

Financial Practice as a Determinant of Growth of Savings and Credit Co-Operative Societies' Wealth

(A Pointer to Overcoming Poverty Challenges in Kenya and the Region)

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Abstract

Savings and Credit Co-operative Societies (SACCOs) in Kenya have been investing over the years with the objective of maximizing their wealth. As is the case with all investments, wealth maximization is a key objective whenever SACCOs have chosen an investment avenue from a universe of possible investment vehicles. Studies have shown that lack of sufficient Growth of SACCOs' Wealth has made it difficult for them to absorb their operational losses, which has threatened their sustainability. This has led to the losses being absorbed by members' savings and share capital, hence lose of members' savings. While the purpose of SACCOs is to mobilize members' funds and grant credit for the members' development, this has made it difficult for the SACCOs to grow their wealth, achieve this objective and contribute favorably to National Domestic Savings. This failure to build enough SACCOs' wealth, through accumulation of institutional capital, is attributable to weak financial stewardship, inappropriate capital structure and imprudent funds allocation strategy. The purpose of this paper is to assesses the financial practice as a determinant of growth of wealth of SACCOs with a view of ameliorating the situation for socio-economic development. This study used descriptive design in soliciting information on the determinants of growth of SACCOs' wealth. Data was collected from the census of 44 SACCOs in Meru county using a questionnaire and document review tool, and analyzed using both descriptive and inferential statistics. The study findings indicated that Growth of SACCOs wealth depended on Financial stewardship, Capital structure and Funds allocation strategy. The study further found that SACCOs inadequately complied with their by-laws; incomes from investments did not adequately cover their costs. The study recommends that SACCO should; continuously review credit policies, establish irrecoverable loan provision policies, develop sound staff recruitment policies, use appropriate financing mix. And that the Government should review legal framework to ensure that institutional capital is used to grow SACCOs wealth.

Keywords: Capital Structure, Growth of SACCOs' Wealth, Financial Stewardship, Funds Allocation Strategy, Institutional Capital, Operational Losses, Sustainability of SACCOs

1. Introduction

1.1 Background Information

Savings and Credit Co-operative Societies (SACCOs) are started locally and have solid bases of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs.

More so, SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas (Branch, 2005). This has made SACCOs more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Munyiri, 2006). In fact, the core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit (Ofei, 2001). SACCOs have been efficient in achieving this objective. In Kenya, for instance, SACCOs have mobilized over Kshs.200 billion in savings, accounting for over 30% to National Domestic Saving (Co-operative Bank of Kenya, 2010).

Savings mobilization should be backed by adequate institutional capital which ensures permanency, provide cushion to absorb losses and impairment of members' savings (Evans, 2001). The institutional capital, which comprises the core capital and less share capital, is mainly accumulated from appropriation of the surpluses. Therefore, SACCOs should strive to maximize on the earnings to build the institutional capital (Branch & Cifuentes, 2001; Ombado, 2010). This institutional capital ensures the permanence and growth of the SACCOs even in turbulent economic times (Evans, 2001). In fact, it helps the SACCOs to grow and, remain economically and financially viable (Gijssels & Devetere, 2007). Such growth is enhanced by effective financial practices.

Financial stewardship being the routine financial decision-making of the SACCO, should embrace sound business practices. This should also revolve around the SACCOs' financial discipline with a profound influence on the success of all businesses conducted by the SACCOs (Mudibo, 2005). The major financial decisions involved in financial stewardship, for instance, include decisions on finance staff, loan management, asset management and product innovation (Horne, 2003, and Mudibo, 2005). The financial stewardship should be capable of working to increase SACCOs' wealth, sustain the SACCOs' value and satisfy the shareholders' demands. Further, the financial stewardship aspect is also responsible for updating accounts, ensuring correctness of accounts, advance planning and reporting to members. Accordingly, the financial practice team identifies the most appropriate methods and structure of financing the SACCOs' assets. Such a structure should be in a position to optimize surpluses (Evans, 2001).

More so, prudent funds allocation strategy is an important financial practice function in any SACCO society. This aspect usually involves decisions to commit the SACCOs' funds to planned investment options. SACCOs need to make decisions to invest their funds more efficiently in anticipation of expected flow of benefits in the long run. Such investment decisions generally include expansion, acquisition, modernization and replacement of long-term assets (Maina, 2007). Thus, the SACCOs' value is deemed to increase where the investments are profitable and add to the wealth in the long run. This situation is obtained where the SACCO involves itself with investments that yield benefits greater than the opportunity cost of capital

Imperatively, each SACCO needs to generate income which is adequate to cover all its operational costs, enhance the institutional capital, dividends and rebates. In this regard, financial practice is based on sound financial stewardship, solid capital structure, and prudent funds allocation strategy (Maina, 2007).

Further, The Vision 2030 strategy among other things requires the financial services sector to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present. This sector will assist the mobilization of investment funds required to implement the projects of Vision 2030. SACCOs are among the financial services strategies to be implemented in this exercise. Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions will play a crucial role in improving the reach and access of financial services (currently only 19% of Kenyans have access to formal financial services).

1.1.1 History of Savings and Credit Co-Operatives in Africa in general and Kenya in specific.

The first SACCO Society, in Africa, was introduced in Ghana in 1959. The SACCO was intended to assist villagers improve their economic conditions (Ng'ombe & Mikwamba, 2004). English speaking nations were the first to adopt SACCOs. The first entrants into SACCO community include Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating SACCOs in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011).

The formation of SACCO in Africa grew tremendously to the extent that the African countries formed a continental association of SACCOs, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng'ombe and Mikwamba, 2004). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010).

In Kenya, the first Co-operative Society was Lumbwa Co-operative Society formed in 1908 by the European Farmers with the main objective of supporting agricultural activities and products to take advantage of economies of scale (Kenya Union of Saving and Credit Co-operatives [KUSCCO], 2006).

Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation. Accordingly, steps were taken by the Government which saw the rapid growth and expansion of the SACCO Society movement in the country (Gardeklint, 2009). In fact, the SACCO movement is considered by the government as one of the economic pillars of the nation. By the year 2010, Kenya had over 5,000 registered SACCOs with a membership of about 7 million. These SACCO societies had mobilized savings of over Ksh.200billion (Republic of Kenya (RoK), 2008; Ndung'u, 2010)

1.1.2 Regulatory Framework for SACCOs in Kenyan

In 1945, the Co-operative Ordinance Act was passed where the Government of Kenya (GoK) legally controlled the co-operatives. The act was amended in 1997 removing much of the control from the government through the Commissioner of Co-operatives under the Co-operative Societies Act 1997. This Act was enacted to provide a policy framework for co-operative development in Kenya therefore delineating these co-operatives from the control of the Government by necessitating the withdrawal of state control over the co-operative movement. The aim was to make co-operatives autonomous, self-reliant, self-controlled and commercially viable institutions. The role of the government was redefined from one that sought to control co-operative development, to one that now seeks to regulate and facilitate their autonomy. This allowed the co-operatives to compete with other private enterprises in the marketing of agricultural produce (Republic of Kenya, 1997a). The 1997 Act was amended in 2004 through the Co-operative Societies (Amendment) Act of 2004 which was enacted to re-enforce state regulation of the co-operative movement through the office of the Commissioner for Co-operatives Development.

The SACCO Societies Act of 2008 was enacted later to provide for the licensing, regulation, supervision and promotion of savings and credit co-operatives by the SACCO Societies Regulatory Authority. Thus, this Act provides for the establishment of the SACCO Societies Regulatory Authority (SASRA) whose functions include licensing SACCOs to carry out deposit-taking business as well as regulating and supervising SACCOs (Republic of Kenya, 2008b). (Wanyama, 2009).

1.2 Statement of the Problem

From the foregoing background literature, (Mudibo 2005, Ademba2010; Ndung'u 2010; Thabo, *et. al.*, 2003 Agrawal *et al.*, 2002; Adeyemo & Bamire 2005; Deji 2005; Asher, 2007; Ogsi, 2001 and Munyiri 2006.)it emerges that the objective of SACCO Societies is member empowerment through savings mobilization, disbursement of credit and ensuring SACCOs' long-term sustainability through prudent financial practice. However, they contend that there are a number of challenges in promoting quality financial management such as limited capital funding sources, loan delinquency, and assessment and management of risks in addition to negative cash (liquidity), poor governance and poor investment decisions. That wealth generation is hampered by poor financial stewardship, under-capitalization of co-operative enterprises, high cost of funds, and delayed member payments.

Over time, SACCOs have been trying to address members' demands by mobilizing funds and granting credit to members. However, they have not been able to grow their wealth sufficiently through accumulation of enough institutional capital to finance non-withdrawable capital funded assets, provide cushion to absorb losses and impairment of members' savings. *The Purpose of the study was therefore to assess financial practice as a determinant of the growth of SACCOs' wealth with a view to improving their operations for the benefit of the members and the country.*

The study was guided by the following objectives

- i. To establish the association of financial stewardship and the growth of SACCOs' Wealth.
- ii. To establish the association of capital structure and the growth of SACCOs, Wealth.
- iii. To establish the association of funds allocation strategy and the growth of SACCOs' Wealth.

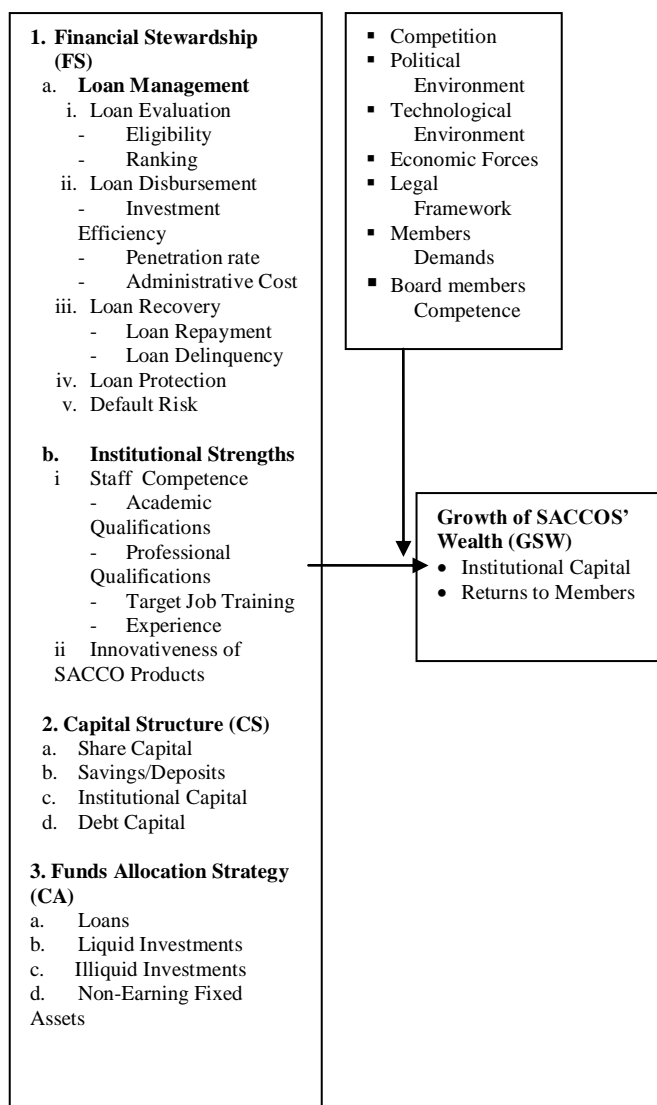
Thus the study was based on the following hypotheses

- i. H_0 : There is no dependence between growth of SACCO's wealth and financial stewardship.
- ii. H_0 : There is no dependence between growth of SACCO's wealth and capital structure.
- iii. H_0 : There is no dependence between growth of SACCO's wealth and funds allocation strategy.

2. Research Methodology

2.1 Conceptual model

The study proposed that the growth of SACCOs' wealth is determined by financial stewardship, capital structure and funds allocation strategy as captured in figure just below.



Source: Researcher (2010)

Further, there are other factors which cannot be controlled by the SACCOs but could intervene in the growth of SACCOs' wealth these include Competition, political environment, technological environment, economic forces, legal framework, members' demands and board members' competence are some uncontrollable variables,

The basic models for this concept are

$GSW = f(LE, LD, LR, LP, DS, SA, TEC)$ for Financial stewardship.

$GSW = f(F1, F2, F3, F4)$ for Capital Structure.

$GSW = f(U1, U2, U3, U4)$ for funds allocation strategy.

Where

GSW is Growth of SACCO's Wealth, LE is Loan Evaluation, LD is Loan Disbursement, LR is Loan Recovery, LP is Loan Protection, DS is Default Risk, SA is Staff Competence, TEC is Innovativeness. F1 is Share Capital, F2 is Savings, F3 is Institutional Capital, F4 is Debt Capital, U1 is Loans, U2 is Liquid Investments, U3 is Illiquid Investments & U4 is Non-earning Fixed Assets

2.3 Research Design and Study Locale

This study used a descriptive survey (Describing the characteristics of existing phenomenon) in soliciting information on the determinants of growth of SACCOs' wealth in Meru County. Descriptive survey design was used since it provides insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationships. This helped in providing useful and accurate information to answer the questions based on who, what, when, and how. (Kombo & Tromp, 2006). The study was conducted in Meru County of the Eastern Province, Kenya.

2.5 Target Population and Sampling

The target population was all SACCOs in Meru County which had been in existence for over two years in the year 2010. Although there were 45 SACCOs in Meru County by 2010, the study focused only on 44, because one did not meet the threshold in the inclusion criterion. The respondents were the Chief Executive Officers (CEOs) of these SACCOs owing to their pivotal position in the Sacco. The study used census methodology which enabled the researcher to gather sufficient information for analysis and triangulation.

2.7 Data Collection Procedure

Data were collected from primary and secondary sources. Primary data were collected using a semi structured questionnaire which had both open and closed-ended questions. Secondary data were collected from the SACCOs' financial statements and other records using document review guide. To effectively collect the data, the study employed the services of two research assistants (RAs) who were first degree holders. The RAs were adequately trained to understand the questionnaire before commencement of the data collection. During data collection, the researcher first sought an appointment with the SACCOs' CEOs (Respondents). Arrangements were then made on when and how to conduct the data collection. When collecting primary data, the RAs assisted the CEOs to fill the questionnaire and at the end confirmed any issues arising out of the data supplied.

2.8 Data Analysis

Collected data were checked for errors of omission and commission. The data collected were classified, operationalized, analyzed and interpreted to establish how and when these determine the growth of SACCOs' wealth. The data collected were analyzed, with respect to the study objectives, using both descriptive and inferential statistics. Univariate analysis which is the distributional properties of a variable was carried out first for each variable to describe that variable and as a preparation for multivariate analysis. This was largely a quantitative analysis where each variable was analyzed independently. The study used chi-square test to test dependence of growth of SACCOs' wealth on financial stewardship, capital structure and funds allocation strategy. Thus, the study employed multiple linear regressions in its multivariate analysis. Software Package for Social Sciences (SPSS) software was used to analyze data. Multiple regression was done in order to establish the nature of the relationship between financial stewardship, capital structure and funds allocation Strategy.

3.0 Results and Findings

3.1 Response Rate

A total of 44 questionnaires were given out to CEOs of the 44 SACCOs that had been in operation for more than two years in Meru County out of which 36 were returned giving a response rate of 81.82%.

3.2 Demographic Information

The study findings revealed that the oldest SACCO was started in 1972 with majority of them (59.3%) having been started after 1999. Majority of SACCOs in Meru County had less than two accounts staff in the years 2005 to 2007 as indicated by a mean of less than 2 while in the years 2008 and 2009 majority had less than four accounts staff as indicated by a mean of less than 4. The majority of the SACCOs had less than seven members of staff in other departments in the years 2005 to 2009 as indicated by a mean of less than 7.

The study established that staff establishment is relatively low. This may be attributable to poor staffing levels, weak decision making coupled with liquidity constraints which hinder growth of SACCOs' wealth in Meru. SACCOs therefore, need to improve on staff establishment capacity if they have to achieve sustainable growth. It was also considered important to find out the classification of the SACCO societies as either urban, rural or transport and the findings were as illustrated in figure 4.1.

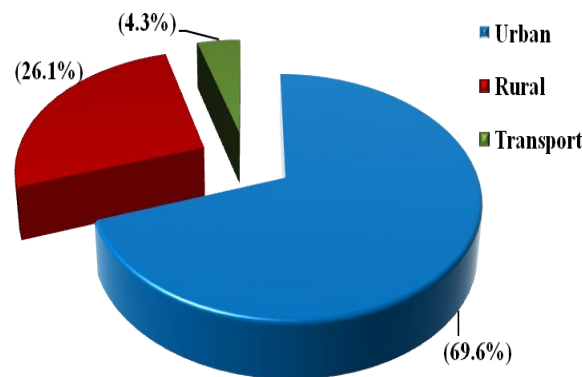


Figure 4.1: Classifications of SACCO Societies

Figure 4.1 above illustrates that majority (69.6%) of the SACCO societies were urban societies while only (26.1%) were rural with (4.3%) being in the transport category. The reason for this phenomenon is due to urban SACCOs being patronaged by regular income earners who also embrace the saving culture. The minimal number of SACCOs in transport based sector is because it is a new investment vehicle which is evolving due to government efforts to streamline the sector.

3.3 Growth of SACCOs Wealth

To assess Financial Practice Determinants of Growth of Savings and Credit Co-operative Societies' wealth it was considered important to find out the indicators of growth of SACCOs' wealth; profitability and distribution of income in the SACCO societies. The findings were as shown in table 4.3.

Table 4.3: Profitability and Distribution of Income

Item	Mean	Std. Dev.
Our SACCO has been making a surplus every year from 2005 to 2009	3.35	1.263
Our SACCO has been declaring dividends for the last five years	3.30	1.295
Dividends per share have been increasing in the last five years	3.19	1.241
The SACCO has also been contributing to retained earnings	3.70	1.171
The retained earnings have been growing annually from 2005 to 2009	3.78	0.934

Table 4.3 above shows that majority of the respondents agreed that the retained earnings have been growing annually from 2005 to 2009 and that the SACCO has also been contributing to retained earnings as indicated by a mean of ≈ 4 and a standard deviation of ≈ 1 . It was also revealed that majority of the respondents disagreed that their SACCO had been making a surplus every year from 2005 to 2009, their SACCO had been declaring dividends for the last five years and that dividends per share had been increasing in the last five years as indicated by a mean of ≈ 3 and a standard deviation greater than 1. This is an indicator that SACCOs consistently grew their wealth.

It was further sought to find out how the surplus distributed as dividends, rebates and institutional capital (retained earnings) had been determined and the findings were as illustrated in figure 4.2. The fact that the respondents were neutral on the indicators of growth of SACCO’s wealth shows that SACCOs in Meru on average have been experiencing moderate growth of their wealth. The SACCOs which are able to retain surpluses declare dividends and rebates that grow their equity capital and net assets. Growth in retained earnings cushions SACCOs from heavy reliance on external funding which has forced many SACCOs into financial distress. One can justifiably say that SACCOs should endeavor to minimize their operational costs, grow their surplus and hence be able to build their institutional capital.

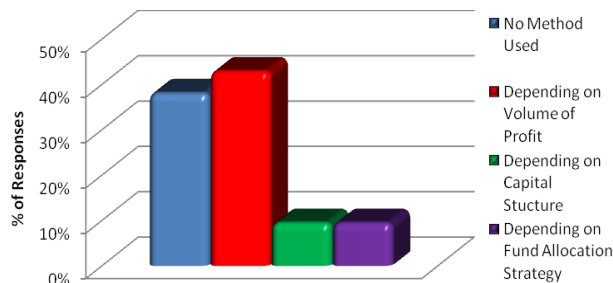


Figure 4.2: Determinants of surplus distribution

Figure 4.2 illustrates that majority of the respondents (42.9%) indicated that surplus distributed as dividends, rebates and institutional capital (retained earnings) was determined depending on volume of profit while (38.1%) of the responses indicated that it was not determined by any method. Only (9.5%) of the responses indicated determination by capital structure and fund allocation each. It was worth noting that none of the responses indicated using standard proportion to determine surplus. This is an indicator that the majority of SACCOs distribute surpluses as dividends, rebates and institutional capital depending on profitability of SACCOs. The fact that 38.1% of SACCOs have no pre-determined criteria of distribution of profits indicate very weak dividend policy. This may be explained by the weak regulatory framework and human resource capacity.

3.4 Financial Stewardship

Having determined the growth of SACCOs wealth the study also tried to determine the factors that influence the growth. One of the determinants of SACCO’s wealth was financial stewardship. Financial Stewardship is concerned with the accountability of the management as regards to the routine financial decision-making process. The findings of the components of financial stewardship were as shown in Table 4.4

Table 4.4: Summary of Responses Concerning Financial Stewardship

Component	Mean	Std. Dev.
Loan Eligibility	4.020	1.0535
Ranking	3.465	1.1525
Loan Disbursement	4.100	0.8790
Loan Repayment	3.635	0.9688
Loan Protection	2.805	1.1355
Default Risk	4.013	0.9113
Innovativeness	3.643	1.0573

From the table 4.4, majority of the respondents agreed that loan applications were approved by special committee in their SACCOs and that SACCOs by-law was the basis of loan evaluation. This is indicated by a mean (≈ 4) and standard deviation (≈ 1). Majority of the respondents were neutral as to whether SACCOs do loan applications ranking or not, this is indicated by the mean (≈ 3) and standard deviation (≈ 1). Majority of the respondents agreed that loan pay-out had been increasing in their SACCO for the last five years and that their SACCO always disbursed loans as they became due. This is indicated by the mean (≈ 4) and standard deviation (< 1). This is a clear indication that higher loan disbursement builds loan portfolio and interest earnings hence contributing to growth of wealth.

Majority of the respondents agreed that loan borrowers always honored loan repayment on due date, loan delinquency had been minimized in the last five years, loan delinquency was avoided at all costs and that members of their SACCO were eager to repay their loans promptly. This is indicated by the mean (≈ 4) and standard deviation (≈ 1). This promotes liquidity hence enhancing growth of SACCOs' wealth. Majority of respondents were neutral as to whether their SACCO had provision for irrecoverable loans as indicated by the mean (≈ 3) and standard deviation of greater than one. Majority of the respondents agreed that their SACCO awards loan depending on the borrower's ability to pay, loan with lower default risk are paid in full to the SACCO and that where default risk is high, the SACCO awards loan depending on the borrower's ability to pay. This reduces impairment of the loan assets and interest income hence promoting growth of SACCO's wealth.

Majority of the respondents agreed that all loan products were designed to fit members' needs, there were regular diversification products in their SACCOs as indicated by a mean (≈ 4) and standard deviation (>1). This is an indicator that products which are inciting, attractive and affordable attract more clientele hence growth in loan portfolio.

3.5 Capital Structure

Table 4.5: Capital Structure

Item	Mean	Std. Dev.
The SACCO uses cost of capital when determining the source of funds	4.15	0.613
The SACCO makes careful evaluations when deciding sources of funds	4.31	0.788
Profitability is a determinant of the source of funds in this SACCO	4.12	0.666
This SACCO mobilizes funds after consulting the experts in finance.	3.88	0.971

The majority of the respondents agreed that the SACCO uses cost of capital when determining the source of funds, the SACCO makes careful evaluations when deciding sources of funds, profitability is a determinant of the source of funds in their SACCO and that their SACCO mobilizes funds after consulting the financial managers. This is indicated by the mean (≈ 4) and standard deviation (≈ 1). This implies that prudent decisions on financing of SACCOs lead to growth of wealth.

3.6 Funds Allocation Strategy

The study sought to find out whether the income generated from loans was sufficient and the findings were as indicated in table 4.6.

Table 4.6: Funds Allocation Strategy

Component	Mean	Std. Dev.
Loan	3.775	1.1530
Liquid Assets	3.396	0.8208
Illiquid Assets	2.965	0.9388

Table 4.6 indicates that majority of the respondents agreed that income from loans covered all operating costs and that income from loans in their SACCO maintained retained earnings. Majority of the respondents were neutral as to whether or not non-financial investments paid their recurrent costs, always paid initial outlay, provided for sinking fund, supported other projects and that buying of assets was always justified using cost/benefit analysis. This was indicated by the mean (≈ 4) and standard deviation (≈ 1.2). Majority of the respondent agree that the SACCOs are prudent in management of their financial investment which promotes their liquidity and profitability. Non- liquid investments should pay for all their recurrent costs, pay back the initial outlay and provide the SACCOs' sinking fund. They should also be able to finance other projects later. The study deemed it important to determine the performance of the non-liquid investments and the results were that majority of the respondents were neutral as to whether or not Illiquid investments paid their recurrent cost, always paid initial outlay, provided for sinking fund or supported other projects. This is indicated by the mean (≈ 3) and standard deviation (≈ 1). This shows that most investments are able to pay recurrent costs, initial outlay and provide for sinking fund.

3.7 Chi square Tests on Dependence between Independent variables and Growth of SACCOs Wealth

Table 4.7: Chi-Square tests for variable associations

	Pearson Chi-square	p-value	Strength(Phi/ Cramers' V)	P-values
Financial stewardship	36.000	0.000	0.960	0.000
Capital structure	15.840	0.000	0.663	0.000
Funds allocation strategy	19.800	0.000	0.742	0.000
N=36, Level sig.0.05				

Since the p-values (.000) are smaller than level of significant of the study (0.05), therefore we rejected the null hypothesis and conclude that all the determinants of financial practice i.e. financial stewardship (36.000, p= 0.000) capital structure (15.840, p = 0.000) and funds allocation practice (19.800,p=,0.000) bore a positive significant association with the growth of SACCOs' wealth. The financial stewardship (0.960, p = 0.000) and funds allocation strategy (0.742, P=0.000) have strong effect on Growth of SACCOs' wealth, capital structure has moderate effect. Implying their relativity in determining growth of SACCOs wealth.

3.8 Multiple Regressions of Independent Variables against the Dependent variable

3.8.1 Testing Study variables for Normality

The study tested for normality using Shapiro Wilk test (numerical method) since the sample population was small (less than 50). The results obtained are in Table 4.8.

Table 4.8: Results of Normality tests on Study variables

Variables	Shapiro-Wilk
Growth of Wealth	0.842
Financial Stewardship	0.732
Capital structure	0.898
Funds allocation strategy	0.915

The p-values for respective variables were greater than 0.05 level of significance, indicating that the data were normally distributed. Absence or presence of heteroscedasticity did not render estimators (coefficients) biased, inconsistent and insufficient, therefore it wasn't diagnosed.

The study didn't focus on the variability of the error term with respect to time, making autocorrelation check not necessary. However, the study tested existence of multi-collinearity and obtained the results in Table 4.9

Table 4.9: Results of Multi-co linearity Tests on Independent variables

Predictor Variables	Tolerance($1-R^2$)	VIF(Variance Inflation Factor)
Loan Evaluation(LE)	0.824	1.213
Loan Disbursement(LD)	0.570	1.754
Loan Protection(LP)	0.959	1.042
Default Risk(DS)	0.932	1.072
Innovativeness(TEC)	0.724	1.038
Staff Competence(SA)	0.916	1.092
Savings	0.919	1.088
Share capital	0.537	1.862
Institutional Capital	0.908	1.101
Debt capital	0.852	1.173
Loans	0.527	1.897
Liquid Investments	0.935	1.675
Illiquid investments	0.421	2.375
Non-earning fixed Assets	0.956	1.046
N=36		

Since the tolerance for all predictor variables were greater than 0.1 or 10%, the study concluded that there is no problem of multi-collinearity among them. So the estimators computed were considered reliable

3.8.2 Regression of Financial Stewardship against Growth of SACCOs Wealth

The study regressed growth of SACCOs wealth against components of the financial stewardship to estimate a model for explaining the Growth of SACCOs in terms of Financial Stewardship. The Growth of SACCOs was the dependent variables and the Financial Stewardship components were independent variables

To achieve this, a multiple linear regression was done on the indicators of financial stewardship i.e. loan evaluation(LE), loan disbursement (LD), loan recovery (LR), loan protection(LP), default risk (DS), staff competence (SA) and innovativeness (TEC) as independent variables of the growth of Sacco’s wealth. The assumption is that, mean of wealth index changes at a constant rate as the values of independent variables decreases or increases. The model is given as:

$$GSW = \beta_0 + \beta_1LE + \beta_2LD + \beta_3LR + \beta_4LP + \beta_5DS + \beta_6SA + \beta_7TEC + \varepsilon$$

Where β_0 .the constant term

$\beta_1 - \beta_7$. coefficients of the independent variables

ε - Error term

Table 4.10: Results of Regression of growth of Sacco’s wealth against Financial Stewardship Indicators

Predictor Variable	Coefficient	P-Values
Constant	-4.578	0.0001
Loan evaluation	1.159E-05	0.0003
Innovativeness	0.544	0.0001
Loan disbursement	7.028E-09	0.0001
Loan protection	2.347E-07	0.0002
Staff competence	0.119	0.0002
Default risk	-0.046	0.0004
Size=36 R2=0.966 Adjusted R2=0.965		

The estimated equation is:

$$G S W = -4.578+ 1.159E.05LE + 0.554TEC + 7.028E.09LD + 2.347E.07LP.-046DS + 0.119SA$$

Table 4.10 shows that loan evaluation; loan disbursement, loan recovery, loan protection, staff competence and innovativeness have positive coefficients. This implies that the variables are directly proportional to the growth SACCOs’ wealth i.e. an increase one or all except default risk lead to an increase in growth of SACCO’s wealth. Default risk has a negative coefficient which shows that it inversely proportional to Growth of SACCOs wealth. I.e. An increase in default risk leads to decrease in growth of SACCO’s wealth.

When considering of the growth of SACCOs Wealth and financial Stewardship, table 4.10 shows 96.5% of variation in Growth of SACCOs Wealth is explained by loan evaluation(LE), loan disbursement (LD), loan recovery (LR), loan protection(LP), default risk (DS), staff competence (SA) and innovativeness (TEC). Therefore, financial stewardship indicators are strong determinant of Growth of Sacco’s wealth.

3.8.4 Regression of Capital Structure against Growth of SACCOs ‘wealth

To estimate a model to explain growth of SACCOs wealth in terms of the capital structure indicators, the study regressed the growth of wealth against components of the capital structure. Growth of SACCOs wealth was the dependent variables and the components of the capital structure were the independent variables. To achieve this, a multiple linear regression was done on the indicators of capital structure i.e. share capital, savings, institutional capital and debt capital as independent variables of the Growth of SACCOs Wealth. The assumption is that, mean of

The estimated equation is

$$\text{GSW} = 0.685 + 5.492E-08 F1 + 1.833E-10 F2 + 1.052E-09 F3 + 5.434E-10 F4$$

Table 4.11: Results of Regression of Growth of SACCOS against Capital Structure

Predictor Variable	Coefficients	P-values
Constant	0.685	0.0003
Share capital	5.492E-08	0.0004
Savings	1.833E-10	0.0003
Institutional capital	1.052E-09	0.0004
Debt capital	5.434E-10	0.0001
Size=36 R ² =0.784 Adjusted R ² = 0.778		

The model is given as

$$\text{GSW} = \beta_0 + \beta_1 F1 + \beta_2 F2 + \beta_3 F3 + \beta_4 F4 + \varepsilon$$

Where β_0 - the constant term,

β_1 - β_4 - coefficients and

ε - Error term

Table 4.11 shows that share capital, savings, institutional capital and debt capital have positive coefficients. This shows that proper combination of the four components of capital structure would lead to growth of SACCOS' wealth.

The coefficient of determination is 0.778, meaning that 77.8% of change in growth of Sacco's wealth by capital structure.

3.9 Regression of Funds Allocation Strategy and Growth of SACCOS' Wealth

To estimate a model to explain the growth of SACCOS' wealth in terms of funds allocation strategy components and growth of wealth, the study regressed the growth of wealth against components of funds allocation strategy. The Growth of SACCOS' wealth was the dependent variables and the funds allocation strategy components were the independent variables.

To achieve this, a multiple linear regression was done on the indicators of funds allocation strategy i.e. growth of SACCOS wealth as dependent variable against loans (U1), liquid investments (U2), illiquid investments (U3) and non-earning fixed assets (U4) as independent variables of the growth of SACCOS' wealth. The assumption was that, mean of Growth of SACCOS wealth index changes at a constant rate as the values of independent variables decrease or increase.

The model is given as:

$$\text{GSW} = \beta_0 + \beta_1 U1 + \beta_2 U2 + \beta_3 U3 + \beta_4 U4 + \varepsilon$$

Where β_0 - the constant term,

β_1 - β_4 - coefficients and

ε - Error term

Table 4.12: Regression of Funds Allocation Strategy against GSW

Predictor Variable	B	Sig.
Constant	-0.162	0.0003
Loans	2.323E-09	0.0003
Liquid investments	9.653E-10	0.0002
Illiquid investments	3.432E-05	0.0027
Non-earning fixed assets	-3.860E-07	0.0001
Size=36 R ² =0.798 Adjusted R ² = 0.792		

The estimated equation is

$$GSW=0.162 + 2.323E-09U1 + 9.653E-10U2 + 3.432E-05U3 + -3.860E-07U4$$

Table 4.12 shows that Loan investments, liquid investments and illiquid investments had positive coefficients while non-earning fixed assets had a negative coefficient. This shows that any increase in loan, liquid, and illiquid investments leads to increase in Growth of SACCOs’ wealth. A decrease in non earning fixed assets leads to increase in growth of Sacco’s wealth because non earning fixed assets do not generate returns but only support cash generating units.

Considering the Growth of SACCOs’ wealth and funds allocation strategy the table 4.12 indicates that 79.2% of variation in Growth of SACCOs’ Wealth is explained by Loan investments, liquid investments, illiquid investments, and non-earning fixed assets i.e. Funds Allocation strategy.

Table 4.13: Summary of results of tests of Hypotheses

Objective	Hypotheses	Result	Remarks on Hypothesis
Objective 1 To establish the association between financial stewardship and growth of SACCOs’ wealth	H ₀ : there is no dependence between financial stewardship and growth of SACCOs’ wealth <i>(Null hypothesis rejected)</i>	p=0.000 which is less than 0.05.	Rejected
Objective 2 To establish the association between capital structure and growth of SACCOs’ wealth.	H ₀ : there is no dependence between capital structure and growth of SACCOs’ wealth. <i>(Null hypothesis rejected)</i>	p=0.000 which is less than 0.05	Rejected
Objective 3 To establish the association between funds allocation strategy and the growth of SACCOs’ wealth.	H ₀ : there is no dependence between Funds allocation strategy and growth of SACCOs’ wealth. <i>(Null hypothesis rejected)</i>	p=0.000 which is less than 0.05.	Rejected

Growth of SACCOs wealth index changes at a constant rate as the values of independent variables decreases or increases.

4. Discussion of Findings

4.1 Association of Financial Stewardship with Growth of SACCOs Wealth

The first objective was designed to establish the association of financial stewardship on growth of SACCOs’ wealth in Meru County in Kenya. This was established by analyzing the individual components of financial stewardship. It was found that. The majority of respondents agreed that loan applications were approved by special committee and that SACCO by-law was the basis of loan evaluation. Most SACCOs’ also ranked applications according to the by-laws. Loan evaluation contributes positively to the growth of SACCOs’ wealth as shown by a positive coefficient of regression. This is to mean that SACCOs’ wealth increase with the increases in loan evaluation.

This is the probability of loanees failing to repay the loans. It was observed that the default risk had a negative influence on the growth of SACCOs' wealth. This clearly shows that any increase in default risk negatively affects growth of SACCOs' wealth. This shows that as default risk decreases the growth of wealth increases. Gaita (2007) showed that the lending institutions were not growing significantly due to poor lending practices and recommended that lending institutions should make products and services more available. He also recommended that favorable regulatory and legal framework is important for the growth of the institution. This agrees with the current study in that when a SACCO society efficiently manages loans, there is high quality loan management and the average collection period is short leading to growth of SACCOs' wealth. In addition, realistic protection leads to reduced overstatement which enhances shareholders' confidence retention, attraction of prospective members, and prevention of potential crises.

It was noted that most of the employees in SACCOs had attained a secondary school qualification as shown by 42.9%. None of the respondents had attained a Ph.D.

Most of the employees had attained technician and diploma levels in their professional qualifications. Majority of the respondents agreed that SACCOs did not provide employees with the opportunity to attend short-term target oriented courses as shown by a frequency of 39.3%. Staff turnover was revealed to be very high as shown by a frequency of 42.9%. Most SACCOs therefore, do not have the capacity to retain their staff. The low levels of academic and professional qualifications can be attributable to poor remunerations and poor working conditions in SACCOs. It was observed that staff competence had a strong positive relationship. The SACCOs should aim at employing competent staff who can make prudent decisions to enhance growth of SACCOs' wealth.

The findings showed that most of loan products were applied for by borrowers, were designed to fit members' needs and there was regular diversification of products in SACCOs. This ensures satisfaction of members in meeting their needs. SACCOs should, therefore, design proper mechanisms so as to enhance innovativeness which leads to variety and quality loan products hence growth of Sacco's wealth.

Innovativeness showed a positive relationship with a growth of Sacco's wealth. Having looked at components of financial stewardship, it is therefore important for SACCOs to promote financial stewardship so as to promote growth of SACCOs' wealth. This is based in the fact that financial stewardship showed significant positive relationship with the growth of SACCOs' wealth. According to Mudibo (2005), the major financial decisions involved in financial stewardship include product innovation, Fosa, Bosa activities among others.

Brown (2004) found that better governed firms were relatively more profitable, more valuable, and paid out more dividends to their shareholders. This is in agreement with this study in that the staff making financial decision need to have requisite skills and uphold professionalism among other competencies to arrive at a sound working investment solution. However, he laid more emphasis on the value of governance to the shareholders while this study lays more emphasis on the value to the SACCO.

5.2.2. Association Between capital structure and Growth of SACCOs Wealth

The second objective was to establish the association of capital structure on growth of Sacco's wealth in Meru County. The findings on individual components of capital structure showed that most of the SACCOs use cost of capital when determining sources of funds and careful evaluations are made when determining sources of funds. The study analyzed individual components of capital structure and it was observed that:

Share capital showed a significant positive relationship with Growth of SACCOs wealth. Institutional capital also showed a significant positive relationship with Growth of SACCOs Wealth .This could be attributable to the fact that it is an internal fund which is cost free. Adequate institutional capital should, therefore, be accumulated so as to cushion the SACCOs against losses.

It was observed that the relationship between savings and growth of Sacco's wealth was weak. This could be attributed to the fact that these are member's funds which are withdrawable on demand.

Debt capital is external fund hence it tends to be costly to SACCOs. The SACCOs should, therefore, apply proper capital mix in their financing. SACCOs should aim at minimizing the use of debt capital in their financing so as to be able to pay the related costs.

The significant relationship between capital structure and growth of SACCO's wealth could be attributable to appropriate mix of internal and external funds in financing the firm's assets. This implies that proper capital structure mix can lead to growth of SACCOs' wealth.

WOCCU (2007) indicated that SACCOs should be funded by pre-determined financing mix. This mode of financing would discourage flexibility in the choice of financing options. This study emphasizes on the accumulation of internal financing for long-term sustainability. Agrawal *et al.*, (2002) found that; members' funds had a central role in co-operative performance. This agrees with this study to some extent as it also emphasizes on the use of share capital and accumulation of institutional capital. This study does not embrace the use of members' savings in financing in view of the fact that these are withdrawable on demand and carry fixed charges.

5.2.3 The Association of Funds Allocation Strategy and Growth of SACCOs' Wealth

The third objective was defined as to establish the association of funds allocation strategy on growth of SACCOs' wealth in Meru County. This involves the prudent funds allocation strategy which boosts the volume of returns with minimum risk. The study revealed that returns on loan investment had a positive significant relationship with growth of SACCOs' wealth. This is attributable to the fact that loans are the core investment for SACCOs. Liquid investments showed a strong positive significant relationship with growth of SACCOs' wealth. This could be attributable to the fact that liquid investments can be converted into cash easily to meet short-term obligations. This finances liquidity gaps hence enhancing stability of SACCOs.

Non-earning fixed assets showed a negative relationship with growth of Saccos' wealth. This implies that acquisition of those assets should be done wisely so that they are able to repay their current cost. It also depicts that investment in such assets should be minimized as they do not generate any returns but only support cash generating units.

They showed a positive coefficient. This means that any increased investment in illiquid investments leads to a decline in growth of SACCOs' wealth. On overall, funds allocation strategy and growth of SACCOs' wealth showed strong positive significant relationship. Prudent investment strategies therefore enhance growth of SACCOs' wealth. Baral (2006) found that the SACCOs had not earned enough to pay up the return on member share capital and build up the institutional capital as the second line of defense for saving deposits of member-clients and thus the financial health of the SACCOs was not so sound. The study recommended that the SACCOs needed to improve their performance to attain the protection effective financial structure, asset quality, rates of returns and costs, liquidity and signs of growth (PEARLS) standards.

Kaloi (2004) found that among other factors, failure to invest in illiquid investments led to losses hence no growth of wealth. This is not in agreement with this study since the study emphasizes on investment in liquid investments. Ogbimi (2006) found that; the sources of financial resources were many and varied; lack of self-discipline in saving money, impulse buying as well as spending too much on ceremonies were the major problems of financial management of rural women. The above mentioned studies resound what has been observed in the current study in that the way the income is going to be distributed affects the growth of the SACCO society and its wealth. The decision in the allocation of funds of SACCOs is critical.

In conclusion, the study found that the use of institutional capital as a mode of financing Sacco's activities would ensure their sustainability in the competitive co-operative sector. That Growth of SACCOs wealth significantly depends on Financial stewardship, Capital structure, and Funds allocation strategy.

5.3 Policy and Practical Implications

From the study the following directions for growth of Saccos' wealth are recommended:

- i. SACCO should Continuously Review credit policies. This would enhance the evaluation of loan applications and ensure that loan applications are appraised and ranked according to merit. SACCOs should ensure timely loan disbursement to facilitate loan recovery and minimize administrative costs is would lead to growth of Sacco's wealth.
- ii. SACCOs should Establish Irrecoverable Loan provision policies, make adequate loan provisions to promote safety of funds. This will ensure that loan assets are not overstated.

- iii. SACCOS should develop sound staff recruitment policies, employ and retain staff with higher academic and professional qualifications. They should also make arrangements for their employees to attend more short term target oriented courses. This would facilitate growth of SACCOS' wealth.
- iv. The SACCOS should apply proper financing mix in their capital structure. There should be optimum mix of share capital, institutional capital, savings and debt capital.
- v. The Government should review legal framework for the SACCOS to ensure that institutional capital is used to grow SACCOS wealth.
- vi. The study observed that the relationship between non-earning fixed assets and GSW was inversely proportional. SACCOS should therefore minimize investment in the non-earning fixed assets since any increased investment in these assets leads to negative growth.

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