provide only basic products, that is, loans and savings. These products are often the most important financial services for low-income households. However, the range of services can be much larger, including payment services, such as money transfers and remittances, insurance, and term savings. Although cooperatives were originally established to facilitate credit for poor households, savings services are also very important. cooperatives provide safe facilities for savings, enabling savers to smooth consumption, prepare for emergencies, gradually accumulate financial resources, self-finance the purchase of durable goods, and make investments (Turtiainen, 2008).

Borrowers must, however, usually become members and buy the least minimum share as set by the bylaws. The member has to save consistently for normally 6 months before they can qualify for a loan. During the loan application he has to get guarantors and witness for the loan. In this respect then SACCOs as they are commonly referred to act as intermediaries as observed by Magill (1994) between surplus and deficit members which proposition is also shared by Cox (1996).

The phenomenon of fast growth of SACCOS in Kenya in the last two decades is the result of provision of credit for a wide range of purposes and on a relatively affordable terms and conditions. The credit further suited different categories of borrowers include the disadvantaged groups especially women (Alila & Obado, 1990). Today co-operatives particularly SACCOS are integral part of the government economic strategy focusing on creating income generating opportunities especially in rural areas.

According to Mudibo, 2005, the challenges encountered by Kenyan SACCOS involves: board of directors is not being trusted by employees. He further sighted that very important decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control. Furthermore, there are no adequate guidelines on various stakeholders in SACCOS. For example, where the authority of Credit Committees should end, where the authority of Executive Committee should begin, and what are other staff members' authorities.

Characteristics of SACCOs in Developing Countries

Co-operatives in all of developing world have the following characteristics:

1. Clients tend to come from low income and lower middle – income groups. This means that majority of the clients of SACCOS are lower and middle income earners. They may come from employment (employment based-members) or from community (community-based members).
2. Services are almost exclusively financial in nature. – The aimed services are the mobilization of financial resources from members.
3. They provide self-generated capital, typically without any dependence on outside funding to cover operating costs which are generally kept low. This is because they are always started on self-help philosophy.
4. Members are united through at least one common interest - members normally have common ties which they share. For example, employment based SACCOS are united through their employment contract. Besides employment they are pushed by self-help motive to be members of the SACCOS.
5. Members pursue the goal of improving their economic and social situation through joint actions. – through mobilization of resources members are able to establish self-generated capital as well as creating the social network that will be beneficial to their economic (income generating) activities.
6. Resources mobilization gives members opportunities to use owned and operated unit which provides them with financial services of its physical size and activities, the units purpose is to make the best use joint resources of the members to produce or obtain goods or services for members (Kabuga and Batarinyebwa, 1995)
7. Mutual self-help group - where members have joint action toward financial resources which focus on the attainment of the group's objectives or mutual self-help.

Significance of SACCOS to Economic Development and Poverty Reduction in Kenya

Within the African cooperative movement, SACCOS are increasing their prominence and could soon be the most common form of cooperative. The growth in importance of the SACCOS sector may be associated with the public they are catering for and also with the increasing popularity of microfinance (Ignace, 2009).

The SACCOS operating in Kenya are facing the typical problems and constraints like any other SACCOS in other developing world. However, some countries and other International financial agencies assist these savings and credit societies because of the crucial inheriting role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services commercial finance venture capital, information training and retraining. Availability of a broader range of SACCOS also makes availability of financial products (Aeschliman, 2007).

There are several contributions posed by the SACCOS to the economy as follow:

1. Identifying gaps in the poverty reduction strategic programs. SACCOS provide means to which communities resorted to in fighting poverty.
2. Capacity building among members themselves through advocacy of participation, improving literacy, information sharing etc. This gives new members opportunities learning from their experienced members.
3. SACCOS help learning from best practices and up-scaling the members/society are using the success of the fellow member one stage success as the model in running their business.
4. They provide experience in critical analysis of problems and identify the stockholders' weakness so that they can be in strengthening policy advocacy role.
5. Innovations to improve member incomes and benefits - especially agriculture based ones, have attempted to innovate mechanisms for linking coffee producers to the consumers to realize better prices for the producer. These innovations are indicative of the poverty reduction and contribution to the economic development.
6. Facilitation of micro-financial services - The role of SACCOS in giving micro-financial services to the rural areas has increased before. Different studies revealed that SACCOS are the most significant forms of participation in financial markets available to the people.

Governments' role towards SACCOs' Development in Kenya

1. To keep the public informed of key developments and pertinent issues in the sector and to provide an important link to what is happening elsewhere in the field at regional international levels.
2. Coordinate Government intervention and interface with other stakeholders in the field.

3. Guide the development of the sector – the government should put in place both legal and operation frame work that will ensure/guide the establishment, growth and sustainability of SACCOS.

General Constraints against the Development of SACCOS in Kenya

Like any other part of the world, these are the constraints that are facing SACCOS in Kenya:

1. Most SACCOS lack appropriate and adequate managerial skills and knowledge with the good strategic, business, succession plans and, adequate organizational set-up and transparent operational system.
2. Many founders and managers of SACCOS in developing countries use the inefficient equipment as a result of lower level productivity delivery and substandard product quality.
3. Lack of initiative and administrative framework or linkage to support and sustainability of SACCOS' development which to a large extent is a reflection of poor technological capacity or intellectual resource.
4. Sometimes there is also wide spread corruption, nepotism and harassment of SACCOS by some officers especially in rural areas.
5. SACCOS also lack access to funding/credits, which can be traceable due to the reluctance of banks to extend credit to them owing among others to poor and in adequate documentation of business proposals.
6. Lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates. Commercial banks have a propensity that SACCOS have high risk of lending to especially start-ups.
7. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government discourage innovations which may lead to new products or services, as most of these SACCOS cannot afford to establish the research and development.
8. Due to the nature and environment in which SACCOS operate, there are inefficient and non-functional infrastructural facilities tend increase the costs of operation as SACCOS are forced to resort to private.
9. Lack of education and skills among staff and clients. Members of SACCOS cannot tell what are their rights, obligation, roles and responsibilities
10. The growth and expansion increase the outreach into rural areas, has significantly increased the volume of transactions and which require appropriate technology to handle an increasingly diversity set of customers as well as managing strategies to achieve and operational and financial sustainability.

The SACCO movement in Kenya is billed as the largest in Africa and among the top 10 globally at Number 7 (G7) (Wanyama, 2009). With over KES 230 Billion in assets and a savings portfolio estimated at Kshs 190 Billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings. SACCOs have thus become vital components of Kenya's economy and social development. Kenya has a long history of cooperative development that has been characterized by strong growth, thus making a significant contribution to the overall economy. Cooperatives are recognized by the government to be the major contributor to national development, as co-operatives are found in all sectors of the economy. With a total population of Kenya at approximately 37.2 Million (Republic of Kenya, 2008a:13), it is estimated that 63% of Kenya's population participate directly or indirectly in cooperative based enterprises (MOCD&M 2008:4). Indeed, the MOCD&M estimates that 80% of Kenya's population derives their income either directly or indirectly for cooperative activities.

Empirical evidence shows that cooperatives play an important role in Kenya's economy, the greatest contribution being in the financial cooperatives (SACCOs, KUSCCO, Co-operative Bank and CIC) holding substantial savings portfolios (Wanyama, 2009).

Cooperative development in Kenya, like in most African countries has generally traversed two main eras, namely, the era of state control and that of liberalization. In the era of liberalization, the role of the government was redefined from one that sought to control the cooperatives development e.g KCC, to one that seeks to regulate and facilitate autonomy. The monopoly of the cooperatives in the agricultural sector, which made them the sole marketers of cash crops in Kenya, was removed. The consequence of this meant that cooperatives now had to compete with other enterprises in marketing of agricultural produce.

Over time, the ministry has put in place policies, for example, the Kenya Cooperative Development Policy 2008, whose main theme was to expand the economic space for sustainable cooperative growth in Kenya. Its main focus was on restructuring and transforming cooperatives into vibrant economic entities that can confront the challenges of wealth creation, employment creation and poverty reduction as private loan ventures.

The Kenya Co-operative Legislation

The Cooperative Societies (Amendment) Act of 2004 (Republic of Kenya, 2004a) is the current basic legislation that guides the formation and management of cooperatives in Kenya. It has its origins in the Cooperatives Societies Act, Cap 490 of 1966, which was revised in 1977 into the Cooperatives Societies Act Number 12 of 1997 (Republic of Kenya, 1997b). The reforms contained in the revised act sought to reduce the strict state supervision of cooperatives in order to support the liberalization of cooperatives enterprises. The 1997 Act empowered the members to be responsible for the running of their own cooperatives, through elected management committees. Nevertheless, cooperatives were not prepared for this freedom. Consequently, the immediate impact of liberalization on cooperatives was primarily negative. To the detriment of primary cooperatives the newly acquired freedom was dangerously abused by elected leaders.

This saw many cooperatives report cases of corruption and mismanagement such as gross mismanagement by officials, theft of cooperative resources, split of viable cooperatives into smaller ineffectual units, and failure of employers to surrender members deposits to cooperatives particularly SACCOs which situation precipitated regulation as regulatory requirements and compliance would serve to as a mitigation to depositor losses (Thomson ,1991). In response to these, the 1997 Act was amended in 2004. The main content of the Cooperative Societies (Amendment) Act of 2004 reinforces state regulation of the cooperatives movement through the office of the commissioner of cooperatives development. The legislation stipulates the roles to be undertaken by the government to include: creating the policy and legal framework for development of cooperatives, improving the growth and development of cooperatives by providing requisite services for their organization, registration, operation, advancement and dissolution; and development of partnerships which cooperatives through consultative processes that are focused on policy, legislation and regulation.

Research Methodology

To meet the research objectives the study employed desktop research by reviewing relevant texts, websites, previous research studies carried out on journals, magazines , newspapers., conference reports, Government of Kenya Legislation in relation to the objectives of the study with the hope of providing more insight.

Research Findings

Opportunities and Challenges Facing SACCOs in Kenya

Introduction of new issues into an already existing system ordinarily poses challenges of adapting to the same. Laws and government regulations change from time to time and form the observation that same any business entity is usually resistance to change in the first stages of implementation but with time come to adopt to and accept the change almost to the end of the period given and during this process there are challenges abound.

Mudibo .K.E of the KUSCCO (2005) in “Corporate governance in Cooperatives in Africa” observed that the main issues affecting cooperative in East Africa included

1. Governance,
2. Inadequate human resource,
3. Weak regulation and
4. Inadequate supervision

This was shared by Mwangi K.J(2006) in a Sacco leaders forum on “Enhancing sound Sacco governance” whereby it was observed that some of the challenges included,

1. Limited product diversity,
2. Inadequate governance and management,
3. Unfavourable image ,
4. Lack of performance standards and
5. Weak official supervision and regulation.

Ondieki (2011) in "The effects of external financing on the performance of SACCOs in Kisii District" observed that major challenges inherent in the cooperative movement in Kenya included:

1. Poor governance,
2. Limited transparency in management of cooperatives,
3. Weak capital base and
4. Infrastructure weakness including ICT.

The same opinion is shared by Karim (2012) " African Sacco Regulatory framework" where by it was observed that leadership or governance of a CFI determines to a large extent how the CFI responds to regulatory issues and how it operates within the regulatory framework. This requires that the BOD members file personal information return with the regulators.

The researcher wanted to know how co-op ideals principles and advantages as prescribed and propagated can be leveraged to boost economic growth employment and wealth creation equity and social justice with the current government. The researcher therefore examines the challenges and opportunities within the cooperatives which can activate interest and commitment for increased vibrancy.

It is estimated that out of 6 Billion world population 4B are in the poorest bracket. In Kenya 56 % of the population live below the poverty line in the year 2009 the same was reported in 2002. And at 46% in 2006 due to the setbacks the country suffered in 2007 post election imbalance. The purchasing power of the poor is less than 50% of the target set by the vision 2030. The manifestation of this poverty level is expressed thorough political chaos insecurity vigilance gangs and environmental degradation. But if Kenyans started thinking of ''the poor are resilient and creative entrepreneurs and value conscience consumers'' a new world of opportunity could open up (Davis 1998)

In 1981 China 53% of its population was living below poverty line this dropped to 2.5% by 2005. This was attributed to the Social and economic policies that they employed. But whatever the policy instruments are, leadership, patriotism, discipline and productivity are key to her achievements. China now views its 1.3 billion population as a strength for its market and consumption capacity. It is now ranked third largest in the world after the United States and Japan. This is a magnificent challenge and offers hope to Kenya and to a motivated co-op movement.

If co-ops became increasingly more creative and innovative they could device policies and strategies that stimulate more productive opportunities for the poor introduce more products and services for emerging markets and promote social justice. The overriding challenge is how co-ops can remain positively focused and intensify investments and other efforts in the poor tiers of the population while balancing sustainability with profitability i.e doing good and doing well at the same time.

The researcher therefore outlines the challenges and opportunities that the co-op movements needs to pay increasing attention to in order to become more effective, relevant and useful to its members and the society in general. Each challenge or opportunity is one side of the same coin so there is no deliberate attempt to segregate either. Effective handling of these challenges facing cops removes threats and opens windows of opportunities. Seizing opportunities enhances the movements strength overcomes weaknesses and pre-empts threats.

Aligning cooperatives with vision 2030

Vision 2030 aims to turn Kenya into a globally competitive and prosperous country with high quality of life by the year 2030 transforming the country into a rapidly industrialising middle income nation by 2030. The growth targets are estimated to be above 7% each year in order to meet the Millennium Development Goals (MDGs) by 2015 and attain the vision by 2030. Kenya is a signatory with other 188 countries. The eight MDGs targets include

1. Eradication of extreme poverty and hunger
2. achievement of universal primary education
3. promotion of gender equality and empowerment of women
4. reduction of child mortality
5. improvement of maternal health
6. combating HIV and Aids malaria and other diseases
7. Ensuring environmental sustainability
8. Development of global partnership for progress

Vision 2030 is anchored in

Economic Pillars which include: Manufacturing tourism agriculture, wholesale and retail trade business process outsourcing and financial services

The Social pillars are: Education and training, health, water and sanitation, the environment, housing and urbanisation, gender, youth and vulnerable groups.

The political and Governance Pillars are: the rule of law, electoral and political process, democracy and public service, transparency and accountability, security, peace building and conflict management.

The foundation on which the vision is built are:

1. Macroeconomic stability for long term development
2. Continuity of governance reforms
3. Enhanced equity and wealth creation for the poor
4. Infrastructure (energy, science, technology and innovation, land reform, human resource development, security)
5. Public service

There are great opportunities for cooperatives to excel into the MDGs and the 3 pillars of the vision 2030. The co-op sector unlike in the previous government is not singled out for distinctive strategic recognition.

Under the economic pillar (financial services) there are references to SACCOs and microfinance institutions. Specific reference to co-ops is made I the ‘’establishment and strengthening of informal traders associations to form SACCOs for enhancing savings mobilization in order to provide affordable finance and enhancement of management of existing SACCOs''. The first medium term plan (2008-2012) says that out of 4,900 SACCOs serving 2.1 million Kenyans only 155 are in rural areas. 27% of Kenyans have access to financial services including banks (19%), SACCOs and microfinance Institutions(8%) another 35% have access to informal financial services provided by Rotating Savings and Credit Associations and merry go-rounds. This means that 38% of Kenyans do not have access at al to such products and services. There are thus unlimited potential and opportunities for co-ops within the whole vision 2030 framework and the fundamentals upon which the blue prints built. This echoes the situation I the Bible (Mathew 10:37) 'the harvest is plentiful but the workers are few. Ask the Lord of the harvest therefore to send out workers into his harvest fields.' Focus on the attainment of the vision 2030 MDGs will greatly contribute to the achievements of the goals of the social pillar.

The challenge is how to exploit the vast potential and opportunities. Thus each member of the cooperative should be challenged to plan and strategise on their own blue prints. The main aim of the government is to facilitate by offering infrastructure incentives and other tools that would fast track achievements of MDGs and of the national vision.

All citizens ought to be challenged individually and collectively as families and organisations to own, believe in and contribute to the MDGs.

1. How many co-op members have heard, read and been educated on the MDGs and Vision 2030?
2. How many have synchronised goals to these bigger plans?
3. To what extent and how are these co-ops educated, monitored and evaluated regarding progress on policy concerning their development?

Co-ops therefore need to be more assertive to ensure they don't lose relevance and opportunities in their own business and in national development.

The Co-operative Brand name

The Co-op is a powerful brand name. However there are challenges in creating and sustaining wining brand names. A brand name requires research to find out how it is perceived by its internal stakeholder and externally by those it wishes to influence. This enables the development of a brand idea, a brand and communication strategy to various audience. A research done by the weekly magazine 'The East African' showed that 75% of people preferred dealing with the co-ops because they fairy price heir products. But the co-ops have failed to take advantage of this fact to get more membership and this is due to poor technological adaptation by the same coops so there is no connection to the prospective markets.

The conservative nature of co-ops and their relative ignorance is also part of the problem. Co-ops can build their own websites and update them frequently and this will enable the cooperatives to

1. Initiate e-marketing strategy that is friendly and flexible to operate
2. Have an up to date website with a *.coop domain*
3. Facilitate potential customers who would like to deal with co-ops.

This is slowly dying away after the former Ministry of Co-operative Development and marketing was subsumed into the ministry of industrialisation and enterprise Development. Co-operatives behave differently from other institutions in terms of pricing, commitment to community rather than individual interests, ability to provide certain goods and services. This is true in smaller and more geographically isolated communities closed to mainstream enterprises.

Owing to this inclusivity the co-operative model needs to be promoted for use as a community development strategy. Co-operative leaders should be overseen by a ministry to continue to undertake educational activities to demonstrate the effectiveness of the co-operative approach.

The cooperative movement is global and the Kenyan movement is part of that family with the attendant benefits. In other countries the movement is steered by full ministries. Globalisation presents risks, challenges and options for Kenyan communities. Co-operatives can provide opportunities to participate in global exchange without sacrificing local control. Support must therefore be provided for the start-up of new co-operative enterprises and the development of new co-operative forms. Who is better placed to provide such support if not a fully fledged ministry.

Marketers do say that a well defined brand will set a product apart from the competition. However, the success of any branding strategy hinges on the ability to establish brand visibility in the market place. Brand visibility refers to the ability to gain the attention of the audience. There are always several competing brands and the more and better the visibility the brand the better it sells and benefits the owner. Kenya’s co-operative movement is part of the global movement competing with others “branded” by their national ministerial names. We may not want to lose our visibility which can best come via our ministry of Industrialization and Cooperative Development.

The New Economy and Technology

The modern economy recognises the prominent role of science, technology and innovation for wealth creation and social welfare to exploit new knowledge and entrepreneurship. Production in the old economy can be contrasted with the new in a number of ways. In the old economy stock – in – trade was cars, coffee, tea, or bananas, while in the new economy, information for example computer software, networks and the internet are dominant.

Replication of products in the old economy is expensive through manufacturing process but in the new economy it is almost at zero incremental cost. Products exist in one location in the old economy while information can exist anywhere simultaneously in many locations in the new economy. Africa being the least developed in technology, has, through the African Union formulated vision 2020 which aims to integrate Africa through ICT by addressing common codes, harmonisation of policy and regulatory frameworks and affordable rural access, among other issues regarding cyber security. Kenya is rapidly picking up ICT. A few years ago, the Kenya co-op movement made a bold attempt to buy an international mobile telecommunication company, but it failed since the movement was not well informed on the potential of ICT and constructed a winning strategy.

Technology will continue to drive social and economic growth and development in all countries. Mobile phone money transfer is now becoming a more preferred e-commerce service than credit cards. This is also changing the conventional banking systems thus improving transactions among the un-banked. However the flipside of the knowledge economy propelled by technology and globalization has the potential of threatening the co-ops that do not want to embrace change. The challenge is how to position co-ops to tap the benefits of the knowledge economy, regionalisation and globalisation to levels seen in larger markets.

The Kenyan Vision 2030 urges the movement and each co-op entity to think of their own vision and where necessary align them to this national growth roadmap. It is an opportunity and a challenge to make co-ops more ambitious and proactive. .

The Kenyan co-ops have o shed their traditional silo business structures and adopt comprehensive and integrated infrastructures. Silo structures here refer to co-operative organizations that specialise in the single commodity or service. Developing and increasing the use of Information technology IT will provide co-ops with the networking and innovative opportunities to strengthen their niche and competitive advantage. Co-ops can position themselves to have integrative infrastructure that create possibilities for transiting from local to national , regional and ultimately global levels through innovations networks, consolidations or mergers. Change is important for growth and it is driven by creative ideas and technology.

Corporate governance and leadership

Corporate governance, leadership and ethics are challenges that face co-ops as well as other business entities. Good cooperate governance is paramount because it embodies the principles and values. The coop movement has its share of code of practice which includes the International Co-operative Alliance statement on co-operative identity.

Leadership is a major factor in co-op organisational and management development. Cooperatives deserve visionary, competent, dynamic and professional leadership given the elaborate model of business ownership, purpose, structure, principle and values. Inappropriate interpretation and application of cooperative principles inhibits the development of any co-operative entities in Kenya.

For example some methods of electing ordinary members to the management committees have shortcomings to leadership weak participation of members in meetings may be due to their limited in knowledge and skills for running a business. Co-operatives through their democratic and open membership principle in any cases attract undesirable leaders who threaten the future of the co-operative. (Parnel, 1995) leaders with selfish motives and personal interests are hard to remove since they are skilled at manipulating members to retain their support. Weak co-operative leadership antagonises employees and members, leads to low productivity, high costs, apathy, low morale, inefficiencies and resistance to change.

However successful cooperative institutions like the Co-operative Bank of Kenya (CBK), Kenya Union of savings and credit cooperatives (KUSCCO), and Co-operative Insurance Company (CIC) were founded, developed an sustained by visionary pioneered leaders who were committed to the ideals and socio economic values of co-operative enterprises and pose as examples for the other cooperatives to copy from since they have the duty to advice and guide the Co-Ops for prosperity.

The Government role in cooperative Development

Taking into account that coops are private entities belonging to the private sector, then to what extent should the government be involved in their affairs? The experience of governments in the management of co-ops in the former communists/ socialist countries is enough evidence to trim the 'parenting' of co-ops by governments in the 21st century. The success of co-ops is dependent on passion, zeal and commitment of co-operatives leaders to drive their purpose. There are many instances where the state has barred the progress of co-ops in Kenya.

The colonial government supported and modelled the pioneer co-ops to suit the interests of white settlers. At independence the government supervised the promotion and formation of strong and well organised co-ops and incorporated a legal framework, the co-operative societies act cap 490 in 1966 to oversee development.

The government further entrenched its control by publishing co-operative societies rule in 1969 as an operational oversight procedure for all co-ops by the commissioner including inter alia ; their registration, amalgamation, de-registration, approval of budgets, borrowing power and supervision. Other oversight roles included countersigning cheques, replacing elected leaders, auditing of accounts, employment and dismissal of staff and dealing with abhor issues. This weakened the flexibility of managing the co-ops as independent business entities.

This perceived partnership between the government and the cooperative movement did not provide a environment for growth in an independent and autonomous sector able to operate without undue interference from the government.

The economic liberalisation and structural adjustment programme of 1980s and 1990s introduced a new economy where the government was to relax some of the tight control over the co-op sector to prepare them for free competition and allow member autonomy. The changes opened window of opportunity to self rule and to practice co-op principles and values. The co-ops were no longer to seek authority from CCD but from members through the annual general meeting.

Majority of the co-ops we not prepared for the freedom and did not have policies in place to replace the governments role thus they abused the new rules bringing forth failure due to mismanagement corruption theft, failure to hold elections regularly unfair hiring and dismissal of staff and shameless conflict of interest. Many societies entered into unauthorised investments, some employers failed to pass members dues to SACCOs seriously affecting operations.

The government had to come in again and reintroduce controls in 2004 by amending the Co-operative societies act of 1997 and reintroduce tight controls. The Co-operative societies (Amendment) act of 2004 provides that the CCD can

1. Dissolve the management committee which in his opinion is not performing its duties properly and direct members to appoint an interim committee
2. Can call elections in any co-op society
3. Can attend CMC and AGMs and requires notices, agenda and minutes of each
4. Can suspend from duty any CMC member charged in court with fraud or dishonesty
5. Has to approve a list of auditors and fix their remunerations
6. Can convene a special general meeting where he may chair and direct all matters
7. May require co-ops to update their bylaws.

This is a great challenge for any society whose management could not embrace change but an opportunity for Sacco societies to grow and prosper with their main aim in improving the livelihood of their members

There is a fresh impetus to do more in addition to the affirmative action to amend the procurement rules allowing young people to get 30 percent of all government tenders. Through the proposed Biashara Kenya Initiative (BKI), the government is providing resources to help the youth access finances to set up businesses. The Co-operative secretary, Dr. Nelson Githinji reiterated that the agenda to address the challenges facing the youth are robust as they are broad. He singled out Kshs. 6.9 Billion for distribution to all constituencies in the country as a revolving Fund to enable youth access credit for small businesses.

There being at least 150 youth Co-operatives registered so far, these co-operatives have given the youth a vehicle to develop a savings culture and access to affordable credit for their SME's. This is a great opportunity as well as a challenge since the youth in Kenya have a very poor savings culture yet to get this funds they need to have savings with their respective societies. The youth are therefore challenged and urged to pursue training in Organisational Development with special emphasis on leadership, financial management, marketing, strategic and business planning to aid them in the management of their projects.

Competition from banks

Monetary policies put in place by conventional banks having excess liquidity. In turn the banks have freed their lending polices which have attracted the sane customers/ members of the SACCOs . a greater number of the members turn to borrowing from the banks other that their SACCOs causing the societies to loose their sources of income. The banks have gone to the extent of partnering with some of the societies so they act as securities for their members loans. Due to lack of knowledge the societies they fall into the trap since the interest rates of the banks are subject to change with the economy while the interest rate of the society never changes unless during the general meeting by the same members.

This is an opportunity for the societies to look for cheaper sources of funds to borrow and lend to their members at the favourable interest rates. Such fair priced loans are found in KUSCCO ltd through their inter-lending facility where they were able to get funding from the youth fund to give to SACCOs for onward lending to the youth in the SACCOs.

Having these funds can help the society increase its membership by selling the youth fund kitty to the enterprising non members who will be interested in the money. Thus the societies need to do a lot marketing and research to stay at par with the markets.

Other challenges facing societies include:

1. Poor record keeping
2. Audit arrears
3. Loan backlogs
4. Lack of awareness/ co-operative education
5. High illiteracy level
6. Religious beliefs (e.g against interest rates)
7. People are used to hand-outs / donations
8. Clannism and tribal clashes
9. Gender bias towards women
10. Poor nutrition
11. Too many associations which are used as channels for donor funds(not sustainable) yet preferred to co-operatives
12. Taxation: Co-operatives in Kenya are highly taxed through various regimes and this has amounted to double taxation
13. Lack of organised marketing
14. No farm inputs leading to low yields
15. Barn on farm inputs by the UK (case of Miraa)
16. Non remittance of funds by employers e.g. TSC and other private companies

Opportunities Available for the Co-Operative Sector

1. Funds available in plenty
2. Solar energy available
3. Existing associations can be converted to co-operatives
4. Co-operative Societies Act provides the basis for co-operative growth
5. Value addition especially in livestock and horticultural farming.
6. Financial Services outreach in the rural areas Existence of un-banked Kenyans (70% of Kenyans are not banked)
7. Good will from the Government
8. Ability to attract and retain qualified personnel
9. Increased awareness of the public leading to demand for public services; and,

10. An appreciation of the role of sound technology systems for information management by the SACCO fraternity.

Conclusions

The challenges and opportunities in the modern world require stronger effort of human's solidarity at national level to facilitate more equitable benefits. Cooperatives are advised to keep national politics away from the SACCOs politics since it divides its membership into political zones as is portrayed in the country. This will only be successful if members are educated very often and reminded on the man purpose of the society and why they are members and their respective roles and responsibilities.

With the fierce competition in the financial services industry, co-operatives need to develop marketing strategies and introduce new quality products and services that will make members benefit more from cooperative interest rates. Members should know that they are both owners and customers of their respective SACCOs. SACCOs should be encouraged to effectively compete with national commercial financial institutions and even start managing national devolved funds e.g. the annual county budgetary allocations, the Constituency Development Fund (CDF) , the Women and youth Funds among others.

Generally, this study has revealed that there is rapid growth in SACCOS in Kenya and that the cooperatives have not lagged behind in the new scheme of things as they have come up with products and services targeting the youth, small business people and women. They will therefore continue blazing the path of change as they continue to move away from the tag of being perceived as social welfare units to establishing themselves as serious business entities and it is the feeling of many that they need a stand alone ministry

There is need for further research to investigate on the impact of the new devolved government on the challenges and opportunities to SACCOs since the devolved government is still in its adaptation stage and has just started implementing the promises they had for the Kenyans therefore SACCOs should focus on: building strong member controlled co-operatives, and promoting good leadership.

Recommendations

For a greater future of cooperatives below are some of the avenues that can be employed:

1. Member empowerment through intensive co-operative education and building members loyalty and confidence, while providing co-operative training to committees.
2. Encourage societies to form and strengthen rural SACCOs for internal capital mobilisation.
3. Sensitize members on the need societies capital base through patronage and equity improvement
4. Seize cooperatives to venture into value addition for fair product competition in the market

5. Seek credit facilities from relevant financial institutions and acquire necessary machines, equipments and gears i.e. modern IT
6. Product diversification e.g. forex bureaus
7. Enhance integrity among the members and leaders.
8. Increase access to market channels
9. Centralised book keeping
10. Promotion and registration of more SACCOs
11. Enhance opportunity for value addition
12. Marketing SACCO products and opening their common bond to increase membership.
13. Review of bylaws to suit current changes.

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