

**RELATIONSHIP BETWEEN ALTERNATIVE FINANCING AND GROWTH OF
SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN BARINGO COUNTY**

BY

JANE JEPKORIR BARUS

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Jane Jepkorir Barus

Reg. No. 11/03121

Sign -----

Date -----

I do hereby confirm that I have examined the master’s dissertation of

Jane Jepkorir Barus

And I have certified that all revision s that the dissertation panel and examiners recommended have been adequately addressed.

Sign----- Date -----

Dr. Ambrose Jagongo

Dissertation supervisor

ABSTRACT

Savings and credit cooperative societies (SACCOS) have continued to play a significant role in creation of wealth across all sectors of the Kenyan economy. The SACCO model is perceived to be crucial for sustainable development and as the best vehicle for addressing poverty among majority of Kenyans. Despite its success it is faced with a number of challenges with the key being access to adequate capital to financing its operations and growth. Alternative sources of financing are currently seen to be the new frontier by many saccos as a cheaper and efficient way of meeting their capital requirements however its role in their growth is still unclear. The general objective of this study was to investigate the relationship between alternative financing and growth of saccos, in Baringo county. The specific objectives were to establish the relationship between fixed deposits, interest from short term investments, interests from government guaranteed loans & financial intermediation with the growth achieved by SACCOS in Baringo County. The study employed a descriptive research design targeting all SACCOS in Baringo County. A census approach was used where primary data was collected using semi-structured questionnaires. Descriptive statistics and inferential statistics inform of regression and correlation analysis was used to establish the relationship between the different forms of alternative financing and sacco growth. It was established that fixed deposits and interest from short term investments were the most widely used sources of alternative financing with both the interest and duration of the facility significantly correlating with SACCO growth. Interest from government guaranteed loans were significantly correlating with the growth of SACCOS. The study concluded that fixed deposits, interest from short term investments and from government guaranteed loans influenced the growth of SACCOS in Baringo County.

KEY WORDS: Alternative financing, growth, financial intermediation, fixed deposits, descriptive research, inferential statistic, savings and credit cooperative society, Baringo, Kenya.

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DEDICATION

I dedicate this research report to all who have been of support and encouragement to me in pursuit for knowledge and especially to my late father Mr. Jeremiah Barus, my mother Rael Barus, my husband Nixon Biwott my children Faith, Mercy and Joyline for the patience love and support.

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ACRONYMS AND ABBREVIATIONS

CEO	-	Chief Executive Officer
FOSA	-	Front Office Service Activities
GDP	-	Gross Domestic Product
IMF	-	International monetary fund
KUSCCO	-	Kenya Union of Savings and Credit Cooperatives.
SACCOS	-	Savings and Credit Cooperative Societies
SASRA	-	Sacco Societies Regulatory Authority
SME	-	Small and Medium-Sized Enterprises
SPSS	-	Statistical Package for the Social Sciences
WOCCU	-	World Council of Credit unions
MOCD	-	ministry of cooperative development.
SASCO	-	Summit of Africa Saccos and cooperatives.

OPERATIONAL DEFINITION OF TERMS

Alternative financing: Refers to financing channels that are based on reputation and relationship rather than on formal contracts (Allen et al., 2005).

Sacco Society: Means a savings and credit co-operative society registered under co-operative society act, 1997

Sacco business: Refers to financial intermediation and any other activity by SACCO based on co-operative principles and also in accordance with SASRA act, 2008.

Fixed Deposits: Amounts obtained from members as deposits for an agreed fixed period of time with no withdrawals and earns a fixed interest rates.

Government Guaranteed Loans: Amounts channeled by the government through the SACCOS or guarantees to borrow funds from overseas at a lower interest rate aimed at closing liquidity gaps.

Intermediation: SACCOS borrowing from each other at lower interest rates

CHAPTER ONE

INRODUCTION

1.1 Background of the Study

The cooperative movement began in Europe in the 19th century, primarily in Britain and France. The Shore Porters Society claims to be one of the world's first cooperatives, being established in Aberdeen in 1498. Robert Owen (1771–1858) is considered the father of the cooperative movement. Co-operative is an autonomous association of person united voluntarily to meets their common economic, social and cultural needs and aspirations through a jointly owned and democratic control enterprise, (ICA 2012). Cooperative entails self-help, self responsibility, transparency, accountability, effectiveness, honesty, openness, democracy, equity, solidarity, mutual caring and social responsibility, (Gunga, 2012). One of the basic principles of Cooperative Savings and Credit Movement is the belief in co-operation and mutual self help for the uplifting of members standards of living, KUSSCO (2006). Members with a common bond join hands to form those quasi-banks institutions. With finances mobilized through such joint efforts the savings and credit society members build up the capital which they can use through local arrangements to finance their own social as well as economic development.

The traditional form of cooperation involved working together on farms, hunting and gathering. All people have basic needs of food, shelter, security and belonging. People would invite neighbors to come and give a hand, also people did not have money and resources, which enables individuals to employ people or machinery to do the work for them. In any community cooperation usually exists in the form of associations of

people who come together as a group driven by their social and economic needs in order to cope with their problems and improve their conditions of living ministry of co-operative development (MOCD, 2006). In Kenya the co-operative movement developed immediately after independence. The movement was supposed to play an important role in wealth creation, food security and creation of employment and hence alleviate poverty, (Guga, 2012). It makes a significant contribution to the economic infrastructure of a country. A healthy and growing SACCO is perceived to be crucial for sustainable development and as the best vehicle for addressing poverty among majority of Kenyans.

The Co-operative UK Corporate Governance Code of Best Practice requires the Board of Directors to review the effectiveness of the Society system of internal control; this review covers all controls including financial, operational, compliance and risk management. The Board of Directors is ultimately responsible for the Society system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Executive Management is responsible for the implementation of day to day operation and management of the Society's system of internal control (Green, Butler & McLaughlin, 2005).

The Board of Directors has an established Audit Committee, which operates as a sub-committee of the Board and is responsible for reviewing the effectiveness of the Society's system of internal control. The Audit Committee also has a duty to discuss problems and reservations arising from the Society's audit and any matter the auditor may wish to discuss, if necessary in the absence of any management. In addition, the

Audit Committee carries out periodic self-evaluation to ensure that the remit set by the Board of Directors is being fully satisfied, so as to ensure that it fully meets best practice in corporate governance. SACCOS are required to provide timely financial updates to external auditors and their members for transparency purposes, besides external auditors should be evaluated every three years using competitive bidding process. An independent and qualified external auditor is assurance to the members and general public about the authenticity of the Sacco books of accounts. SACCOS are required to comply with standard set by regulatory body (Planet Rating East Africa, 2007).

The most basic function of SACCO Society is financial intermediation. That is bringing savers and borrowers together in a system that enables them to pool their money as savings and shares, and after capturing funds transforming into loans by calculating all of the costs of doing this business to make profits, another function of a SACCO Society is investment. That is to allow and encourage members to develop formal business and investment by placing their capital at risk and to receive a return in form of dividends.

According to Sacco Society Regulatory Authority (Ademba, 2011) the co-operative industry in Kenya comprises of 13,000 registered Sacco's, with 110 licensed deposit taking saccos, 42 from government employees, 40 from farmers, 14 from community based and finally 14 from private sector employees. Because of Sacco's wide reach throughout the country the movement is highly capitalized with a share capital of Ksh. 260 billion, total deposits of 240 billion and a loan portfolio of over 200 billion. The movement thus controls over 30% of gross national savings and 45% of GDP.

Summit for Africa SACCOS and co-operative (SASCO) argued that it is accepted that lack of regulations was the main reason of collapse or stagnation in co-operative movement due to issue of structure, fraud, financial risk and management. Therefore the setting up of strong legal and institutional regulatory framework is critical towards creating sustainable growth and stability in the sector. Sacco's have continued to fail and this has been facilitated by unstable macro-economic environment, high inflation and interest rate have undermined the industry into crisis as loans have become punitive to maintain. This situation has been worsening as the members have also suffered the same reducing their disposable income and directly affecting their savings in Sacco as their alternative finance.

1.1.1 Profile of Baringo County

Baringo county is within the Great Rift Valley, it borders Turkana and Samburu county to the North, Laikipia to the East, Nakuru and Kericho County to the South and uasingishu to the South West, Elgeyo Marakwet and West Pokot to the West. It covers an area of 11,015.3KM of which 165 sq. KM is surface water. The county is made up of six administrative units namely Mogotio, Marigat, Koibatek, Baringo Central, Baringo North, and East Pokot District. The Districts are further divided into 26 Divisions and 116 Locations. The county is further divided into six districts namely Eldama Ravine, Tiati, Baringo Central, Baringo North, and Baringo South with the later having been created by IEBC (Baringo county website 2012)

1.1.2 Sources of Financing to SACCOS

SACCOS are important in providing savings, credit, fund transfer and other financial intermediation facilities. The current sources of financing in SACCOS include

deposits from members, returns from short term investment and bank loans. SACCOS can mobilize savings from its members; alternatively they can rely on their own resources (retained earnings). If a SACCO has been operating profitably for some time, it can support its own expansion and growth using its own resources. If a SACCO is not profitable it can manage its working capital in such a way that it is able to pay for liabilities and investment on time. SACCOS are expected to diversify avenues for mobilizing savings.

Bank loans which represent the most important source of SACCO financing and can satisfy up to 80% of SACCO capital needs (Bruns & Fletcher, 2008), however obtaining external financing from banks can be challenging, due to macro-economic environment with high interest rates. In addition banks require collateral that can exceed the value of initial loan; Banks employ a checklist approach to lending. One form of classification which has been advocated is the 4cs of credit which later became 7Cs which include: character, capacity, capital, conditions, customer relation, completion and collateral.

Given the institutional constraints on how SACCOS in Kenya mitigate the challenge of funding shortage while sustaining their vibrant growth, how firms are financed is one of the most important topics in private firm research (Cassar, 2004); this study aims to explore the relationship between alternative ways of financing SACCOS and their growth in Kenya.

1.1.3 Growth of SACCOS

It is recognized in Kenya that SACCOs struggle with access to finance. Finance is required during start up and expansion stage of growth. The key problem to address during SACCO start up is its survival and during expansion stage the key issue is

expansion. Lack of finance during start up stage leads to immediate failure and in growth stage it leads to development stagnation. In order to become sustainable liquidity and capital level should be maintained to protect member's confidence. According to SASRA (2013), Due to the rapid growth, the Government of Kenya's commitment to established SACCO legislation, implement international financial performance standards and begun supervision of SACCOs with the sole aim of providing the incentive for improvement of SACCO management and performance

Carson et al. (2005) argued that the level of entrepreneurial efforts, as a consequence will vary depending on what stage of growth the firm achieves at a particular point in time. The stages of growth have received a lot of attention in literature. The aim of SACCOS in Kenya is to create sustainable business with profitable growth both now and in the future to meet the shareholders wealth. Events can change growth of SACCOs very quickly, and if shareholders and customers cannot access credit the industry can collapse.

1.1.4 Alternative source of Financing

Alternative financing refers to financing channels that are based on reputation and relationships rather than on formal contracts (Allen et al., 2005). SACCOS in Kenya can fill their financial gaps from alternative financing. Alternative financing is advantageous to formal financing because it is not regulated by the government, thus having no interest rate regulation and no liquidity requirements (Montiel, Agenor, & Haque, 2003). Therefore, alternative financing provides SACCOS accessible financing when main sources of financing such as bank loans are not accessible. There is great demand among SACCOS for alternative financial products that provide access to credit in a manner

consistent with SACCO policies, in Kenya SACCOS are facing high demand of loans from their members thus they have to fill the gap by seeking alternative financing to continue providing competitive loans to their customers, beside the high interest rates environment such as what was experienced in 2011 leading to liquidity crunch in the sector.

Main sources of financing alone may not be sufficient to finance growth in SACCOS. Additional financing can come from external sources such as fixed deposits, interest from short term investments, interest from government guaranteed loans, intermediation and private placement. Fixed deposits as a source of alternative financing yields high return, it is offered by other financial institution besides; SACCOS can mobilize their members to deposit surplus money at their fixed deposit accounts with attractive returns. These deposits can act as a source of alternative financing. Interest from short term investment can also help SACCOS improve their liquidity gaps, by saving surplus cash where returns are high within the shortest time with high returns.

There is also interest from government guaranteed loans program that has helped saccos lend money to their members thus enhancing growth. Under this scheme the government guarantees the SACCOS to borrow funds from overseas at a lower interest rate. The government focuses on specific industry such as youth, women, tea, coffee, cotton. This government programs are aimed at closing liquidity gaps, which result when SACCOS are unable to secure capital, due to high demand of loans from its members. Channeling the youth and women fund has also improved the liquidity in SACCOS for growth and sustainability.

Intermediation has helped SACCOS access funds through borrowing from and lending to themselves. SACCOS with surplus cash lend to another SACCO with deficit cash. These cuts out bank loans and hence borrowing rate will be less than if a bank was involved because intermediary cost is avoided. Private placement was used as a source of alternative financing in Sacco's by encouraging members to forgo their dividends so that this internal funds are capitalized. This method required the support from all SACCO members to prevail. According to SACCO review November 2012, issue 009, Stima SACCO limited was the first one to use private placement as a way of raising funds. The credit union received an oversubscription of 43% more than Shs 500 Million it was seeking from its shareholders.

1.2 Problem Statement

Given the institutional constraints on how SACCOS in Kenya mitigate the challenge of funding shortage while sustaining their vibrant growth, how firms are financed is one of the most important topics in private firm research (Cassar, 2004). Githinji (2012) argued that more research needs to be carried out in other lending institutions such as SACCOS and other microfinance institutions to get more insight on various credit scoring models used in the country in relation to credit access for these organizations.

Rukwaro (2012) argued that formal financial institutions in Kenya shy away from SME's because they consider them too risky and costly to serve. Lack of working capital, access to credit and access to markets for their products have been established as the major constraints that cause business closures for SMEs. Due to the unstable economic environment, high inflation and interest rates have undermined SACCOS to

grow as loans have become unbearable to maintain. Therefore, the need to source alternative and cheaper means for funding was critical and mandatory for any significant change to be realized (SASCO, 2012). This study aims to investigate the relationship between alternative sources of financing to SACCOS and their growth in Baringo county.

Githinji (2012) further added that lack of access to credit (financing) was indicated as a key problem for SMEs (and SACCOS) worldwide. In some cases, even where credit was available, the entrepreneur may have difficulties in accessing the same, because the lending conditions may require collateral for the loan. Credit constraints operate in a variety of ways in Kenya where the undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. For Kenyan SME's the formal banking system was too expensive and inconvenient. Where banks consider SMEs with no transaction history are too risky because their ability to repay loans was not yet known.

There was great demand among SACCOS for alternative financial products that provide access to credit in a manner consistent with SACCO policies. In Kenya SACCOS were facing high demand of loans from their members thus they had to fill the gap by seeking alternative financing to continue providing competitive loans to their customers, beside the high interest rates environment such as what was experienced in 2011 leading to liquidity crunch in the sector.

1.3 Objective of the Study.

The purpose of this study was to identify the relationship between alternative sources of financing and growth of SACCOS in Baringo County, Kenya.

1.3.1 Specific Objectives

The specific objective of the study are to:-

1. To establish the relationship between fixed deposits and the growth of SACCOS in Baringo County.
2. To establish the relationship between interest from short term investments and growth of SACCOS in Baringo County.
3. To establish the relationship between interests from government guaranteed loans and growth of SACCOS in Baringo County.
4. To establish the relationship between financial intermediation and growth of SACCOS in Baringo County.

1.4 Research Questions

The research questions are:-

1. What was the relationship between fixed deposits and the growth of SACCOS in Baringo County?
2. What was the relationship between interest from short term investments and growth of SACCOS in Baringo County?
3. What was the relationship between interests from government guaranteed loans and growth of SACCOS in Baringo County?
4. What was the relationship between financial intermediation and growth of SACCOS in Baringo County?

1.5 Significance of the Study

Researcher: the researcher of this study gained knowledge and skills on relationship between alternative financing and growth of SACCOS in Kenya.

- SACCOS: SACCOS in Kenya currently facing liquidity gaps ought to use the research outcome as key input towards making appropriate decision on the available alternative sources of financing in enhancing their growth.
- Government: The government agencies concern with economic development and eradication of poverty needs to consider the finding and recommendations for their planning.
- Commercial Banks: Commercial banks offering finance to SACCOS should use the outcome of this research to evaluate and develop appropriate strategies on their lending portfolio.
- Academicians: Information documented in this study continually will be a resource to other researchers and a key addition to literature in the area of alternative finance.

1.6 Scope of the Study

The study was carried out in SACCOs located in Baringo County. The study analyzed the relationship between alternative financing and growth of SACCOs in Baringo County.

1.7 Limitation of the Study

The primary limitation of the study was that it was limited to only Baringo County. Just like any study, the research faced various other limitations which include; Poor infrastructure system and insecurity (cattle rustling) which made access to one SACCO in East Baringo a big Challenge, most respondents were too busy in their place of work and led to delay in collecting back the filled questionnaires. A number of

SACCO manager were initially resistant in filling the questionnaires citing secrecy and confidentiality and the researcher had to take time to persuade them.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This literature review highlights the previous studies done on the relationship between alternative financing and growth of SACCOS. Literature review was done to facilitate acquisition of information from previous studies and records that stick out as sources of alternative finance to SACCOS. Both the theoretical and empirical literatures were reviewed. The conceptual framework is also provided and the knowledge gap is demarcated.

2.2 Theoretical Review

SACCOS have traditionally, and continue to borrow financing from commercial banks. However this source is increasingly becoming unsustainable due to micro-economic pressures, hence the need for the introduction of alternative financing avenues for SACCOS and which can readily be found in the market place. SACCOS in Kenya also face new challenges of reform due to increased vigilance by sector regulator, the SACCO Societies Regulatory Authority (SASRA) that threatens their very survival. In meeting these obligations and to attract the much needed financing it is imperative that SACCOS conform to professional standards of operations and approach to business, (SASRA 2012)

It is widely recognized in academic literature that small and medium size enterprises (SMEs) struggle with access to finance (Manson & Kwok, 2010; Hughes, 2009; Bruns & Fletcher, 2008). Furthermore, smaller firms are perceived to be key

players in innovation, industrial restructuring, wealth generation and economic growth (Storey, 2004). The reliance on savings and informal means of financing is considered important in Kenya. Similar trend in small business finance can also be found in developing economies. SACCOS are faced with cut-throat competition from the commercial banks that are offering more competitive products leveraging on technology. The government has in recent years initiated various reforms that have narrowed the difference between the SACCOS and banks, (Chami, 2001).

The problem of access to capital become even more challenging in emerging markets for a variety of reasons as indicated by Benedict and Venter, 2010; Cunningham and Rowley, 2010; Klonowski, 2005; Abor & Biekpe, 2006; Tagoe et al, 2005. First firms in emerging market operate in an environment of imperfect legal infrastructure, argued Cunningham and Rowley, 2010; Klonowski, 2005. Capital providers must often agree to contractual terms that are suboptimal for them. Second financial disclosures in emerging market continues to be relatively poor argued Sami and Zhou, 2008; Zhou, 2007; Klonowski, 2007. Klonowski, 2007; Tagoe et al, 2005 argued that Many countries report financial results under their own financial standards and regulations which are different from those seen in international accounting standards; consequently, auditing firms must often recast the financial statements of firms operating in such market. Third, asymmetry of information and moral hazards are more pronounced in emerging markets. Andrew Tananbaum, CEO and founder of Capital Business Credit added that they were prepared to lend more against the assets than their prior lender was prepared to do, he added that they are prepared to help the company with the type of line of credit that can support the business' growth. A large number of banks and other major intermediaries

managed to increase risk by exploiting loopholes in regulatory capital requirement to take a highly leveraged, one way bet on the economy (Gupta, 2007).

2.3 Empirical Review

Darek, (2006) contributed that Challenging access to financing has motivated many countries in emerging market to embrace the idea of public assistance to SME sectors. Public intervention can be driven by multiple motivations. Cunningham and Rowley, 2010; Atherton and Fairbanks, 2006 added that there is pressure on emerging economies to sustain their level of economic development in order to catch up their regional competitors they further added that, in recognizing the importance of the SME sector and its role in stimulating economic development in the west, the sector continue to receive disproportionate attention from government agencies and institutions this was also argued by Cunningham and Rowley, 2010; Dagogo & Ollor, 2009; Atherton & Fairbank, 2006. SME economies are motivated to become more integrated with world economies and participate in wealth distribution network (Derek, 2006).

Government assistance program focus to address a wide spectrum of issue related to entrepreneurs, including human resource and advisory functions, (Cunningham and Rowley, 2010; Tamosiunas & Lukosius, 2009; Temtime, 2008; Atherton and Fairbank, 2006), provision of finance (Dagogo and Ollor, 2009; Tambunam, 2007; Atherton & Fairbank, 2006; Tagoe et al., 2005; Karsai, 2004). According to quarterly SACCO Magazine (2012) the big irony is that member owners of SACCOS still save with commercial bank at meager return, then the SACCO go for the same savings from commercial banks to avail credit facility to the same member owner at exorbitant rate. Analysis clearly shows that economic liberalization has not seen the co-operative

movement wither away. Though in the interim many co-operative succumbed to the fierce competitive market forces, which continue to adversely affect some co-operative organizations, the majority of these organizations have survived liberalization storm (Wanyama, 2012).

To reclaim the services that were previously provided by the co-operative movement, primary and national co-operative organizations are steadily making alternative arrangements to provide the same services to their members- an indication that liberalisation has given co-operative the impetus to re-examine their operation. “Most SACCOS are embracing growth strategies like continual rebranding, branch expansion, adoption of appropriate information and communication technology in their operation and aggressive marketing and member recruitment activities.”(Ademba, 2011).

The future of co-operative development in a liberalized economic environment seem to be bright, the challenge is how to cultivate these business virtues in the less adopted co-operatives in order to spread the benefit of the “new” mode of co-operation to a wider population in Kenya. It is only then that the movement will be in a position to offer greater social protection to the society (Wanyama, 2012).

Co-operatives must start seeking finance externally through direct borrowing or through partnering with international institution if they are to achieve their mandate of extending credit services to over 12million members. Sources of external finance differ widely from country to country. In all countries, however bank borrowing is on the decline. Corporate borrowing is increasingly taking the form of negotiable securities issued in the public capital market rather than the form of non-marketable loans provided by financial intermediaries. This process is known as securitization. Securitization

largely reflects a reduction in cost using financial markets at the same time that the cost of bank borrowing has risen.

Securing loans with a good rate won't be easy, however. To manage liquidity SACCO managers must balance the firm's investment in current assets in relation to current liabilities, to accomplish this task, the firm management can minimize the use of current assets by efficiently managing its inventories and account receivables, by seeking out the most favorable account payables and by monitoring its use of short term borrowing. Liquidity can be managed by holding larger cash and marketable securities balances that can be drawn down in time of need, alternatively, the firm can increase its liquidity by reducing its short term borrowing and increasing its use of long-term debt or equity. Kenya is making progress in deepening access to financial services as the number of those not reached by the services reduced to 6.1 million from 6.7 million in 2006 according to financial access study in Kenya. According to the financial access (2009), the SACCOS loss of customers is attributed to competition from banks through proactive outreach by offering easy access transaction account as well as consumer loans. The other factor is attrition of the SACCOS market as a result of retirement in public sector and preference by younger employees to patronize banks.

2.4 Alternative Financing and Growth in SACCOS.

According to Mwaura, (2005) Sectional paper No. 4 of 1987 on renewed growth through the cooperative movement highlighted the significance of the movement in national development. By this time there were 3500 registered cooperatives with more than 2million members and an annual turnover greater than 6billion. The paper noted that one in every two Kenyans derived its livelihood from the cooperative either directly or

indirectly. The cooperative movement in Kenya is reputed to be the most advanced in the African continent. The Kenya Nordic agreement of 1967 led to the establishment of the Cooperative college of Kenya at Lang'ata, which is the main training ground for both ministry staff and the movement employees.

According to MOCD (2011) the first Savings and credit Cooperatives in Kenya were started in the late sixties. The Government annual economic survey shows that as at December 2002 there were more than 2,400 active SACCOS with membership in excess of 1.5 million people. Share capital stood at Kshs. 65 billion while outstanding loans were Kshs. 59 billion. The structure of the cooperative movement in Kenya comprises of four tiers. These include the primary societies, secondary cooperatives, tertiary cooperatives and nationwide cooperatives. It is generally accepted that lack of regulation is the main reason for collapse or stagnation in the cooperative movement due to issues of structure, fraud, financial risk and mismanagement. Therefore, the setting up of a strong legal and institutional regulatory framework is critical toward creating order, sustainability, stability and growth in the sector. In order to become sustainable, certain key requirements in the capital and liquidity levels must be met in order to protect all SACCO members and bolster confidence. This will lead to creating affordable means to build capital and financial base for SACCOS and cooperatives (Rukwaro, 2001).

However, due to an unstable macro-economic environment – high inflation and interest rates have undermined SACCOS capacity to crisis as loans have become unbearable to maintain. Thirlwall (2004) added that the situation has been worsened because the members have also suffered these same macro-economic turbulences

reducing their disposable income and directly affecting their savings into SACCOS as an alternative to finance SACCOS

Therefore, the need to source for alternative and cheaper (to current commercial banks rates) means for funding is critical and mandatory for any significant change in the sector to be realized. This will have certain instant and direct benefits to the cooperative movement such as: They will be able to access cheap capital and this will help with mass compliance of liquidity and capital requirements. This is because it is mostly in the areas of finance and capital that the cooperative movement has yet to become sustainable. Other areas of compliance include having a long-term strategy, performance contracting and in the areas of IT – all of which require a financial outlay (Fama, 2010).

As the majority of institutions begin to access to cheaper financing will trigger exodus from borrowing expensive commercial loans: (for example, in Kenya, SACCOS alone borrow over 120 Billion Shillings a year and this is expected to have a direct impact on the macro economy.) Directly, this will lead to competitive pricing of loans for SACCOS and cooperatives not able to meet the Alternative Financing requirements. Currently SACCOS have a huge debt with commercial banks that lend at commercial rates, forcing them to borrow loans at higher rates than the rate of lending to members. This means that SACCOS have a huge debt load with them and to become sustainable, they must borrow at lower rates than the rate they lend to members (Nyangweso, 2009). Cheap and reliable income from alternative financing will lead to stability in the sector to usher in a season for growth. This stability will lead to satisfied members and customers, as SACCOS and cooperatives will be able to borrow at lower rates and lend at higher rates. Directly this will lead to innovative products from SACCOS leading to growth and

expansion leading to the much-needed modernization of the SACCO and cooperative sector (Wangu, 2012).

The impact of affordable and adequate and reliable loans, SACCOS and cooperatives will build confidence with its members and the public. This new level of trust will enable SACCOS to mobilize savings from the public entering the mature phase of the post-regulation era. This will position the SACCO as alternative financiers on their own: for example - strong enough to finance the government as highlighted in the legal government policy for SACCOS in the Kenya's Vision 2030. Alternative financing will trigger mass rebranding which will bury the history of mismanagement and will help members to forget the history of mismanagement and inefficiencies. The new image will target a wider group of people especially those who are currently marginalized and placing the Kenyan SACCO movement in the fore most authority in the regional SACCO sector.

Savings and Cooperatives Societies (SACCOS) are opening up to ordinary Kenyans to access financial services by lifting restrictions on membership to raise national savings. SACCOS have not been seen as primary financial institutions by many people. The savings to loan ratio remain slow and there is room for growth. Aggressive recruitment of new members is a key priority to SACCOS due to the heightened job insecurity in Kenya. Subsequently SACCOS have suffered low retention rates of members also driven by the inability of many SACCOS to offer long term lending options to members (Wambua, 2012). Strategies of luring international financiers are critical for the survival of the sector that currently faces a tight cash crisis. There is a lot of synergy for SACCOS to inter-lend because this benefit would be

passed onto members based on a recent proposal by SASRA to create an inter-lending facility to allow SACCOS to address their cash crisis through a lending platform.

Stima SACCO has raised Ksh 713 million in additional capital from a membership drive that attracted high demand from members registering a 43 percent oversubscription. The Sacco intends to invest the capital in setting up new branches in Nairobi, Kisumu, Mombasa and Nakuru regions, while boosting its Information and Communication Technologies. The membership drive as an alternative source of financing, benefited from the rules introduced by the SACCO Societies Regulatory Authority (SASRA) which helped raise confidence of members about their SACCOS (Wambua, 2012).

2.5 Conceptual Framework

SACCO growth and sustainability depends on sound alternative financing sources besides main financing means. It comprises of fixed deposits, interest from short term investment, interest from government guaranteed loans and intermediation.

FIGURE 1

Relationship between alternative financing and growth of SACCOS

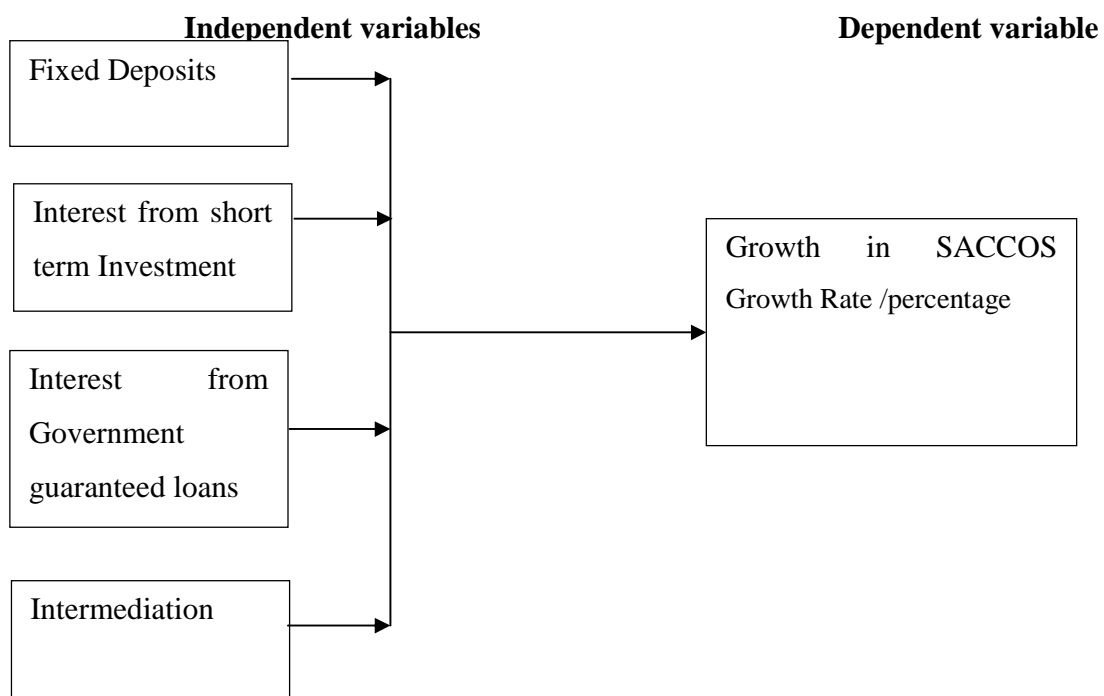


Figure 2.5.2 Conceptual framework

Source; Researcher (2013)

2.5.2 Elements of alternative financing.

Fixed Deposits

This is where members save money for a long period of time without any withdrawal but with a return. This enables the SACCOS to finance their operations using these deposits. The deposits attract an interest for the members. Fixed deposits as a source of alternative financing for SACCOS has generated a lot of interest and debate in recent years. Locally mobilized fixed deposits are potentially the largest and the most immediately available source of finance for most SACCOS. Bearing this in mind, one is

left to wonder what is hindering the SACCOS from prosperity, given the access to its resources and the wealth of its opportunities (Mwaura, 2004).

Interest from short term Investment

SACCOS are allowed to invest members' money in other income generating activities. The investment in these activities generates interest and other returns which can be used in financing other operations of the SACCOS. More Kenyans are signing up with Savings and Credit Cooperatives Societies (SACCOS) for saving, loans and as investment vehicles. SASRA (2012) indicates that the total assets for the 215 SACCOS licensed to carry out front office service activities (FOSA) raised to ksh. 196 billion from kshs. 171 billion the previous year. SACCOS lend to their members on savings basis where a member can borrow up to three times their savings at low interest rates of below 12% depending on the SACCO. They are allowed however to charge a maximum of 12% interest rate on loans, which KUSCCO has termed as limiting bearing in mind the high Central Bank base rate, as SACCOS borrow from commercial banks.

Interest from Government Guaranteed Loans

Under this scheme the government guarantees the SACCOS to borrow funds from overseas at a lower interest rate. The government focuses on specific industry such as youth, women, tea, coffee, cotton. This government programs are aimed at closing liquidity gaps, which result when SACCOS are unable to secure capital, due to high demand of loans from its members. Channeling the youth and women fund will also improve the liquidity in SACCOS for growth and sustainability.

The earliest government-sponsored financial support for micro-enterprises pre-dates independence and was meant to let African entrepreneurs into commerce from which they were previously excluded. The first independent government pursued this policy, sometimes controversially, as either ‘*Africanization*’ or ‘*Kenyanization*’ policy. The main thrust of the policy was to remove the bottlenecks of which lack of credit was considered the most important, impeding the access of African Entrepreneurs to seed capital. Most of these institutions remain to this day although they have changed in form and substance (Muturi, 2009).

Intermediation

Intermediation can help SACCOS access funds through borrowing from and lending to themselves. A SACCO with surplus cash can lend to another SACCO with deficit cash at a cheaper rate. These cuts out bank loans and hence borrowing rate will be less than if a bank was involved because intermediary cost is avoided. Indeed intermediation or “cutting out the middlemen” can be initiated by both borrowers and lenders. This is possible when the players are aware of the rates involved. In this case borrowing SACCOS will bypass middlemen in order to borrow directly from lending SACCOS hence paying less. This less would be more than what the middlemen would have given the lending SACCO and this creates a win-win situation (Bwisa, 2010).

2.5.3 Factors representing growth.

Growth in SACCOS is the dependent variable in this study. It was measured in terms of no. of branches and profit margins (surplus) and growth rate. No of members and profit margins was calculated based on the financial statements of SACCOS

collected. According to SACCOS capacity building (2007) there have been significant growth with new services and offered and on an expanding membership.

2.6 Research Gap

Alternative financing is advantageous to formal financing because it is not regulated by the government, thus having no interest rate regulation and no liquidity requirements (Montiel, Agenor & Haque, 2003). Therefore, alternative financing provides SACCOS accessible financing when main sources of financing such as bank loans are not accessible. SACCOS have alternative sources of financing their operations including fixed deposits from members, interests from investments, government guaranteed loans, intermediation and private placement. According to Darek, 2006 there is great demand among SACCOS for alternative financial products that provide access to credit in a manner consistent with SACCO policies. In Kenya SACCOS are facing high demand of loans from their members thus they have to fill the gap by seeking alternative finance to continue providing competitive loans to their customers, beside the high interest rates environment such as what was experienced in 2011 leading to liquidity crunch in the sector. It is recognized in Kenya that SACCOS struggle with access to finance. Finance is required during start up and expansion stage of growth. The key problem to address during SACCO start up is its survival and during expansion stage the key issue is expansion. Lack of finance during start up stage leads to immediate failure and in growth stage it leads to development stagnation. In order to become sustainable liquidity and capital level should be maintained to protect member's confidence (Carson et. al 2005). Given the institutional constraints on how SACCOS in Kenya mitigate the challenge of funding shortage while sustaining their vibrant growth, how firms are financed is one of

the most important topics in private firm research (Cassar, 2004); this study aims to explore the relationship between alternative ways of financing for SACCOS and their growth in Baringo county.

2.7 Operationalization of Variables

This Operationalization table gives the insight on how the various variables were measured, analyzed and conclusions drawn thereafter.

TABLE 11
OPERATIONALIZATION OF VARIABLES

Variable	Indicator	Measurement Scale	Source of Data	Tools of Analysis
Independent Variables Fixed deposits	Competitive interest rates Account rolling over Amount of fixed deposit	Nominal	Questionnaire	Descriptive Statistics
Interest from short term investment	Duration of investment Amount of interest received from short term investment.	Nominal	Questionnaire	Descriptive Statistics
Interest from Government guaranteed loans	Duration of loan advanced Amount of interest received from government guaranteed loan.	Nominal	Questionnaire	Descriptive Statistics
Intermediation	Amount of interest received from government guaranteed loan. Duration of using the fund	Nominal	Questionnaire	Descriptive Statistics
Dependent variable Growth in SACCOS	Growth rate /percentage	Nominal	Questionnaire	Descriptive Statistics
Relationship between source of finance and growth of the SACCO	Fixed deposit amounts Interest received Duration of investment	Nominal	Questionnaire	Rank order Correlation analysis Regression analysis

Table 2.7: Operationalization of Variables

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to collect data for the study. It covers the research design, target population, data collection instruments and procedures, data validity and reliability and analysis methods.

3.2 Research Design

Descriptive survey research design was employed in this study. The major purpose of descriptive research design was to describe the state of affairs as it is at present. According to Mugenda and Mugenda (1999) a descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. This type of research attempts to describe such things as possible behaviour, attitudes, values and characteristics. The design was deemed appropriate because the main interest was to explore the viable relationship between alternative financing and growth of SACCOS in Baringo County.

3.3 Target Population

According to Ngechu, (2004), a population is a well-defined or set of people, services, elements and events, group of things or households that are being investigated (Mugenda and Mugenda, (1999). The researcher targeted CEO'S of 36 co-operative societies registered in Baringo County. Baringo County as a study area was selected because it has a number of SACCO with diverse backgrounds both giant and small; all with competing abilities beside the researcher reside within the county. The researcher worked in collaboration with SACCO Societies Regulatory Authority (SASRA) and MOCD in order to obtain the list of all registered SACCOS in Baringo County. Because

the target population was small and all accessible the study employed census methodology.

3.4. Data Collection Methods

The researcher used a questionnaire as a primary data collection instrument. The questionnaire was divided into sections representing the various variables adopted for study. Mainly closed ended questions were used in seeking the views, opinions, and understanding of the respondents on the relationship between alternative financing and growth of the SACCOS.

3.5. Data collection procedure.

To begin with the researcher received an introductory letter from the university school of graduate to facilitate the study. The questionnaires were administered through drop and pick method to CEO's of the SACCOS in Baringo county. The researcher used research assistants to distribute by hand to the selected respondents. Upon completion, the research assistants recollect the questionnaires and ensured high completion rate through persuasion and patience were required. Secondary data was also being collected for this study. This data was useful in generating additional information for the study from already documented data or available reports. End of year financial reports of the SACCOS was key in obtaining secondary data from SACCOS. Cooper and Schindler (2008) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions.

3.6 Data Validity and Reliability

Validity refers to appropriateness, meaningfulness and usefulness of the inference the researchers make. Reliability refers to consistency of scores or answers from administration of an instrument to another, and from one set of items to another (Fraenkrl & Wallen 2000). According to Mugenda et al (1999), validity refers to the accuracy and meaningfulness of inference, which is based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the phenomenon under the study. Validity therefore has to do with how accurate the data obtained in the study represent the variable of the study. The data was a true reflection of the variables, inferences based on such data was accurate and meaningful.

The instrument (questionnaire) was rated in terms of how effectively it will sample significant aspects of the purpose of the study. Best and Khan (2009) suggest that the validity of the instrument is asking the right questions framed in the least ambiguous way. Thus validity measure depends on collecting the right data. Fraenkel (2009) suggest that the instrument should be given to an individual who can be expected to render an intelligent judgment about the adequacy of the instrument. For research instrument to be considered valid, the content selected and included in the questionnaire must also be relevant to the variable being investigated (Kerlinger, 2003). The research instrument was not only be used to collect data but also to cross check the correctness of data obtained by others.

Reliability of an instrument refers to the extent to which the measures give consistent results (Mugenda & Mugenda, 1999). Joppe (2000) defines reliability as the extent to which a consistency over time and the accurate presentation of total population

of the study is referred to as reliability and if the result of the study can be reproduced under similar methodology then the research instrument (questionnaire) is considered to be reliable. In this study the reliability of the questionnaire was measured by the result obtained at the end of data collection and answering the research questions and measuring the study objective.

3.6.1. Reliability of measure.

The researcher employed Cronbach`s alpha coefficient statistical procedure, to assess reliability of measure as recommended by mugenda and mugenda (2003). The test yielded an Alpha value of 0.786 which was greater than 0.7 recommended for most research purposes to denote instruments acceptable levels of reliability (Robert et al. 2006).

3.6.2 Validity of measure

Validity was assessed using content validity. Content validity was achieved through piloting the questionnaires among 10 selected Sacco`s, as to establish the relevant and representativeness of questionnaires item as noted by Eby, (1993). Pilot testing of the questionnaires was conducted before the actual research as to get an indication of the expected responses with a view to identifying ambiguous and unclear questions as well as to detect possible weaknesses in the design and instrumentation as suggested by cooper & schindler (2008).

3.7 Data Analysis Procedure

Kothari (2004) found out that data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science and social science domains the collected questionnaires was edited for completeness and

coded in preparation for data entry and analysis. The Statistical Package for Social Sciences (SPSS) computer package was used for data analysis. Data was entered into the software; a linear regression analysis was used to establish the extent to which growth in SACCOS is explained by alternative financing.

Further analysis was done using correlation analysis so as to establish the strength of the relationship among the variables. The research findings were presented in form of tables, graphs and statistical figures. Content analysis was used to analyze qualitative data and findings be presented in form of Table, pie charts and bar graphs followed by interpretation and discussions. The relationship between the dependent variable (growth of SACCOS) and the independent variable (alternative financing) will be tested using a linear regression equation as shown below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \quad \text{Equation 1}$$

Where:

ϵ is the error term representing any variable that is the source of finance not explained by the model.

β_0 = represent a constant term, the true mean value to sources of alternative finance when the independent variables $X_1, X_2, X_3 \dots$ is equal to zero.

1,2,3.... Denote the observation numbers.

$\beta_1, \beta_2, \beta_3, \beta_4$ = These are correlation coefficients

X_1 = Fixed Deposits

X_2 = Interest from Investment

X_3 = interest from Government guaranteed loans

X_4 = intermediation.

3.8 Chapter Summary

This chapter describes the research methodology used in this study including the population, data collection methods, data reliability and validity and analysis methods. This study targeted all licensed SACCOS in Baringo County, census methodology was employed because the target population was small and all accessible. Data was collected using semi-structured questionnaires using the drop and pick later technique. A linear regression analysis was used to determine the relationship between the different variables in the study. The study findings were presented in form of tables, graphs followed by discussions.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents results from analysis of data collected in the field through the use of questionnaires that were administered to SACCO within Baringo County. The analysis was guided by the research objectives that sought to ease the relationship between alternative financing and the growth of SACCOS. A total of 36 questionnaires were issued of which 34 were collected back representing 94.4 percent response rate which was adequate for inferential analysis and for meaningful conclusions.

4.2 General Information

4.2.1 Preferred mode of Alternative financing

The extent to which the participating SACCO were using the four financing alternatives were as indicated in Table 4.2.1

Table 4.2.1 SACCOS Alternative Sources of Financing

Source of Alternative Financing	Fixed Deposits		Interest from Short term investment		Interest from Government guaranteed Loans		Intermediation	
	N	Percent	N	Percent	N	Percent	N	Percent
Preference/usage	34	100%	34	100%	29	85.3%	26	76.5%
Not at all	0	0.0%	0	0.0%	5	14.7%	8	23.5%
Small extent	2	5.9%	5	14.7%	4	11.8%	6	17.6%
Moderate	7	20.6%	5	14.7%	11	32.4%	14	41.2%
Great Extent	9	26.5%	11	32.4%	8	23.5%	4	11.8%
Very Great Extent	16	47.1%	13	38.2%	6	17.6%	2	5.9%

N = Number of respondents

Fixed deposits and interest from short term investments were both found to be preferred by all the saccoes in Baringo county, 85.3% and 76.5% preferred interest from government guaranteed loans and form intermediation respectively, 47.1% of the saccoes using fixed deposits found it to a very great extent to be a key contributor to its financing activities, 26.5%, 20.6% and 5.9% noted that it was contributing to a great extent, to a moderate extent and to a small extent respectively. 38.2% and 32.4% indicated that interest from short term investments were to a very great extent and to a great extent respectively. Those who noted that it was contributing to a moderate extent and to a small extent made up 14.7% of the Saccos respectively.

Interest from government guaranteed loans received a mix acknowledgement of its contribution to saccoes alternative financing, 32.4% acknowledged that it was contributing moderately to their growth while 23.5%, 17.6%, 14.7%, and 11.8% noted that it was contributing to their financing to a great extent, to a very great extent, not at all and to a small extent respectively. Intermediation was adopted by 76.5% of the SACCOs in Baringo County with 41.2% indicating that they were using it to a moderate extent, 17.6% were using it to a small extent, 11.8% used it to a great extent and only 5.9% used it to a very great extent. This was an indication the all saccoes in Baringo county were using fixed deposits and interest from Short term investments while a substantial number were using interest from government guaranteed loans and intermediation as alternative sources of finance.

4.2.2 Number of branches

The number of branches each SACCO had at the time of the study was as indicated in Table 4.2.2

Table 4.2.2 Number of Branches

Value	No of respondents	Valid Percentage
Less than 5	17	50.0%
Between 6-10	16	47.1%
Between 11-15	1	2.9%
Between 16-20	0	0.0%
Over 20	0	0.0%

Nearly all SACCOS participating in the study had less than 10 branches cumulatively accounting for 97.1%. The majority 50% had less than 5 branches while 47.1% had between 6 – 10 branches and only one Sacco had more than ten branches. It is evident that most of the saccos in the county were still in young as indicated by the majority having less than 10 branches.

4.3 Effects of Alternative Financing on Growth

To get the overall perception of the respondents on the effects on alternative financing on the growth, respondents were requested to indicate the level to which the four alternative financing options had influenced saccos growth. The findings were as indicated in Table 4.3.1

Table 4.3.1 Alternative Financing influence on Growth

Value	No of respondents	Valid Percentage
Very Great Extent	14	41.2%
Great Extent	18	52.9%
Moderate Extent	2	5.9%
Small Extent	0	0.0%
Not at all	0	0.0%

A majority (52.9%) of the respondents believed that the use of alternative financing was a key ingredient for SACCOS growth to a great extent while 41.2% saw it as of great importance to growth of SACCO. Only 5.9% considered it to influence the growth to a moderate extent. This was a clear indication that alternative financing was influential in the growth of the saccos in Baringo county.

4.4 Fixed Deposit

4.4.1 Fixed deposit Mobilization

All the saccos acknowledged mobilizing its members to open and operate fixed deposit accounts. The average value of fixed deposits accounts held by the Sacco were as indicated in Figure 4.4.1

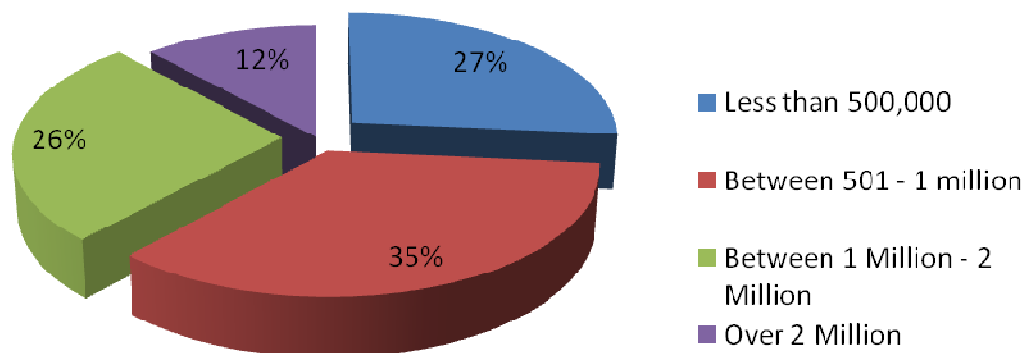


Figure 4.4.1 Amounts in Fixed Deposits

Majority (35%) of the Sacco on average had fixed deposit accounts amounting to between 501,000 – 1 million shillings. 27% of the Sacco’s were holding fixed deposit accounts of less than Kshs 500,000 and between 1 – 2 million shillings had only 26% and

12% had deposits greater than 2 million shillings. It was therefore notable that most of the saccoes were yet to fully mobilize fixed deposits beyond 2 Million shillings.

4.4.2 Frequency of fixed deposit rollover after maturity

To evaluate the stability and attractiveness of the fixed deposits, the respondents were requested to indicate the extent to which the fixed deposit account rolls over after maturity. Their feedbacks were as indicated in Table 4.4.2.

Table 4.4.2 Fixed deposit rollover

Value	No of respondents	Valid Percentage
Very Great Extent	12	35.3%
Great Extent	16	47.1%
Moderate Extent	5	14.7%
Small Extent	1	2.9%
Not at all	0	0.0%

Close to half (47.1%) of the saccoes were to a great extent rolling over after maturity while 35% noted that it was to a very great extent, 14.7% noted that it was to a moderate extent while only 2.9% indicated it was to a small extent. This was a positive outcome indicating most of the fixed deposits were retained for a longer period within the saccoes as a key source of financing their operations.

4.4.3 Frequency of withdrawals before maturity

Performance of the fixed deposit facility was also evaluated based on termination before maturity and the findings were as presented in Table 4.4.3

Table 4.4.3 Termination of fixed deposits before maturity

Value	No of respondents	Valid Percentage
Very Great Extent	0	0.0%
Great Extent	0	0.0%
Moderate Extent	1	2.9%
Small Extent	6	17.6%
Not at all	27	79.4%

Majority (79.4%) acknowledged that there was no withdrawal of fixed deposit by clients before their maturity date, 17.6% noted that it was to a small extent that they experienced withdrawal before maturity and 2.9% noted that it was to a moderate extent. These points to a desirable trend of holding fixed deposit accounts to their maturity. This was in line with the findings in 4.4.3 indicating most of the fixed deposits were retained after their maturity by most of the saccos.

4.4.4. Fixed Deposit Effects on Growth

The respondent's perceived the relationship between the performance of their fixed deposit facility and the growth of the Sacco were as presented in Figure 4.4.4

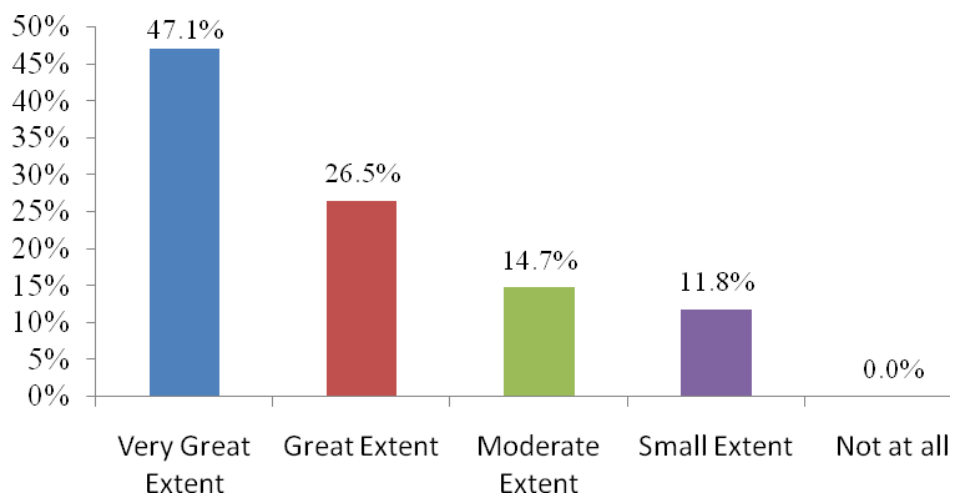


Figure 4.4.4 Effects of Fixed Deposits on SACCO Growth

Close to half (47.1%) acknowledged that the level of fixed deposits affects the growth of the Sacco to a very great extent, while 26.5%, 14.7% and 11.8% noted that it was to a great extent, to a moderate extent and to a small extent respectively. This was a clear indication that management of fixed deposit accounts by the saccos were yielding the desired effects on their performance.

The extent to which the SACCOS have mobilized its members to open and maintain fixed deposit accounts as a way of growing short term capital were as indicated in Table 4.4.5.

Table 4.4.5. Extent of Fixed Deposit Mobilization to support Growth

Value	No of respondents	Valid Percentage
Very Great Extent	6	17.6%
Great Extent	9	26.5%
Moderate Extent	9	26.5%
Small Extent	7	20.6%
Not at all	3	8.8%

Slightly more than a quarter (26.5%) acknowledged that they had mobilized their members to a moderate and great extent to open and maintain fixed deposit accounts as strategy for growth to SACCOS. The remaining 20.6% and 17.6% indicated that they had performed the mobilization to a small extent, to very great extent respectively. It is only 8.8% who did not undertake the activity. Despite the contribution of the fixed deposits to the growth of the Saccos, a substantial number of the Saccos were not aggressive enough in mobilizing their members to open the fixed deposits accounts.

The perception of using members fixed deposits interests as the core source of income for growing the SACCO was seen by 55.9% to be true to a very great extent (**Table 4.2.3**) while 29.4%, 8.8% and 5.9% noted that it was to a great extent, to a moderate extent and to a small extent respectively.

Table 4.4.6 Perception of Fixed Deposit interest as a Source of Growth

Value	No of respondents	Valid Percentage
Not at all	0	0.0%
Small extent	2	5.9%
Moderate	3	8.8%
Great Extent	10	29.4%
Very Great Extent	19	55.9%

4.5 Interest from Short Term Investments

Interest from short term investment was considered to be a key alternative source of financing to Sacco. A number of key attributes of the source were evaluated as presented below

4.5.1 Interest form short term investment

It was established that all (100%) of saccos within Baringo county were engaging in short term investment as a means of generating additional return to enhance their services and finance its growth

4.5.2 Short term investment duration

The average duration the saccos were investing in short term maturity investments were as indicated in Table 4.3.2

Table 4.5.2. Average Maturity period of Short term Investment

Value	No of respondents	Valid Percent
Six Months -1 Year	13	38.2%
Between 1-2 Years	20	58.8%
More Than 2 Years	1	2.9%

Most of the Sacco investments (58.8%) were on average taking between 1-2 years, 38.2% took between six months and one year while only 2.9% took more than 2 years on average. This reflects investment horizon of less than 2 years as the most preferred investment horizon for their short term investments.

4.5.3 Interest received from short term investment

The interest amount the participating Sacco had received on average annually in the previous three years were as indicated below

Table 4.5.3 Average annual interests from short term investment

Amount	No of respondents	Valid Percentage
Less than 500,000	9	26.5%
Between 500,001 -1 Million shillings	18	52.9%
Between 1-2 Million	4	11.8%
> 2 Million	3	8.8%

Slightly more than half of the saccos received between 0.5-1 million shillings in interests in the last three years while 26.5% received less than 0.5 million shillings. 11.8% received between 1- 2 million shilling while only 8.8% percent earned more than 2 million shillings. This shows that most of the saccos were yet to surpass the 1 million shillings mark in interests generated from their short term investments.

4.5.4 Interest from Short term investment and growth of SACCOS

The level to which interest from short term investment has influenced the growth of the saccos in Baringo county were as presented in Table Below

Table 4.5.4 Short term investments interest and Sacco growth

Value	No of respondents	Valid Percentage
Very Great Extent	13	38.2%
Great Extent	15	44.1%
Moderate Extent	4	11.8%
Small Extent	1	2.9%
Not at all	1	2.9%

44.1% of the saccos noted that interest from short term investments were influencing their growth to a great extent, 38.2% noted that it was to a very great extent, 11.8% indicated that it was influential to a moderate extent while 2.9% of the saccos indicated that the influence was to a small extent and did not influence their growth respectively. This was an indication of the importance of interest from short term investment for saccos in Baringo county in enhancing their growth.

The perception of the respondents towards different aspects of interest from short term investments in financing growth were as indicated in Table 4.3.5

Table 4.5.5 Perception towards Interest from Short term Investment

	VGE	GE	ME	SE	NAA
The SACCO has prioritized Short term investment for growth.	6(17.6%)	14(41.2%)	10(29.4%)	4(11.8%)	0(0.0%)
The SACCO's short term investments generate returns driving it's growth	11(32.3%)	15(44.1%)	8(23.5%)	1(2.9%)	0(0.0%)
The SACCO policies emphasizes on short term investment for growth	8(23.5%)	9(26.5%)	10(29.4%)	6(17.6%)	1(2.9%)

NAA = Not at all, **SE** = Small extent, **ME** = Moderate Extent, **GE** = Great Extent and **VGE** = Very great extent.

41.2% of the respondents noted that the SACCO had prioritize interest from short term investment to a great extent as a key source of growth while 29.4%, 17.6% and 11.8% perceived had prioritize it to a moderate extent, to a very great extent and to a small extent respectively. A majority (44.1%) acknowledge that the SACCOs short term investments were generating return financing their growth to a great extent while 32.3%, 23.5% and 2.9% indicated that it was to very great extent, moderate extent and to a small extent respectively. As to whether the SACCOs policies were centered on short term investments as a key to their growth, 29.4%, 26.5%, 23.5%, 17.6% and 2.9% acknowledged that it was to a moderate extent, to a great extent, to a very great extent, to a small extent and not at all respectively.

4.6 Interest from Government Guaranteed loans

Government support through loan guarantees to sacco for both liquidity support and as a means to implementing government programs attracts reasonable interest to the Sacco. The influences of the interest generated from the guarantees on the growth of the saccos were as presented in the following sub sections.

4.6.1 Benefit from Interest from government Guaranteed loans

A Majority (30) representing 85.3% of saccos which participated in the study period had benefited from government guarantee facility (Figure 4.6.1) while 14.7% did not use the facility as a source of alternative financing

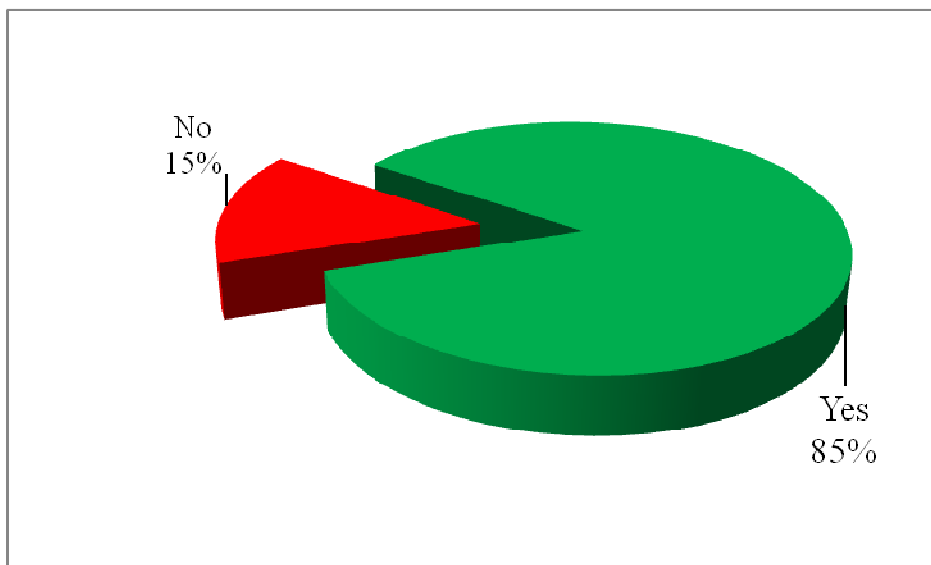


Figure 4.6.2 Proportion of saccos using Government Guaranteed Facilities

4.6.3 Investment Period in Government Guaranteed Loans

The average duration in which the government guaranteed facility was available and invested in order to generate interest was as indicated in Table 4.6.2

Table 4.6.3 Average Investment Duration for Government Guaranteed Loans

Period	No of respondents	Valid Percentage
Six Months -1 Year	7	20.6%
Between 1-2 Years	19	55.9%
More Than 2 Years	3	8.8%

More than half (55.9%) of the Saccos had investments horizon of between 1-2 years, 20.6% invested the facility on average for between six months and one year while 8.8% invested for more than two years. It is evident that most of the Saccos receiving government guaranteed loans were limiting their investments periods for the funds to below two years.

4.6.4. Interest in the Last three years

Three years prior to the study, the average interest earned by the saccos from government guaranteed loans were as indicated in Table 4.6.4.

Table 4.6.4. Average interest from Government guaranteed loans

Interest Received	No of respondents	Valid Percentage
Less than 500,000	9	26.5%
Between 500,001 -1 Million shillings	11	32.4%
Between1- 2 Million	5	14.7%
More than 2 Million	4	11.8%

32% of the saccos were able to earn interest of between 0.5 -1 million shilling on average over the last three years under the study. 26.5% earned less than 500,000 shillings, 14.7% earned between 1-2 million shillings while 11.8% earned more than 2 million shillings. This shows that most of the saccos in the county were earning less than one million shillings as interest from investing in government guaranteed funds.

4.6.5 Interest from Government Guaranteed loans and growth

The perception of the extent to which the respondents viewed the interest from government guaranteed loans to have influenced the growth of the saccos were as indicated in Table 4.6.5

Table 4.6.5 Influence of Government Loan Interest on Growth of SACCOS

Extent of influence on Growth	No of respondents	Valid Percentage
Very Great Extent	14	41.2%
Great Extent	6	17.6%
Moderate Extent	8	26.5%
Small Extent	0	0.0%
Not at all	0	0.0%

41.2% of all the saccos who participated in the study had government guaranteed loans in their portfolio noted that it is to a very large extent influenced its growth while 17.6%, and 26.5% noted that it influenced growth to a great extent and to a moderate extent respectively. Notably, is the acknowledgement by the participating saccos of the contribution of interest from government guaranteed loans on the growth of the saccos. To further understand the SACCOS perception towards the use of interest from government Guaranteed loan as a means to growth, three additional statements were proposed to the respondents and their response were as indicated in **Table 4.6.6**

Table 4.6.6. The role of Government Guaranteed Loans Interest in SACCO Growth

	VGE	GE	ME	SE	NAA
Government guaranteed loans interest has been a key source of income for growth	4(12.5%)	8(23.5%)	5(14.7%)	5(14.7%)	6(17.6%)
The SACCO accesses interest from government guaranteed loans frequently	1(2.9%)	8(23.5%)	10(29.4%)	9(26.5%)	6(17.6%)
The interest earned from government guaranteed loans are a priority for the SACCO to attaining its growth	1(2.9%)	8(23.5%)	7(20.6%)	7(20.6%)	6(17.6%)

NAA = Not at all, **SE** = Small extent, **ME** = Moderate Extent, **GE** = Great Extent and **VGE** = Very great extent

Interest from government guaranteed loans was perceived by 12.5% of the SACCOS to be a key source of income for attaining their growth to a very great extent while 23.5% indicated that it was to a great extent. Those who recognized its contribution to be of moderate and small extent were 14.7% of the SACCOS participating in the study. Frequent access to interest from government loans was notable to a moderate extent by 29.4% of the SACCOS while 23.5% and 2.9% indicated that it was to a great and very great extent respectively. Only 26.5% noted that it was to a small extent. Prioritization of interest from government guaranteed loans as a way of attaining growth was to a small extent and moderate extent rated equally at 20.6% of the SACCOS while 23.5% and 2.9% indicated that it was to a great and very great extent respectively.

4.7. Intermediation

Borrowing and lending among the Sacco was also included in the study as a key alternative financing source and due to the various advantages associated with the facility. Its relationship with Sacco growth was as presented in the following sub sections.

4.7.1. Borrowing from other SACCOS

Approximately three quarters (76.5%) of the Sacco participating in the study were engaging in intermediation while 23.5% did not consider using the facility as a source of alternative financing (Figure 4.7.1) and a general indication of moderate utilization of the facility.

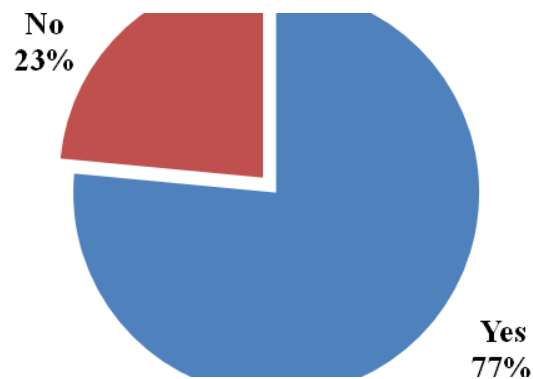


Figure 4.7.1 Level SACCOS Engagement in Intermediation

The average period of sacco to Sacco borrowing and lending were as indicated in Table 4.7.2

Table 4.7.2 Average intermediation period

Value	No of respondents	Valid Percentage
Less than 3 Month	6	17.6%
Between 3- 6 Months	17	50.0%
More Than 6 months	3	8.8%

50% of the participating saccos using intermediation were utilizing the facility for between 3-6 months while 17.6% and 8.8% were using the facility for an average period less than 3 months and for over six months respectively. It is therefore evident that an

average period of between 3-6 months was the most preferred duration by the Saccos for retaining borrowed funds from other saccos

4.7.3 Interest received form intermediation

The average annual interest received from intermediation by the saccos using the facility were as indicated in Table 4.7.3

Table 4.7.3 Average interest income from Intermediation

Value	No of respondents	Valid Percentage
Less than 500,000	15	44.1%
Between 500,001 -1 Million shillings	8	23.5%
Between 1- 2 Million shillings	2	5.9%
> 2 Million	1	2.9%

The majority of the Sacco earned interest of less than 500,000 shilling annually while 23.5%, 5.6% and 2.9% of the saccos earned between 0.5 – 1 million, Between1-2 Million and over 2 million shillings respectively. Relative to the use of the facility, the interest earned from intermediation were also lower compared to the other sources.

The extent to which the intermediation is perceived to have influenced the growth of the Saccos in Baringo county was as indicated in Table 4.7.4

Table 4.7.4 Intermediation and SACCO growth

Value	No of respondents	Valid Percentage
Very Great Extent	9	26.5%
Great Extent	7	20.6%
Moderate Extent	2	5.9%
Small Extent	7	20.6%
Not at all	9	26.5%

Twenty six percent (26.5%) of the Saccos noted that the use of intermediation did not influence their growth while an equally proportion found it very

influential in the growth of their Sacco. similarly 20.6% indicated that it influenced their growth to a great extent while an equal proportion noting that it did to a small extent. Only 5.9% of the Saccos were moderately influenced the intermediation facility. This indicated a split between those who are benefiting from intermediation and those not benefiting.

4.7.5 Intermediation and SACCO Growth

The response towards the use of intermediation by SACCOS as a channel for enhancing growth were as indicated in Table 4.7.5

Table 4.7.5. Perception towards Borrowing from Other SACCO

Statement	NAA	SE	ME	GE	VGE
SACCO Borrows from other SACCOs frequently	8(23.5%)	6(17.6%)	4(11.8%)	4(11.8%)	4(11.8%)
Intermediation generates adequate resource for growth	8(23.5%)	9(26.5%)	6(17.6%)	3(8.8%)	0(0.0%)
The low cost of borrowing facilitated our growth	8(23.5%)	6(26.5%)	6(17.6%)	3(8.8%)	0(0.0%)
Intermediation interest and amounts are conducive for growing our SACCOs	8(23.5%)	7(20.6%)	8(23.5%)	2(5.9%)	1(2.9%)

NAA = Not at all, **SE** = Small extent, **ME** = Moderate Extent, **GE** = Great Extent and **VGE** = Very great extent

An equal proportion of 11.8% acknowledged that their SACCO was borrowing from other SACCOs frequently to a moderate great and to a very great extent respectively while 23.5% and 17.6% noted they did not use the service and to a small extent respectively. 26.5% noted that intermediation was generating adequate resources for growth, while 23.5%, 17.6% and 8.8% acknowledged that it was not adequate, was

adequate to a moderate extent and to a great extent respectively. As to whether Borrowing from other SACCOS at low cost facilitated their growth, 26.5% noted that it was to a small extent, 23.5%, 17.6% and 8.8% indicated it didn't at all, that it was to a moderate extent and to a great extent respectively. Interest and amounts available through intermediation were found to influence the growth of the SACCOS with varying extent. 23.5% did not engage in intermediation as well as to a moderate extent while 20.6% noted that it was to a small extent , 5.9% to a great extent and 2.9% to a very great extent.

4.8 Sacco Growth

Nearly all (97.1%) of the Saccos in Baringo county indicated that they did experience growth during the period reviewed in the study. The level of growth achieved by the Sacco were as indicated in Table 4.8

Table 4.8.1 Sacco Growth Levels

The level of Annual growth achieved by the SACCOS were as indicated in Table 4.8.1 below

Table 4.8.1 Annual Growth rate Achieved by the SACCOS

Value	No of respondents	Valid Percent
Less than 20%	6	17.6%
Between 21-40%	19	55.9%
Between 41-60%	6	17.6%
Between 61-80%	2	5.9%
Over 81%	0	0.0%

Close to fifty six percent (55.9%) of the Saccos that experienced growth had attained a growth rate of between 21-40% while an equal proportion of 17.6% had

attained growth rates of between 41-60% and less than 20%. The remaining 5.9% had the highest growth rate of between 61-80%. This indicates that most of the Saccos had attained moderate growth rates during the study period.

4.9 Inferential Analysis

4.9.1 Correlation Analysis

To assess the relationship between the different modes of alternative financing and the growth of the saccos Spearman rank order correlation was used. Two key measures of each source namely interest received and the duration of the facility was tested against the growth rate.

Correlations between Fixed deposits and Sacco growth

The average amounts of deposits received by the Sacco and the average duration that fixed deposits were held by the sacco were regressed with the growth percentage achieved by each Sacco and the results were as indicated in Table 4.9.1.1 below

Table 4.9.1.1 Correlation between Fixed deposits and Sacco Growth

Fixed Deposits		Average deposit amount received	Average fixed deposit Duration
Sacco Growth	Correlation coefficient	0.460 ^{**}	0.465 ^{**}
Annual growth Rates/percentage	Sig. (2-tailed)	0.006	0.0059
	N	34	34

** Significant at 0.01 * Significant at 0.05

Both the average deposit amount and the average duration fixed deposits were held by the saccos were found to have a strong positive correlation ($r = 0.460$, $p = 0.006$ and $r = 0.465$, $p = 0.006$) with the growth rate achieved by the Sacco. This points towards

a moderate influence that fixed deposits as a source of alternative financing has on the growth of saccos due to its ease of lower acquisition costs and ease of access from its members.

Correlations between interest from short term investments and Sacco growth

The duration of short term investments and the average interest received by the Sacco were regressed with the growth percentage achieved by each Sacco and the results were as presented in Table 4.9.1.2 below

Table 4.9.1.2 Correlation between short term investments and Sacco Growth

Sacco Growth	Short term investments	Duration of Short term investments	Interest Received
Annual growth Rates/percentage	Correlation coefficient	0.412*	0.551**
	Sig. (2-tailed)	0.016	0.001
	N	34	34

** Significant at 0.01 * Significant at 0.05

The interest rates received were found to have a strong positive correlation with the growth percentage achieved by the Sacco($r = 0.412$, $p = 0.016$) while the duration of short term investments adopted by the saccos were found to have a moderate strong correlation ($r = 0.551$, $p = 0.001$). The results point out on the importance that should be attached to the process of selecting investments that have high returns. Similarly the duration of the investments makes a significant influence on the growth rate achieved by the saccos

Correlation between Interest from Government guaranteed loans and sacco growth

The outcome of a correlation analysis between the duration and the interest received from government guaranteed loans were as indicated in Table 4.9.1.3

Table 4.9.1.3 Correlation between government guaranteed loans and Sacco Growth

Sacco Growth	Government guaranteed loans	Duration of Government Loan	Interest on short Government Loans
Annual Rates/percentage growth	Correlation coefficient	0.547**	0.532**
	Sig. (2-tailed)	0.001	0.002
	N	29	29

** Significant at 0.01 * Significant at 0.05

Both the duration of investing government guaranteed loans and the interest earned from the investments were found to have a strong positive correlation ($r = 0.547$, $p = 0.001$ ($r = 0.532$, $p = 0.002$ respectively) with the growth rates achieved by the Saccos in Baringo county. This indicates a strong contribution of government financial supports to the growth of Sacco as they are mainly associated with favorable terms.

Correlation between Intermediation and Sacco growth

The outcome of a correlation analysis between the duration and the interest received from government guaranteed loans were as indicated in Table 4.9.1.4

Table 4.9.1.4 Correlation between Intermediation and Sacco Growth

Sacco Growth	Sacco Intermediation	Intermediation repayment period	Interest Received from intermediation
Annual Rates/percentage growth	Correlation coefficient	0.462*	0.039
	Sig. (2-tailed)	0.017	0.852
	N	26	26

* Significant at 0.05

Only the intermediation period was found to have a moderate positive correlation with the growth achieved by the saccos ($r = 0.462$, $p = 0.017$) while the interest earned

did not have any significant correlation with the growth. This was in line the low levels of utilization of the facility.

4.9.2 Regression Analysis

To assess the level to which the four alternative sources of financing were influencing the growth of Saccos in Baringo county, regression analysis between the growth rate achieved by the Sacco and the mean scores of the interest earned and duration of the four sources of alternative financing were evaluated and the results were as indicated in Table 4.9.2 below

Table 4.9.2 Regression analysis results summary

Regression Model Summary	R	R Square	Adjusted R Square		
	0.835 ^a	0.698	0.638		
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	18.874	4	4.718	11.556	0.000 ^a
Residual	8.166	20	0.408		
Total	27.040	24			
Model Coefficients	Un-standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t-Values	Sig.
(Constant)	-2.369	0.729		-3.249	0.004
Fixed Deposits	0.213	0.085	0.320	2.491	0.022
Short term investments	0.474	0.127	0.478	3.726	0.001
Government Loans	0.371	0.126	0.391	2.950	0.008
Intermediation	0.219	0.129	0.216	1.694	0.106

a. Predictors: (Constant), Fixed Deposits, Interest from Short term investments, interest from Government guaranteed Loans, Intermediation

The independent Variables (alternative sources of financing) adopted were found to significantly (Model F = 11.556, p = 0.0000) explain 69.8% ($R^2 = 0.698$, with adjusted $R^2 = 0.638$) of the dependent variable (growth). Of the 69.8% of the growth explained by the four variables, interest from fixed deposits explained 32% (p = 0.022) while interest from short term investments and interest form Government guaranteed loans explained 47.7% (p = 0.001) and 39.1% (p = 0.008) respectively. Interest from intermediation was

found to explain 21.6% which was not significant at 95% ($p = 0.106$). This was an indication the three alternative financing sources representing the independent variables with p values greater than 0.005 namely fixed deposit interest, interest from short term investments and interest from government guaranteed loan were significantly influencing the growth of SACCOs in Baringo county

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECCOMENDATIONS

5.1 Introduction

This chapter highlights the key findings from the information obtained from the data collection and analysis, followed by discussions conclusions and recommendations arising from the findings. The researcher also points out the key gaps identified in the course of carrying the study as areas to be considered for further research.

5.2 Summary of Major Findings

All the SACCOS who were able to respond in the study were found to have fixed deposit and interest from short term investments as key areas that were generating the growth rates achieved. Most of the SACCOS were able to attain an average growth rate of less than 40% as was represented by 72% of the SACCOS involved in the study. It was also notable that most of the SACCOS were limited to only a few branches as indicated by (50%) having less than 5 branches in their network. Nearly all respondents acknowledged the close relationship between the engagement of their SACCOS in alternative financing and the ability of the SACCO to grow.

Fixed deposits were the most popular source of financing for SACCOS in Baringo county. More than 61% of the SACCO ware on average earning interest of between Kshs 500,000 and 2 million per year while more than 62% of the respondents acknowledged that their fixed deposit accounts were rolling over at the end of agreed period. Notable was the fact that close to three quarters of the SACCOS acknowledging that interest derived from fixed deposits were affecting their growth to a great extent despite not being aggressive enough in mobilizing their members to open and maintain fixed deposit

accounts. This was supported by the correlation test yielding r values of 0.460 $p = 0.006$ ($p \leq 0.005$) and 0.465, $p = 0.059$ ($p \leq 0.005$) between average interest received from fixed deposit and the average duration of the fixed deposit account against the growth rate achieved by the SACCOS. Similarly, the regression analysis indicating that it was explaining 32% of the growth achieved.

Similarly interest from short investments was found to be a key alternative financing source for all the SACCOS in the county. Majority were taking up investments lasting less than 2 years with the most popular being between 1-2 years most of which were generating interests of between Ksh. 500,000 and 1 million shillings. A majority (82%) of the SACCOS noted that interest from short term investment was facilitating their growth to a great extent. This was in concurrence with the outcome of the correlation test indicating significant correlation between the duration of the short term investments ($r = 0.412$, $p = 0.016$ ($p \leq 0.005$)) and average interest received ($r = 0.551$, $p = 0.001$ ($p \leq 0.005$)) and the growth rate attained by the SACCOS. Notable was also an indication of the source explaining 47% of the growth rate achieved.

Interest from government guaranteed loans were not utilized by all SACCOS but a substantial 85%. Most of those who had access to the facility were investing for a period of less than 2 years and were earning less than 1 million shillings on average. Half of the users of the facility acknowledged that it was affecting their growth to a great extent while 26% noted that it was to a moderate extent. It was however notable that there was a strong correlation between both the duration and interest received from government guaranteed loans ($r = 0.547$ $p = 0.001$ ($p \leq 0.005$) & $r = 0.532$, $p = 0.002$ ($p \leq$

0.005) respectively) and the growth rate achieved by the SACCOs. This was found also to explain 39% of the growth rate attained by the SACCO.

Intermediation was the least utilized source of alternative financing by the SACCOS in Baringo county compared to the other three sources where 75% indicated its use. For those using the facility, half were borrowing on average for a period of between 3-6 months with 67% cumulatively using the facility for an average duration of less than six months. The same proportion had received an average annual interest for less than 1 million shilling of which 44% had received less than Ksh. 500,000 in form of interest rates. Half of the SACCOS noted that it was affecting their growth while the remaining half did not find it to influence their growth rate. This was also noted through the correlation analysis where the average intermediation period was correlated with the growth $r = 0.462$ $p = 0.07$ ($p \leq 0.005$) and the regression analysis indicating a non significant contribution in explaining the growth rate achieved.

5.3 Discussions

With reference to the four research questions guiding the research, the researcher noted the following critical areas in relation with other findings in the area: Locally mobilized fixed deposits are potentially the largest and the most immediately available source of financing for most SACCOS. Given ease of access to this resource and the wealth of opportunities that comes with it, it is evident that most SACCOS are keen to effectively utilizing it. This shows that SACCOS are in the process of overcoming the limitations that was previously associated with mobilization, regulatory requirements and minimal roll over fixed deposit facilities as was noted by Mwaura, (2004). Fixed deposits are in itself a direct source of funds with the highest level of

certainty in both timing and amounts available making it the preferred choice for SACCOS justifiable. Newly established and small SACCOS yet to attain sustainable levels of internal financing as was the case of SACCOS in Baringo county cannot avoid seeking financing externally and more so from its members which is more accessible and less costly. This shows that within the study are typical fits the characteristics of SACCOS across East Africa as noted by Kembo and Mwakujonga (2013).

Interest from short term investments is essentially an important financial tool for in every financial sector. It is a means by which excess funds that may not be used in the short term instead of lying idle are invested to generate additional income. A study by Katende (2012) demonstrates that there is a strong positive relationship between liquidity management and performance of SACCOS clearly supporting the findings of this study. It is also notable that SACCOs with good liquidity management practices and clear policies guiding investment of excess deposits in short term are likely to generate additional resources Waweru, (2011). The outcome of this study points towards the same direction of the above researchers as indicated by interest earned from their short term investments significantly correlating with the growth achieved. More over there is an indication that the duration of the short term investment period points to the indication that the longer the period the higher the potential for the SACCO attaining higher growth rates. This was in concurrence with the outcome of a study by Okionga et al (2011) on the effects of external financing on financial performance of SACCOS in Kisii.

The power of interest from government guaranteed loan as a source of financing is due to the concept of eliminating default risk to the lender by shifting it entirely to the government, enabling the SACCOS to obtain much more favorable loan

rates. Often, the guarantee actually gives the SACCOS access to lower cost financing than would otherwise be available. Equally important, the guarantee often makes it possible for the SACCOS to modify its capital structure to one using more debt and less equity. Since equity is more expensive, this shift as well provides immediate and recurring subsidies to the borrower. It was evident from the study that where the SACCOS had access to such facilities, it is a key source to growth despite the stringent measure that comes with the access of such facilities. The strong correlation between the interest earned and the duration in which the funds were invested is notable attributed to the objectives of government support facilities as was noted by Bwana and Mwakujonga (2013). Such funds are in most cases advanced through the SACCOS at very low interest while in some cases do not attract any interest at all leading to higher margins between the cost of the capital and the interest earned through onward lending.

Intermediation is a concept derived from the SACCOS operation principles allowing inter SACCOS borrowing as a means to managing short term liquidity. This not only is a new concept in the Micro finance but also a concept that requires adequate regulation and infrastructure for it to be effective. The outcome of this study to a large extent was a true reflection of the levels of challenges associated with the use of the facility especially among rural SACCOS. Most of the SACCOS in Baringo county were either in its establishment or early growth stage identified most of its capital lent out in form of loans to its members (Katende, 2012 & Waweru, 2011) leaving no resources for onward lending to other SACCOS. Moreover, most SACCOS have become targets for commercial banks that have developed wholesale lending facilities specifically for the

SACCOS which are easily accessible as compared to intermediation as was noted by Bwana and Mwakujonga (2013), Okioga, (2011) and Katende (2012).

5.4 Conclusion

The choice of alternative financing as a means to achieving growth is notably becoming evident among most SACCOS in Baringo county bringing into fore the need for deeper understanding of its contribution to growth process. It was evident that even SACCOS located in counties classified as rural such as Baringo had taken on board alternative financing as a means to financing their growth. This was notably in concurrence with the finding of Okiongga et al (2011) indicating the adoption of external financing by SACCOS in Kisii central district. All the four alternative sources of financing incorporated in the study were to a greater extent used by the SACCOS that were examined and more so were found to influence their growth to a great extent except for interest obtained from intermediation.

From the findings of this study the following four conclusions were derived. First, it was evident that SACCOS in Baringo County were engaged in the use of alternative financing as a way of meeting their capital need with all the four kinds of financing namely, fixed deposits, interest from short term investments, interest from government guaranteed loans and intermediation in use. Secondly, it is notable that fixed deposit and interest from short term investment are the most widely used external sources of financing by the SACCOS with the interest earned and the extent to which the fixed deposits were rolling over after maturity correlating with the growth achieved by the SACCOS. This gives a strong indication relating the use of the two forms of financing to be the most potential source of SACCO growth in the county.

Thirdly, it is evident from the findings that the use of government guaranteed loans despite its strong influence on the growth of the SACCO has not been accessible and only a few SACCOS were able to access it. Notable was the fact that the duration in which the money remains with the SACCO and is the interest earned through onward lending has a very strong correlation with the growth of the SACCOS. Finally, intermediations was notable the least utilized facility among the four sources and hence did not have a strong influence on the growth rates achieved by SACCOS in the county. The interest earned through intermediation was significantly low with no major impact of the overall growth of the SACCOS.

5.5 Recommendations

The researcher puts forward a number of recommendations based on the findings of this study. The use of fixed deposits, interest from short term investments, government guaranteed loans and intermediation as sources of capital for SACCOS is a key determinant of the levels of growth by SACCOS hence the need for the SACCOS to fully embrace the concept as a mean attaining their desired growth fixed deposit is not only the easiest source but also influential on the growth potential of the SACCOS. It is therefore important for the SACCOS to put in place strategies for mobilizing its members but also to open fixed deposit accounts while ensuring that those already with such accounts are encouraged to roll over instead of consumption or withdrawals.

On the same breath, engagements in short term investments should be encouraged without compromising on accompanying risks. It will be necessary for the SACCO management to implement effective investment appraisal systems that will ensure that high interest earning investments and of appropriate investment duration are selected.

The government on the other hand should consider looking at the means and policies that will allow SACCOS to easy access their guaranteed loans. In appreciation of the great contribution the SACCOS are making in nation development, the government should look at means by which government funds are channeled through the SACCOS in the same manner as they have been using the commercial banks while maintaining reasonable regulations and safeguards.

Intermediation despite its low uptake and correlation with the growth rate achieved by SACCOS is a powerful tool for transformative growth of the SACCO sector due its numerous advantaged. It is important that the government, the SACCOS and other key stakeholders looks at the ways in which sharing of information between SACCOS can be enhanced leading to effective flow of fund between the SACCOS.

5.6 Suggestion for Further Research

Based on the outcome of this study, the researcher wishes to recommend more in depth studies to be undertaken on the following:

- i. Despite the government recognition of the SACCOS role in economic growth, SACCOS have not benefited from the government guaranteed loans. It necessary for an in depth examination be done to establish the key impediments to its access.
- ii. Intermediation is a still underutilized and there is need for further examination with a view of establishing not only its impediments but also the key factors influencing its adoption and effective use.

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APPENDIX I: INTRODUCTORY LETTER

I am a Jane J. Barus MSC (Finance and Investment) student at KCA University. I am contacting you to request for your participation in a research study that I am conducting for my dissertation. You have been selected to participate in this research in your capacity as a Chief Executive Officer or officer responsible for fundraising in your SACCO.

The purpose of this study is to “Determine the Relationship between Alternative Financing and Growth of SACCOS in Baringo County.

If you agree to participate in this study, you will be asked to complete the attached research questionnaire. Please respond to each of them as honestly as possible.

Identifying information will be used for data collection. Prior to data analysis, all identifying information will be removed. This will ensure that your privacy will be protected to the maximum extent allowable by law. Your identity will be kept confidential throughout the study and in the dissemination of results. All data collected will be kept on a password protected computer. Only the researcher involved with this study will have access to the collected data.

Your participation in this project is highly appreciated.

To indicate your consent, please sign below.

Signature..... Date

APPENDIX II: RESEARCH QUESTIONNAIRE

Kindly fill in the following questionnaire.

SECTION A: PERSONAL INFORMATION

1. Name _____ of
SACCO _____

2. Please select the SACCO's preferred mode of alternative financing and the extend that it contribute to your alternative financing (you can tick more than one)
? 1=Not at all, 2= Small extent, 3=Moderate, 4=Great Extent and 5= Very great extent

Alternative Financing	1	2	3	4	5
Fixed Deposits					
Interest from short investment					
Interest from Government guaranteed loans					
intermediation					

3. How many branches does your SACCO have?

- 00-05
- 06-10
- 11-15
- 16-20
- Above 20 branches

4. In your opinion to what extend do you think the SACCO's mode of alternative financing influences it growth?

- Very Great extent Great extent Moderate Small extent Not at all

SECTION B: FIXED DEPOSITS

1. Does your SACCO mobilize its members to open and operate fixed deposit accounts?
 Yes No

2. What is the average annual interest earned from fixed deposit in the last three years?
 ≤ ksh. 500
 Ksh 501-1million
 Ksh100,001 – 2 million
 ≥ 2,000,001

3. What is the frequency of rollover of members fixed deposit after maturity.
Very Great extent Great extent Moderate Small extent
Not at all

4. What is the frequency of withdrawal of members fixed deposit before maturity.
Very Great extent Great extent Moderate Small extent
Not at all

5. To what extent does the level of members fixed deposits affect growth in SACCOs?
Very Great extent Great extent Moderate Small extent
Not at all

6. Confirm your level of agreement with the following statements as they relate to members’ fixed deposits and how they affect growth in your SACCO? 1=Not at all, 2= Small extent, 3=Moderate, 4=Great Extent and 5= Very great extent.

Aspect	1	2	3	4	5
There is a high level of member’s mobilization to open and mobilize fixed deposit accounts as a way of growing short term capital.					
Members fixed deposits interests are the core source of income for growing the Sacco					

PART C: INTEREST FROM SHORT TERM INVESTMENT

7. Does your SACCO receive interest on its short term investment as a source of alternative financing for its operations?
 Yes No
8. For how long does your Sacco invest their short term investment
 6months -1yr
 1year -2yrs
 More than 2yrs
9. What is the average interest rate received from fixed deposit for last 3yrs?
 ≤ ksh. 500
 Ksh 501-1million
 Ksh100,001 – 2 million
 ≥ 2,000,001
10. To what extent does interest generated from SACCOs’ short term investments affect your SACCO’s growth?
 Very great extent Great extent Moderate Less extent
 Not at all
11. Confirm your level of agreement with the following statements as they relate to interest from short term investment and its effects on SACCOs’ growth? 1=Not at all, 2= Small extent, 3=Moderate, 4=Great Extent and 5= Very great extent.

Aspect	1	2	3	4	5
The SACCO has prioritize investment in income generating activities as a means to achieving growth.					
The SACCO’s short term investments generate returns deriving it’s growth					
The SACCO policies emphasizes on short term investment as a key avenue for growth					

PART D: INTEREST FROM GOVERNMENT GUARANTEED LOANS

12. Does your SACCO benefit from interest from government guaranteed loans as a financing strategy aimed at increasing SACCOs’ growth?

Yes No

13. What is the average duration the government guaranteed loans are invested by the Sacco?

- 6months -1yr
- 1year -2yrs
- More than 2yrs

14. What is the average annual interest rate received from government guaranteed loans for last 3yrs?

- ≤ ksh. 500
- Ksh 501-1million
- Ksh100,001 – 2 million
- ≥ 2,000,001

15. To what extent does interest from government guaranteed loans affect your SACCO growth?

Very great extent Great extent Moderate Less extent
Not at all

16. Confirm your level of agreement with the following statements as they relate to interest from government guaranteed loans and their effect on SACCOs’ growth?

1=Not at all, 2= Small extent, 3=Moderate, 4=Great Extent and 5= Very great extent.

Aspect	1	2	3	4	5
Government guaranteed loans has been a key source of income for growth.					
The SACCO accesses interest from government guaranteed loans frequently					

The interest earned from government guaranteed loans are a priority for the SACCO to attaining its growth					
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PART E: INTERMEDIATION

17. Does your SACCO borrow money from other SACCOs as a cost cutting strategy aimed at increasing your SACCO growth?
 Yes No
18. To what extent does intermediation in your SACCO affect your SACCO's growth?
 Very great extent Great extent Moderate Less extent
 Not at all
19. For how long does your Sacco retains the borrowed funds before refunding back
 Less than 6months
 3 – 6 Months
 Over Six Months
20. What is the interest rate received from the use of intermediation funds?
 ≤ ksh. 500
 Ksh 501-1million
 Ksh100,001 – 2 million
 ≥ 2,000,001
21. Confirm your level of agreement with the following statements as they relate to intermediation and its effects on SACCO growth? 1=Not at all, 2= Small extent, 3=Moderate, 4=Great Extent and 5= Very great extent.

Aspect	1	2	3	4	5
The SACCO borrows money from other SACCOs frequently					
Interest from intermediation with other SACCOs generates adequate interest to finance growth					
The low cost of borrowing from other SACCO has					

facilitated our growth					
Intermediation allows for negotiated interest conducive for growing our SACCOs					

PART F: GROWTH

22. Do you consider that in the year 2010 to 2013 alternative finance contributed to growth of your sacco?

- Yes
- No

23. What was the percentage of growth between 2010 and 2012

- 0 – 20%
- 21-40%
- 41-60%
- 61-80%
- 81-100%

24. Give any other suggestions which can help in alternative financing so as to increase SACCOs’ growth in Baringo County

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Thank you for your cooperation

APPENDIX III: LIST OF SACCOS IN BARINGO COUNTY

Society Name	District	Activity
1. Boresha sacco	Koibatek	Sacco
2. Sky Line	Koibatek	Rural Sacco
3. Kola	Koibatek	Sacco
4. Ravine Roses	Koibatek	Sacco
5. Majimazuri High School	Koibatek	Sacco
6. Mogotio High School	Koibatek	Sacco
7. Mercy Hospital	Koibatek	Sacco
8. Kituro High School	Baringo	Sacco
9. Baricco Sacco	Baringo	Sacco
10. Tenges Rural Sacco	Baringo	Rural Sacco
11. Sacho High School	Baringo	Sacco
12. Ngetmoi High school	Baringo	Sacco
13. Baringo T. College	Baringo	Sacco
14. Kesewo sacco	Baringo	Sacco
15. Kapkawa High school	Baringo	Sacco
16. Kabarnet Utalii	Baringo	Sacco
17. Makatiat sacco	Baringo	Sacco

18. Kabarnet Wachungaji	Baringo	Sacco
19. Kituro parish	Baringo	Sacco
20. Morop Sacco	Baringo	Sacco
21. Bayopa Sacco	Baringo	Sacco
22. Baringo fuel and Fodder	Baringo	Sacco
23. Baringo traders sacco	Baringo	Sacco
24. Marigat High School	Baringo	Sacco
25. Island Camp Sacco	Baringo	Sacco
26. Perkeru Rural Sacco	Baringo	Sacco
27. Ngambo High Sch.	Baringo	Sacco
28. Lake Bogoria Sacco	Baringo	Sacco
29. Kasemwai Sacco	Baringo	Sacco
30. Sotua Sacco	Baringo	Sacco
31. Kokwet Sacco	Baringo	Sacco
32. Barkulu Sacco	Baringo	Sacco
33. Bartolimo High School	Baringo	Sacco
34. Kipsaraman Rural sacco	Baringo	Sacco
35. Testai Sacco	Baringo	Sacco
36. Arrow Women Rural Sacco	Baringo	Sacco

Source, MOCD Baringo County

APPENDIX IV: BARINGO COUNTY MAP (SOURCE INTERNET)

