

## ASSESSMENT OF INTEREST RATES INFLUENCE ON DEPOSIT MOBILISATION FOR SELECTED SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN WESTERN KENYA.

**GEOFFREY LUVATE**

*MBA SCHOLAR, MOUNT KENYA UNIVERSITY, KENYA*

**MR. OSCAR SANGORO**

*LECTURER, MOUNT KENYA UNIVERSITY, KENYA*

**Dr. JONATHAN MWAU**

*LECTURER, KIRINYAGA UNIVERSITY, KENYA*

### ABSTRACT

From an institutional perspective, the primary motive for mobilizing savings lies in lower cost of capital compared to other sources of funds. In Western region, various cooperative societies have been registering losses and even some have gone out of business which has always been ascribed to reduced deposits by their customers. For instance, SACCOs such as Mumias Out growers Sacco Society (MOSSACO) was temporarily closed down in 2009 because of deposits withdrawal by majority of its members thus leaving the SACCO with low capital base to facilitate its operations. The interest rate at the time were at five percent while the one offered on loans were at 15 percent which were considered low on deposits and high on loans. The study design was a descriptive study with comparative design; the study population comprised of employees and customers of selected SACCOS. The study sample size was 293 members. Data collection instruments were questionnaire and interview schedule. Reliability and validity of instrument were done accordingly. Data were analyzed by use of quantitative and qualitative methods to determine the interest rates influence on deposit mobilization of the SACCOS selected for the study. It was found that most of the customers agreed that their knowledge on interest rates has helped them to make savings in their respective SACCOs. This result suggests that trying to influence the SACCOs deposits by manipulating interest rates is not likely to be a practical policy option in western region. However it was recommended that the SACCOs should attempt to maintain competitive positive real interest rates relative to those offered by other financial institutions in order to increase their savings. Further recommendation to use both qualitative and inferential methods of analysis like liner correlations and Carrying out study with SACCOs that have member spread all over the country to refine the findings applicability

**Key words; SACCO, Deposits, Deposit-taking, Interest, interest rates, deposit mobilization**

## 1.0 INTRODUCTION

### 1.1 Background of the Study

SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. They have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas (Gardeklint, 2009). This has made SACCOs more appealing to customers, thus deeply entrenching themselves in the financial sectors of many countries (Karki, 2005). The main objective of the corporative societies is to empower its members through encouragement of savings and provision of credit. In Kenya, for example, cooperative societies have mobilized over Kshs.200 billion in savings, which accounts for over 30% of the National Domestic Saving (Jensen, 2001). For that matter, the study sought to establish the impact of interest rate provided by the cooperative societies on members' deposits.

The performance of these SACCOs is determined by various factors. One of the most significant factors that determine performance of a SACCO according to Funkor (2000) is the interest rate provided. Funkor affirms that this determines the level of deposits by the members. In Western Countries, classical theorists regard the interest rate as a factor which brings the demand for investment and the willingness to save. In a study done in the Southern African Development Community (SADC) region by Funkor (2000) on influences of interest rates on performance of financial institutions, it was established that high interest rates are important because they control the flow of money in the economy and more importantly encouraging customer deposits. This was also supported by Kariuki (2005) who carried out a study in the former Central Province of Kenya on "Impact of interest rates on saving culture of the SACCOs' clients" and established that high interest rates will always motivate customers to save more while low interest will discourage savings. With respect to this, the project sought to carry out a study of interest rates offered by selected Savings & Credit co-operative Societies operating within Western region in order to determine the effect interest rates have on levels of deposits among Sacco members in Western region.

### 1.2 Statement of the Problem

In Western region, various cooperative societies have been registering losses and even some have briefly gone out of business which has always been ascribed to reduced deposits by their customers. For instance, SACCOs such as Mumias Out growers Sacco Society (MOSACCO) was temporarily closed down in 2009 because of deposits withdrawal by majority of its members thus leaving the SACCO with low capital base to facilitate its operations.

With regard to this, the project sought to carry out a study of interest rates offered by Bungoma Teachers housing and Investment cooperative society, Invest and Grow Sacco (I G Sacco), Faridi Sacco Society Limited and Mumias Out growers Savings & Credit Co-operative Society (MOSACCO) amongst others to determine the effect that the interest rates had on deposits mobilization among Sacco members in Western region.

### 1.3 Justification of the Study

Given the core objective of the cooperative societies being that of empowering members through savings, the study was significant since it sought to establish how interest rates impacts on the members' savings. It therefore, establishes whether it is prudent to have high or low interest rates on savings in order to encourage empowerment of members through increased savings. As such, the study is critical to cooperative societies, particularly those operating within the Western region that is currently Kakamega County, Vihiga County, Bungoma County and Busia County, in helping them to set appropriate interest rates on their members' savings product facilities. The study may help the SACCOs to come up with policies and strategies that will enhance their performance. This may improve the services offered to the clients and generate more wealth. They may have a competitive edge over other financial institutions that take deposits. Most relevant beneficiaries was the academia and researchers who may use findings and literature generated for further study.

## 2.0 LITERATURE REVIEW

### 2.1 Deposit Mobilization

It has been argued that the low deposit ratios in SACCOS are affected by capital flight as Africa has amongst the highest ratios of offshore deposits to domestic deposits (Honohan & Beck, 2007). There has also been recognition that there is an over-reliance on government and parastatal deposits which can be unreliable if there is a change in government (Brownbridge, 1998b). Besides this, there is very little work done on the constraints that SACCOs face when raising deposits. It can be argued that the overemphasis in the literature on the moral hazard issues surrounding deposit insurance schemes means that not enough attention has been placed on the actual ability of SACCOs to raise deposits.

Stiglitz and Weiss (1981), in their seminal work, put information asymmetry at the heart of the lending relationship and incorporated interest rates and default rates into the model. In their model, SAACOs try to maximize their profit by obtaining a margin between the deposit and loan rate. Borrowers try to maximize their profits by their choice of project. Due to information asymmetry, SAACOs are unable to distinguish good borrowers from bad borrowers. Furthermore, due to adverse selection and moral hazard, the normal market clearing system – raising prices, in this case interest rates, does not work. It simply encourages riskier borrowers to apply for loans. Therefore SAACOs operate a rule of thumb keeping interest rates lower than market conditions warrant. The main conclusion from the model is: “there are no competitive forces leading supply to equal demand, and credit is rationed” Stiglitz and Weiss (1981:206)

### 2.2 High loan defaulting rate

According to the Citizen (2010), the rate in most cases has been below 30 percent as opposed to the recommended 70 percent repayment rate. Non remittance and delayed remittance of

cooperative dues by employers has led to inconveniences and loss of income by the societies (Wanyama, 2007). New rules have however provided stiff penalties for errant employers.

### **2.2.2 Inappropriate Dividends Declaration**

Sacco Board of Directors falsify reports to declare high dividends even if the Sacco has not made profit to prove high performance and please members in order to remain in office. This forces them to source for external funds to pay the declared dividends

### **2.2.3 The Effects of Poor Deposit Mobilization**

They include Inability to disburse loans to qualifying members on demand, inability to service Sacco debts, inability to meet operation costs, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, falsification of financial reports (Wasike, 2012).

In addition, dissatisfied members can quit in large numbers to join alternative and emerging micro-finance institutions for fear of losing their savings if the situation deteriorates.

## **2.3 Savings Culture**

SACCOs have re-modified themselves as one of the greatest entrants in the economic development agenda. They have played a major part in instilling the savings culture in Kenyans. While analyzing and scrutinizing SACCO roles in saving culture it is critical to be informed that cooperative societies' model targets at mobilizing capital in a practical approach, which is more meaningful to members (Principles of corporate Governance in Kenya, 2000).

ACTED has made good use of the innovativeness in SACCOs through making transfers for CFW infrastructure restoration and putting in place cash grants and projects for IGA across Kenya. Besides this, ACTECD is also offering capacity building skills to SACCO staff with an aim of efficiency, coverage and transparency as well as safeguarding some assets e.g. safes that will ensure an accountable and successful financial management and disbursing funds as budgeted. Capacity building entails several topics, inter alia, cash handling system, customer care, monitoring, management, and control support to both managers and the staff (Principles of corporate Governance in Kenya, 2000).

On another note, Ahimbisibwe (2007) argued that savings was a key component in any development endeavors both in Kenya and other countries globally. This is justified by the reason that it constitutes a surest way of boosting productivity and increasing income all geared towards reducing poverty. Kotler and Garry (2005) went ahead to support this reasoning by arguing that in their neo classical growth theory, that though savings was not an end in themselves, they carried out a significant role of sustaining growth and development in almost all societies.

The savings culture was first and highly embraced in developed countries such as the United States and Germany. Here, governments, via relevant institutional frameworks educated and encouraged citizens to invest their savings in stock markets, commercial SAACOs, and other micro-finance institutions. This witnessed high saving economies that accumulated assets faster hence growing at a faster pace (ACCOSCA, 2011). As such, the statistics have established that

the twentieth and twenty-first centuries have both been characterized by the upsurge in the trend of individuals saving money with the aim of accessing small loan (Deutscher, 2005).

However, the saving trend is quite low in developing countries such as Kenya and Uganda. This owed much to the poorly developed infrastructure that led to location of commercial SAACOs in urban areas, lack of educational and sensitization programmes with regards to stock markets, and the presence of non-regulated microfinance institutions in the country. To counter the above challenges, Savings and Credit Cooperative Societies was introduced in the mid-19th century as an alternative savings mode in developing countries (Weston & Brigham, 2000).

In assessing the role of Savings and Credit Cooperatives in micro-financing, former United Nations Secretary General Koffi Annan emphasized the fact that sustained access to microcredit (small) loans-had assisted in reducing poverty by enabling the undertaking of best possible decisions to improve peoples' lifestyles (Deutscher,2005). Some of these decisions include among others availing the capital for business, availing funds to educate the children, and subscribing to the medical care insurance systems.

#### 2.4 Theoretical framework

The common peculiarity of monetary theories of interest is that the interest is a monetary phenomenon. And monetary theorists, McKinnon and Shaw (1973), believed that interest rate varies inversely with supply of money and positively with the purchasing power (value) of money. The defenders of the monetary theories of interest argued that when supply of money increases, purchasing power (value) of money falls and, hence the rate of interest also come down. Economists agree that the real interest rate is determined in the market for investment and savings and thus by the forces of productivity and thrift. Hence, the real interest rate adjusts to equilibrate desired savings (providing the net supply of funds) with desired investment (generating the net demand for funds). In an increasingly integrated world economy with internationally mobile capital, the real rate of interest is determined largely by global forces of saving and investment. For relatively small open economies, the world real rate of interest is somewhat independent of domestic circumstances, especially over the medium to long term.

There are various theories, which explain the determination of interest rates. Classical theory posits that interest rate is a real phenomenon and hence real factors determine the level of interest rate. The real factors are the supply and demand for capital. It is argued that the supply of capital comes from savings (thrifts) and the demand for capital comes from the productivity of capital. Interaction of supply of and demand for capital gives us the equilibrium level of interest rate. Therefore, if there is recession in the economy, the return from investment was low. This will bring down the overall demand for capital. Given the level of savings (the supply of capital), the lower level of demand for capital will bring down the level of interest rates.

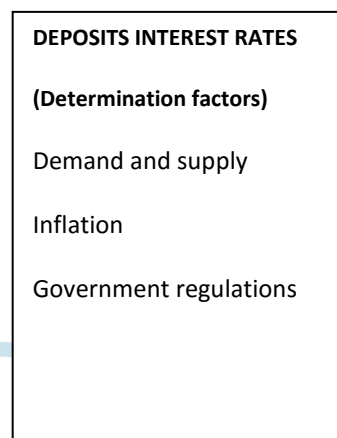
#### 2.5 Conceptual framework

The conceptual framework shows the relationship between the independent variable, the interest rate and the dependent variable the deposit mobilization. The interest rate is determined by the

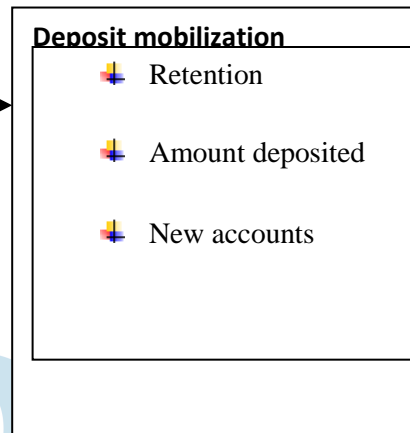
customer information, their ability to monitor and trust. On the other hand, the deposits determine the money lent out, the dividend and the security.

## Conceptual Framework

### Independent Variable



### Dependent Variable



framework

Source: Researcher, 2016

Fig 1: conceptual framework

## 2.6 Research Gap

There many studies on interest rate determination criterion. The influence of real interest rate on savings and consumption decisions has been a matter of considerable controversy as it yields mixed results (Wood, 1995). There are number of studies which suggested for significantly positive to significantly negative coefficients of real interest rate. It is also important to note that the real interest rates have a positive influence on the private savings and can be taken as an important policy variable in Nepal (Shrestha, 2010). Arrieta, (1988). However, no studies have analyzed how interest rates for members' deposits in SACCOs are established in the study area. There is no study examining the level of SACCOs mobilizing of deposits and the link on the relationship between interest rates and deposits mobilized by SACCOs in Western Kenya region. The study therefore fills the gap.

## 3.0 RESEARCH DESIGN AND METHODOLOGY

In general this study followed a comparative case study approach. "A case study is defined as an in-depth, multifaceted investigation into a particular object or theme, where the object or theme gives it its unity" (Lee, 2002 pp., 799). Case study approach is appropriate when a phenomenon is not easily distinguishable from its environment (Yin, 2003). It is particularly applicable when

there are more variables than data points (Yin, 2003). Therefore, this method was best suited to understand the research questions outlined above.

A population is the subject on which the measurement is taken. It is a unit of study (Cooper & Schindler, 2003). The target population of this study comprised of all the members of the selected SACCOs that is Faridi Sacco in Busia, BTSACCO in Bungoma and MOSACCO in Kakamega County. The study focused more on the officers who were involved in the lending, the management and the clients. There were 268 staffs, 16,000 depositors at Faridi and 14,000 depositors at BTSACCO and 7,000 depositors at MOSACCO according to data as at December 2015. The total target population was 37,268.

This study adopted a stratified simple random approach since the population of the study from which the sample was drawn did not constitute a homogeneous group. In simple random sampling each element of the population has an equal chance of being selected into the sample (Cooper and Schindler, 2003). This sampling method was adopted because it helps in preventing bias and it is simple to understand and use. Stratified sampling was used to determine the various depositors that is fixed, FOSA Savings account holders, fully paid shares (Non-withdraw-able depositors) and partly paid shareholders (withdraw-able depositors).

The determination of the sample size was based on the premise that sample adequacy is assessed by how well it represents the whole population of participants from which the sample is drawn as granted that the degree of accuracy of the sample, usually expressed as a percentage error, such as  $\pm 3\%$ ,  $\pm 5\%$  or  $\pm 10\%$ . Final determination of the sample size was taken into consideration on the financial availability and constraints of time.

The table 3.1 was an aid in selecting the correct sample size (Research Advisors, 2016). The evaluation study, worked on a sample with a percentage of error of  $\pm 10\%$ , and selected the row which corresponded to the size of the group from which the sample was drawn. Consequently, a sample size of 293 was selected and used in the study; 100 from the categories for Faridi Sacco, 87 from MOSACCO, 100 for BTSACCO and 6 staff.

**Table 1: Sample Size Determination**

**Sample size needed**

Population size	( $\pm 10\%$ )	( $\pm 5\%$ )	( $\pm 4\%$ )	( $\pm 3\%$ )
Below 2700	6	335	488	757
2700	53	337	491	765
2800	53	338	494	773
2900	53	340	497	780
7000	87	341	500	787
14000	100	364	522	870
16000	100	384	600	1067

Source: Advisors (2016)

The determination of the sample size for the different strata was grouped on the basis of the type of savings or deposits.

The study used researcher administered questionnaires as the main instrument for data collection. The questionnaire was preferred because: questionnaires act as a source of reference hence can be used at a later time to prove that the research was carried out, a large number of sampled population can be realized within a short time and it is a cheaper way of conducting a research and anonymity of the respondents filling the questionnaire may help them to be honest.

The instruments used were taken through both reliability and validity testing. Reliability is the degree to which an assessment tool produces stable and consistent results. Validity refers to how well a test measures what it is purported to measure.

For reliability, testing and re-testing method was used in which same questionnaires were given out to two separate groups at two different times and the results were compared which gave almost similar results. For validity testing, expert opinions was sought from supervisors and practitioners in the area of finance.

## 4.0 RESEARCH FINDINGS AND DISCUSSION

### 4.1 Response Rate

The study targeted 293 respondents in collecting data. 268 out of the 293 targeted respondents filled in and returned the questionnaires resulting in a 91.5% response rate. This was far above the recommended 80-85%.

### 4.2 Gender of the Respondents

The study sought to determine the gender of the respondents. The results are shown in Table 4.1

**Table 2: Gender of the Respondents**

	Frequency	Percent
Male	152	56.7
Female	116	43.3
Total	268	100%

The findings indicate that that 56.7% of the respondents were male while the female respondents were 43.3%. This shows how SACCOs are taken seriously by all gender in the society.



### 4.3 SACCO Staff/Management Responses

#### 4.3.1 Information Provision to SACCO Members

The study sought to determine whether information is provided to SACCO members. The results are shown in Table 3

**Table 3 Information Provision to SACCO Members**

		MOSACCO	BTSACCO	FARIDI	Total
Strongly Disagree	Count	2	1	0	3
	%	20.0%	6.7%	.0%	7.5%
Disagree	Count	3	3	1	7
	%	30.0%	20.0%	6.7%	17.5%
Not Sure	Count	3	4	4	11
	%	30.0%	26.7%	26.7%	27.5%
Agree	Count	1	6	8	15
	%	10.0%	40.0%	53.3%	37.5%
Strongly Agree	Count	1	1	2	4
	%	10.0%	6.7%	13.3%	10.0%
Total	Count	10	15	15	40
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that the majority (37.5%) agreed that information is provided to the SACCO members, 10% strongly agreed, 17.5% disagreed 27.5% were undecided while 7.5% strongly disagreed.

#### 4.3.2 Value for Money Provision to Customers

The study sought to determine whether the SACCOs give their members value for money deposited. The results are shown in Table 4.8

**Table 4 Value for Money Provision to Members**

		MOSACCO	BTSACCO	FARIDI	Total
Strongly Disagree	Count	2	0	0	2
	%	20.0%	.0%	.0%	5.0%
Disagree	Count	3	1	0	4
	%	30.0%	6.7%	.0%	10.0%
Not Sure	Count	3	3	1	7
	%	30.0%	20.0%	6.7%	17.5%
Agree	Count	1	10	7	18
	%	10.0%	66.7%	46.7%	45.0%
Strongly Agree	Count	1	1	7	9

	%	10.0%	6.7%	46.7%	22.5%
Total	Count	10	15	15	40
	%	100.0%	100.0%	100.0%	100.0%

The table above reveals that majority of the respondents (45%) agreed, 22.5% strongly agreed, 17.5% were undecided, while 10% disagreed. This reveals that most of the employees are satisfied with the SACCO services.

#### 4.3.3 Safety of the Deposits

The study sought to determine whether the respondents believed the members' deposits were safe. The results are shown in Table 4.9

**Table 5 Safety of the Deposits**

		MOSACCO	BTSACCO	FARIDI	Total
Strongly Disagree	Count	2	0	0	2
	%	20.0%	.0%	.0%	5.0%
Disagree	Count	3	4	0	7
	%	30.0%	26.7%	.0%	17.5%
Not Sure	Count	1	0	1	2
	%	10.0%	.0%	6.7%	5.0%
Agree	Count	3	10	5	18
	%	30.0%	66.7%	33.3%	45.0%
Strongly Agree	Count	1	1	9	11
	%	10.0%	6.7%	60.0%	27.5%
Total	Count	10	15	15	40
	%	100.0%	100.0%	100.0%	100.0%

From the findings 45% of the respondents agreed that they believed the deposits were safe with the SACCOs, 27.5% strongly agreed, 17.5% disagreed, 5% were not sure while 5% strongly disagreed. This means that the SACCOs provide safety for their members' deposits. This gives them confidence to deal with the SACCOs.

#### 4.3.6 Savings Mobilization by SACCOs

The study sought to determine whether the respondents believe the SACCOs are doing their best to mobilize savings. The results are shown in Table 4.12

**Table 6: Savings Mobilization by SACCOs**

		MOSACCO	BTSACCO	FARIDI	
Strongly Disagree	Count	5	3	0	8
	%	50.0%	20.0%	.0%	20.0%
Disagree	Count	0	1	1	2
	%	.0%	6.7%	6.7%	5.0%
Not Sure	Count	3	4	2	9
	%	30.0%	26.7%	13.3%	22.5%
Agree	Count	1	6	2	9
	%	10.0%	40.0%	13.3%	22.5%
Strongly Agree	Count	1	1	10	12
	%	10.0%	6.7%	66.7%	30.0%
Total	Count	10	15	15	40
	%	100.0%	100.0%	100.0%	100.0%

From the findings 30% strongly agreed, 22.5% of the respondents agreed that they believe the SACCOs is doing its best to mobilize savings, 22.5% were uncertain, 20% strongly disagreed while 5% disagreed.

This indicates that the respondents agreed that they believe the SACCOs are doing their best to mobilize savings.

#### 4.3.7 Dividend Provision by SACCOs

The study sought to determine whether the respondents believed the SACCOs can do better on dividends. The results are shown in Table 4.13

**Table 7: Dividend Provision by SACCOs**

		MOSACCO	BTSACCO	FARIDI	
Strongly Disagree	Count	3	1	0	4
	%	30.0%	6.7%	.0%	10.0%
Disagree	Count	2	3	0	5
	%	20.0%	20.0%	.0%	12.5%
Not Sure	Count	3	4	2	9
	%	30.0%	26.7%	13.3%	22.5%
Agree	Count	1	5	3	9
	%	10.0%	33.3%	20.0%	22.5%
Strongly Agree	Count	1	2	10	13
	%	10.0%	13.3%	66.7%	32.5%
Total	Count	10	15	15	40
	%	100.0%	100.0%	100.0%	100.0%

From the findings most of the respondents (32.5%) strongly agreed that they believed the SACCOs can do better on dividends, 22.5% agreed, 22.5% were uncertain, 12.5% disagreed while 10% strongly disagreed. This implies that there is still an opportunity for the SACCOs to take advantage of.

## 4.4 SACCO Member Responses

### 4.4.1 SACCO Membership

The study sought to determine whether the respondents became SACCO members voluntarily. The results are shown in Table 4.14

**Table 8: SACCO Membership**

		MOSACCO	BTSACCO	FARIDI	
Strongly Disagree	Count	12	8	5	25
	%	17.1%	10.3%	6.3%	11.0%
Disagree	Count	14	11	6	31
	%	20.0%	14.1%	7.5%	13.6%
Not Sure	Count	16	16	17	49
	%	22.9%	20.5%	21.3%	21.5%
Agree	Count	18	23	30	71
	%	25.7%	29.5%	37.5%	31.1%
Strongly Agree	Count	10	20	22	52
	%	14.3%	25.6%	27.5%	22.8%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that most of the respondents (31%) strongly agreed, 22.8% agreed that they became SACCO members voluntarily, 21.6% were not sure, 13.6% disagreed while 11% strongly disagreed that they became SACCO members voluntarily. This indicates that most of the members of the SACCOs became members voluntarily.

### 4.4.2 SACCO Membership and Services

The study sought to determine whether the respondents were attracted by SACCO services. The results are shown in Table 4.15

**Table 9: SACCO Membership and Services**

	MOSACCO	BTSACCO	FARIDI	TOTAL
--	---------	---------	--------	-------

Strongly Disagree	Count	12	8	5	25
	%	48.0%	32.0%	20.0%	100.0%
Disagree	Count	14	11	6	31
	%	45.2%	35.5%	19.4%	100.0%
Not Sure	Count	16	16	17	49
	%	32.7%	32.7%	34.7%	100.0%
Agree	Count	18	23	30	71
	%	25.4%	32.4%	42.3%	100.0%
Strongly Agree	Count	10	20	22	52
	%	19.2%	38.5%	42.3%	100.0%
Total	Count	70	78	80	228
	%	30.7%	34.2%	35.1%	100.0%

The findings indicate that 31% agreed, 22.4% strongly agreed that they were attracted by SACCO services, 18% were not sure, 15% disagreed while 13.6% strongly disagreed that they were attracted by SACCO services. This indicates that most of the members were attracted by SACCO services to become members of the respective SACCOs.

#### 4.4.3 Provision of Information about Interest Rates Offered by SACCOs

The study sought to determine whether the respondents have full information about interest rates offered by the SACCOs. The results are shown in Table 4.16

**Table 10: Provision of Information about Interest Rates Offered by SACCOs**

		MOSACCO	BTSACCO	FARIDI	TOTAL
Strongly Disagree	Count	12	8	5	25
	%	48.0%	32.0%	20.0%	100.0%
Disagree	Count	14	11	6	31
	%	45.2%	35.5%	19.4%	100.0%
Not Sure	Count	16	16	17	49
	%	32.7%	32.7%	34.7%	100.0%
Agree	Count	18	23	30	71
	%	25.4%	32.4%	42.3%	100.0%
Strongly Agree	Count	10	20	22	52
	%	19.2%	38.5%	42.3%	100.0%
Total	Count	70	78	80	228

		MOSACCO	BTSACCO	FARIDI	TOTAL
Strongly Disagree	Count	12	8	5	25
	%	48.0%	32.0%	20.0%	100.0%
Disagree	Count	14	11	6	31
	%	45.2%	35.5%	19.4%	100.0%
Not Sure	Count	16	16	17	49
	%	32.7%	32.7%	34.7%	100.0%
Agree	Count	18	23	30	71
	%	25.4%	32.4%	42.3%	100.0%
Strongly Agree	Count	10	20	22	52
	%	19.2%	38.5%	42.3%	100.0%
Total	Count	70	78	80	228
	%	30.7%	34.2%	35.1%	100.0%

The findings indicate that most of the respondents (52.6%) were not sure whether they have full information about interest rates offered by the SACCOs, 17.1% agreed that they have full information about interest rates offered by the SACCOs, 13.6% strongly disagreed, 16.7% disagreed while 1.8% strongly agreed. This indicates that most of the customers were not sure whether they have full information about interest rates offered by the SACCOs.

#### 4.4.4 Interest Rates and Saving Money

The study sought to determine whether the prevailing interest rates help respondents in deciding where to save their money. The results are shown in Table 4.17

**Table 11: Interest Rates and Saving Money**

		MOSACCO	BTSACCO	FARIDI	TOTAL
Strongly Disagree	Count	3	0	0	3
	%	4.3%	.0%	.0%	1.3%
Disagree	Count	23	9	5	37
	%	32.9%	11.5%	6.3%	16.2%
Not Sure	Count	16	26	7	49
	%	22.9%	33.3%	8.8%	21.5%
Agree	Count	28	43	63	134
	%	40.0%	55.1%	78.8%	58.8%

Strongly Agree	Count	0	0	5	5
	%	.0%	.0%	6.3%	2.2%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that the majority of the respondents (59.6%) agreed that the prevailing interest rates help respondents in deciding where to save their money, 21.9% were not sure, 16.7% disagreed, 2.2% strongly agreed while 1.3% strongly disagreed. This indicates that the majority of the customers agreed that the prevailing interest rates help respondents in deciding where to save money.

#### 4.4.5 Understanding of How to Monitor Interest rates of the SACCOs

The study sought to determine whether the respondents understand how to monitor interest rates of the SACCOs. The results are shown in Table 4.17

**Table 12: Understanding of How to Monitor Interest rates From the SACCO**

		MOSACCO	BTSACCO	FARIDI	
Strongly Disagree	Count	3	0	0	3
	%	4.3%	.0%	.0%	1.3%
Disagree	Count	9	8	2	19
	%	12.9%	10.3%	2.5%	8.3%
Not Sure	Count	48	50	40	138
	%	68.6%	64.1%	50.0%	60.5%
Agree	Count	10	20	33	63
	%	14.3%	25.6%	41.3%	27.6%
Strongly Agree	Count	0	0	5	5
	%	.0%	.0%	6.3%	2.2%
Total	Count	70	78	80	228
	%	100.0%	100.0%	100.0%	100.0%

The findings indicate that most of the respondents (61.4%) were not sure whether they understand how to monitor interest rates of their respective SACCOs, 28.5% agreed that they understand how to monitor interest rates of their respective SACCOs, 8.8% disagreed, 2.2% strongly agreed while 1.3% strongly disagreed. This indicates that most of the customers were not sure whether they understand how to monitor interest rates of their SACCOs.

## 5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

### 5.1 Summary of the Findings

The study found out that most of the respondents (34.2%) agreed, 28.5 strongly agreed that their knowledge on interest rate has helped them to make savings in their respective SACCOs, 18.9% disagreed, 8.8% were not sure while 9.6% strongly disagreed. This indicates that most of the customers agreed that their knowledge on interest rates has helped them to make savings in their respective SACCOs. The study also found out that the majority of the respondents (48.2%) strongly agreed that they are given a chance to negotiate the interest they get on the FDR, 14.9% disagreed, 13.2% agreed, 19.3% were not sure while 4.4% strongly disagreed. This indicates that the majority of the customers agreed that they get a chance to negotiate the interest they get on the FDR.

The study also found out that most of the respondents (44.7%) strongly agreed that they trust the management of the SACCO with their savings, 25.9% agreed, 14% disagreed, and 11% were not sure while 4.4% strongly disagreed. This indicates that most of the customers agreed that they trust the management of the SACCO with their savings. The study also found out that most of the respondents (44.7%) strongly agreed that the trust they have in the SACCO is the main reason they save and deposit their money there, 25.9% agreed, 14% disagreed, 11% were not sure while 4.4% strongly disagreed. This indicates that most of the customers strongly agreed that the trust they have in the SACCO is the main reason they save and deposit their money there. The study also found out that the majority of the respondents (53.5%) strongly agreed that they save in the SACCO because of the dividends they expect, 17.5% agreed, 11% were not sure, 9.2% strongly disagreed while 8.8% disagreed. This indicates that the majority of the customers strongly agreed that they save in the SACCO because of the dividends they expect.



The study also found out that the majority of the respondents (78.9%) strongly agreed that they deposit savings because that was security in future when taking loans from the SACCO, 9.2% strongly disagreed, 5.3% were not sure, while 3.9% agreed that that they deposit savings because that was security in future when taking loans from the SACCO. This indicates that the majority of the customers strongly agreed that they deposit savings because that was security in future when taking loans from the SACCO. The study also found out that most of the respondents (51.3%) were not sure whether their deposits are as a result of the loans they have taken pro rata, 42.1% agreed, 3.9% disagreed, 2.6% strongly disagreed while 2.6% strongly agreed. This indicates that most of the customers were not sure whether their deposits are as a result of the loans they have taken pro rata.

The study also found out that most of the respondents (57%) were not sure whether they believe the SACCO management makes the best investment decision for them as far as their deposits are concerned, 31% disagreed, 11% agreed while 1% strongly agreed and strongly disagreed. This indicates that most of the customers were not sure whether they believe the SACCO management makes the best investment decisions for them as far as their deposits are concerned. The study also found out that the majority of the respondents 80.2% agreed that they always get the best value for their deposits at the SACCO, 18.9% strongly agreed while 0.9% were not sure. This indicates that the majority of the respondents agreed that they always get the best value for their deposits at the SACCO.

The study also found out that most of the respondents (46.1%) were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interest rates, 41.2% agreed, 5.3% disagreed, 0.9% strongly agreed while 0.9% strongly disagreed. This indicates that most of the respondents were not sure whether they believe the

management follows the laws and regulations strictly when handling issues relating to interest rates.

## 5.2 Conclusions of the Study

Majority of SACCO members were not unsure whether they believe management follows laws and regulation when handling interest. 68.6% members of MOSACCO had this view while 50.0% of BTSACCO had the same opinion. Only 35.0% of Faridi were not unsure about their management and laws on interests. 21.4% of MOSACCO members strongly agree they are given chance in establishing interest they get on FDR while 55.1% of BTSACCO members have the same opinion. 65.0% of Faridi strongly agree that their SACCO give them chance to negotiate interest on the FDR. Most of the respondents were unsure whether management decision on interest rate will make deposits. 57.1% of MOSACCO members were unsure about management decision on interest rates while 24.4% of BTSACCO had the same view. 13.8% of Faridi were also unsure about management decision on interest rates. 1.4% of MOSACCO members had strong opinion that they get good value for their money while 25.6% of BTSACCO members have the same opinion. 27.5% also strongly agree that they get good value for their money. Majority of the staff of SACCOs agree that they follow regulation concerning interests. 10.0% of MOSACCO agree this while 40.0% of BTSACCO hold the same opinion. Faridi had 46.7% of this view. Most of the staff members strongly agree that SACCOS can do better on dividend. 10% of MOSACCO strongly agree while 13.3% of BTSACCO also hold this opinion. 66.7% of Faridi strongly agree that their SACCO can do better on dividend policy. Majority of staff of SACCOS believe that their respective SACCOs are they better in mobilizing of funds. 10.0% of MOSACCO, 40.0% of BTSACCO and 66.7 of Faridi strongly believe that their SACCO is doing better in mobilizing funds. Proper and transparent establishing of interest rate for member

deposit will greatly influence deposits. This is evident in Faridi and BTSACCO where majority of staff and members feel that their respective SACCOs follow laws and regulation in interest establishment, been given chance in negotiating FDR as well as decision of management on interest rates. Unlike MOSACCO where members and staff enough have not been in establishing of interest rate thereby jeopardizing deposit mobilization.

### **5.3. What are the constraints faced by SACCOs in mobilizing deposits?**

The three SACCOs face uphill task of mobilizing deposits from members, only 28% of MOSACCO members are willing to voluntarily join SACCO while BTSACCO 56.1% are willing, majority of Faridi 65.5% are willing to voluntarily join the SACCO. SACCOs also face problem of not providing sufficient information about interest to members. 48.0% of MOSACCO feel that their SACCO is not providing that information while for BTSACCO 32.0% had the same view. Small percentage of Faridi 20.0% feels that their SACCO does not supply sufficient information about interest rates. Majority of SACCO member were unsure how to monitor interest rates of their SACCOs. 68.6% of MOSACCO were in support of this opinion while 64.1% of BTSACCO were of the same view. Only 50.0% of Faridi were unsure of how to monitor interest rates. SACCO staff also had the same view with 10.0% of MOSACCO while BTSACCO 40.0%. Faridi 53.3% of them agree information is provided to members. Only 14.3% of MOSACCO had strong opinion of trusting management with their savings while 51.3% of BTSACCO feel that they trust management with their savings. 65.0% of Faridi strongly agree that they trust management with their savings. Most of SACCO members strongly agree that they trust their SACCOs. 14.3% of MOSACCO have this opinion while 51.3% of BTSACCO have the same view. 65.0% of FARIDI strongly agree they trust their SACCO. Majority of Staff believe that Member deposit is safe with 10.0% of MOSACCO and 40.0% of BTSACCO. 60.0% of Faridi staff strongly agrees that member deposit is safe. Majority of SACCO staff agree that

decision made concerning investment is of the best interest of customers. 10.0% of MOSACCO agree this while 40.0% of BTSACCO also hold the same views. 46.7% of Faridi also agree on this. There is enough evidence to conclude that various constraint facing SACCO in mobilizing of deposit ranges from lack of enough information, decision made by management on interest rates and dividends, subscription to SACCO membership to trusting SACCOs management and SACCOs. If this constraint are addressed adequately and exhaustively there is evidence of tremendous increase in deposit from as indicated in Faridi, then BTSACCO while MOSACCO most of the feel the above constraint have not been dealt with as expected

#### **5.4 What is the relationship between interest rates and level of members' deposits to SACCOs?**

There was strong evidence that most members in the SACCOs are attracted by service of their SACCOs through better interest rates. 44.6% of MOSACCO feel that the services are attractive them while BTSACCO 70.9% feel the same. FARIDI had the largest opinion 84.6% of member who feel the service offered are attractive to them. 40% of BTSACCO agreed that prevailing interest rate will make decide where to save their money while 55.1% of BTSACCO had the same opinion. Majority of Faridi 78.8% agreed better interest rate will make them save money. Knowing of interest rate has strongly helped 14.3% of MOSACCO members to save their money while 25.6% of BTSACCO were of the same opinion. 43.8% of Faridi members strongly agree that saving money is as a result of knowing interest rates. Majority of members in the SACCOs feel that expectation of dividends will make them save money. 38.6% of MOSACCO feel that better dividend will make them save their money while 55.1% of BTSACCO have same opinion. 65.0% of Faridi strongly agree that better dividends will make them save their money. Majority of staff strongly agree that there is value for money form member deposits. MOSACCO 6.7% of them believe this while 10.0% of BTSACCO hold the same view with Faridi 46.7%. There is

enough evidence to conclude that interest rates will increase the level of deposit of members in the SACCO, this shown in FARIDI and BTSACCO where good value of money, better dividends and knowledge of interest rates will results to increase in deposit while when there is no good value of money and interest will result to low members deposit as in MOSACCO.

The study concludes that most of the members and employees are satisfied with their respective SACCO services. This means that the SACCOs provide safety for their deposits. This gives them confidence to deal with the SACCOs. The study also concludes that the regulations are believed to be followed and this affects their decision on investment and hence interest rates and that investment decisions are made in their best interests. This implies that there is still an opportunity for the SACCOs to take advantage of. The study also concludes that most of the members became SACCO members voluntarily and most of the members were attracted by SACCO services to become members of their respective SACCOs.

The study also concludes that most of the members were not sure whether they have full information about interest rates offered by the SACCOs, the majority of the members agreed that the prevailing interest rates help them in deciding where to save their money. Most of the members were not sure whether they understand how to monitor interest rates offered by their respective SACCOs. Most of the members agreed that their knowledge on the prevailing interest rates has helped them to make savings in their respective SACCOs. Most of the members trust the management of the SACCO with their savings, the trust they have in their respective SACCOs is the main reason why they save and deposit their money there, they save in the SACCO because of the dividends they expect, they deposit savings because that was security in future when taking loans from the SACCO. Most of the members were not sure whether their deposits are as a result of the loans they have taken pro rata, Most of the customers were not sure

whether they believe their respective SACCO management make the best investment decisions for them as far as their deposits are concerned.

The study also concludes that most SACCO members believe they always get the best value for their deposits at their respective SACCOs, most members were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests and were not sure whether they believe the management follows the laws and regulations strictly when handling issues relating to interests rates.

### 5.5 Recommendations

In conclusion, the interest rate affects the growth of Sacco's deposits positively but negligibly. This result suggests that trying to influence the SACCOs deposits by manipulating interest rates is not likely to be a practical policy option in western region. However, the SACCOs should attempt to maintain competitive positive real interest rates relative to those offered by other financial institutions in order to increase their savings.

### REFERENCES

- Aaronovitch, S., & Aaronovitch, K. (1947). Crisis in Kenya. London: Lawrence & Wishart.
- Abdi, A. (1977). Commercial Banks and Economic Development: The Experience of Eastern Africa. New York: Praeger.
- African Centre for Open Governance (AFRICOG). (2008). Mission Impossible? Implementing the Ndung'u Report. Nairobi.
- Agarwala, R. (1983). Price Distortions and Growth in Developing Countries. Policy Research Working Paper (575).
- Agrawal, A. & Chadha, S. (2005). Corporate governance and accounting scandals. *Journal of Law and Economics*, 48, 371-406.
- Agrawal, A. & Cooper, T. (2007). Corporate governance and accounting scandals Evidence From Top Management, CFO and Auditor Turnover. Tuscaloosa: Culverhouse College of Business.
- Ayogu, M. (2001). Corporate Governance in Africa: The Record and Policies for Good Corporate Governance. *African Development Review*, 13(2), 308-330.

- Azam, J.-P. (1996). Savings and Interest Rate: The Case of Kenya. *Savings and Development*, XX (1), 33- 43.
- Baker, A. (2008). International Corporate Governance Principles, the Politics of Give and Take and the Virtues of Heterogeneity, The Political Economy of Corporate Governance. Queen's University, Belfast.
- Balachandran, P. (1981). An Embattled Community: Asians in East Africa Today. *African Affairs*, 80(320), 317-325.
- Bank for International Settlements (BIS).(2006). Core Principles for Effective Supervision. Basel.
- Bank of Zambia. (2004). Financial Sector Development Programme (2004-2009). Lusaka: Bank of Zambia.
- Barth, J., Caprio, G., & Levine, R. (2006). Rethinking Bank Regulation and Supervision: Till Angels Govern. Cambridge: Cambridge University Press.
- Baumol, W., Panzar, J., & Willig, R. (1982). Contestable Markets and the Theory of Industrial Structure. San Diego, CA: Harcourt Brace Jovanovich.
- Becht, M., Jenkinson, T., & Mayer, C. (2005). Corporate Governance: An Assessment. *Oxf Rev Econ Policy*, 21(2), 155-163.
- Beck, T., Cull, R., Fuchs, M., Getenga, J., Gatere, P., Randa, J., et al. (2010). Banking Sector Stability, Efficiency, and Outreach in Kenya. World Bank Policy Research Working Paper, 5442.
- Byrd, J. W., & Hickman, K. A. (1992). Do outside directors monitor managers? : Evidence from tender offer bids. *Journal of Financial Economics*, 32(2), 195-221.
- Cable, V. (1969).The Asians of Kenya. *African Affairs*, 68(272), 218-231.
- Calomiris, C., & Kahn, C. (1991).The Role of Demandable Debt in Structuring Optimal Banking Arrangements. *American Economic Review*, 81(3), 497-513.
- Capital Markets Authority. (2002). Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya. Nairobi: Capital Markets Authority.
- Caprio, G. (1994). Banking on Financial Reform? A Case of Sensitive Dependence on Initial Conditions.In G. Caprio, I. Atiyas& P. Honohan (Eds.), Financial Reform. Cambridge: Cambridge University Press.
- Caprio, G., Atiyas, I., & Hanson, J. (1994).Financial Reform. Cambridge: Cambridge University Press.
- Chege, M. (1997).Paradigms of Doom and the Development Management Crisis in Kenya. *Journal of Development Studies*, 33(4), 552-567.
- Cheng, X., & Degryse, H. (2010). Information Sharing and Credit Rationing: Evidence from the Introduction of a Public Credit Registry. European Banking Center Discussion Paper, 07S.
- Chick, V. (2008). Could the Crisis at Northern Rock Have Been Predicted?: An Evolutionary Approach. *Contributions to Political Economy*, 27(1), 115-124.
- Chick, V. (1992).The Evolution of the Banking System and Theory of Saving, Investment and Interest. In P. Arestis& S. Dow (Eds.), On Money, Method and Keynes: Selected Essays by Victoria Chick. London: Macmillan.
- Chick, V. (1997).Some Reflections on Financial Fragility in Banking and Finance. *Journal of Economic Issues*, 31(2), 535-541.
- Chirwa, E. (2001). Market Structure, Liberalisation and Performance of the Malawian Banking Industry. AERC Research Paper(108).

- Ciancanelli, P., & Reyes-Gonzalez, J. A. (2000). Corporate Governance in Banking: A Conceptual Framework. Paper presented at the European Financial Management Association Conference, Athens.
- Claessens, S., Djankov, S., & Lang, L. (2000). The Separation of Ownership and Control in East Asian Corporations. *Journal of Financial Economics*, 2000, 81-112.
- Deji, O. F. (2005). Membership of Co-operative Societies and Adoption Behaviour of Women Farmers: Implication for Rural Development. *Journal of social science*, 10(2), 145-147.
- Gardeklint, A. (2009). Facts about the Co-operative movement. Nairobi, Kenya National Federation of Co-operatives.
- Goodhart, C., Hartmann, P., Llewellyn, D., Rojas-Suarez, L., & Weisbrod, S. (1998). Financial Regulation: Why, How and Where Now? London: Routledge and Bank of England.
- Harriss, J. (2002). The Case for Cross-Disciplinary Approaches in International Development. *World Development*, 30(3), 487-496.
- Harriss, J. (2003). Widening the Radius of Trust: Ethnographic Explorations of Trust and Indian Business. *Journal of the Royal Anthropological Institute*, 9(4), 755-773.
- Hasan, Z. (2005). Evaluation of Islamic Banking Performance: On the Current Use of Econometric Models. Munich Personal RePEc Archive 7272.
- Hazlewood, A. (1979). The Economy of Kenya - The Kenyatta Era. Oxford: Oxford University Press.
- Hertig, G. (2005). On-Going Board Reforms: One Size Fits All and Regulatory Capture. *Oxf Rev Econ Policy*, 21(2), 269-282.
- Heugens, P., & Otten, J. (2007). Beyond the Dichotomous Worlds Hypothesis: towards a plurality of corporate governance logics. *Corporate Governance: An International Review*, 15(6), 1288-1300.
- Himbara, D. (1994). Kenyan Capitalists, the State and Development. Boulder, CO: Lynne Rienner.
- Hodgson, G. (1988). Economics and Institutions: A Manifesto for a Modern Institutional Economics. Cambridge: Polity.
- Hodgson, G. (1998). The Approach of Institutional Economics. *Journal of Economic Literature*, 36(1), 166-192.
- Hodgson, G. (2001). How Economics Forgot History: The Problem of Historical Specificity in Social Science. London and New York: Routledge.
- Hoggarth, G., Reidhill, J., & Sinclair, P. J. (2004). On the Resolution of Banking Crises: Theory and Evidence: SSRN.
- Holmström, B., & Tirole, J. (1993). Market Liquidity and Performance Monitoring. *The Journal of Political Economy*, 101(4), 678-709.
- Levine, R. (2004). The Corporate Governance of Banks: A Concise Discussion of Concepts and Evidence. Policy Research Working Paper, 3404.
- Levy-Yeyati, E., Martinez Peria, M. S., & Schmukler, S. (2004). Market Discipline in Emerging Economies: Beyond Bank Fundamentals. In C. Borio, W. Hunter, G. Kaufman & K. Tsatsaronis (Eds.), Market Discipline Across Countries and Industries. Cambridge, Massachusetts: The MIT Press.
- Mckinnon, R. I. (1973): Money and Banking in Economic Development. Washington D.C. An empirical Examination": The Brookings Institute.



- Mudibo, E. K. (2005). Corporate Governance in Co-operatives the East African Experience. Conf. Pan-African Consultative Forum on Corporate Governance 2005, Dakar, Senegal.
- Munyiri, C. (2006). Study visit on the role of women in development of microfinance in Africa. *Digest* 03, 3, 1-6.
- Ndung'u, G. (2010). Orderly movement. *Business Post*, 1, 28-30.
- Ng'ombe, B. W. & Mikwamba, E. (2004). Know More About SACCO. A Handbook for SACCO studies Circle Programme. Malawi Union of Savings and Credit Co-operative [MUSCCO], Lilongwe, Malawi.
- Republic of Kenya (1997a). Sessional Paper No. 6 of 1997 on Co-operatives in A Liberalized Economic Environment. Nairobi: Government Printers
- Republic of Kenya (2008). Medium Term Plan (2008 – 2012) For The financial Services Sector. Nairobi: Government printer. Republic of Kenya.(2008). Vision 2030 First Medium Term Plan. A Globally Competitive and Prosperous Kenya 2008. Nairobi: Government Printer.
- Republic of Kenya. (2008b). The SACCO Societies Act, 2008. Nairobi: Government Printer
- Wanyama, F. O. (2009). Surviving liberalization: The co-operative movement in Kenya. CoopAFRICA Working Paper No.10. Dar es Salaam, Tanzania: International Labour Organization.

