FACTORS AFFECTING FINANCIAL GROWTH OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA: A CASE STUDY OF KILIFI COUNTY

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A PROJECT DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION OF PWANI UNIVERSITY

SEPTEMBER 2020
DECLARATION

This research project is my original work and has not been presented in any other University or any other award

Signature: ……….……………………… Date: 05/03/2021

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D53/PU/3107/14

We confirm that the work reported in this project was carried out by the candidate under our supervision

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DEDICATION

I dedicate this research project to my sponsors and family for their presence and support as I pursued my MBA. God bless them.
ACKNOWLEDGEMENT

I first thank God for the grace He gave me in undertaking this project. I also acknowledge the support of my sponsors, husband and family members as I pursued my MBA program. Lastly I acknowledge my friends who encouraged and advised me as I progressed with my project.

I greatly thank Dr. Ronald Koech and Dr. Ibrahim Ali for their guidance and support throughout the project. I also appreciate the teaching fraternity for their advice which was so crucial for this project.
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# LIST OF ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CoK</td>
<td>Constitution of Kenya</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>FOSA</td>
<td>Front Office Savings Activity</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>ICA</td>
<td>International Cooperative Alliance</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>KUSCCO</td>
<td>Kenya Union of Savings and Credit Co-operatives</td>
</tr>
<tr>
<td>MOCD</td>
<td>Ministry of Co-operative Development</td>
</tr>
<tr>
<td>SACCOS</td>
<td>Saving and Credit Co-operative Organizations.</td>
</tr>
<tr>
<td>SASRA</td>
<td>Sacco Societies Regulatory Authority</td>
</tr>
<tr>
<td>DTSs</td>
<td>Deposit-taking Sacco Societies</td>
</tr>
<tr>
<td>ECCOS</td>
<td>Ethics Commission for Co-operative Societies</td>
</tr>
<tr>
<td>SVM</td>
<td>Support Vector Machine</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institutions.</td>
</tr>
<tr>
<td>ROSCAS</td>
<td>Rotating Savings and Credit Associations</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agricultural Organization.</td>
</tr>
<tr>
<td>FSS</td>
<td>Financial services sector.</td>
</tr>
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<td>WOCCU</td>
<td>World council for credit union</td>
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OPERATIONAL DEFINITION OF TERMS

**A dividend policy:** Company’s dividend policy is a guideline used to determine the amount the company will pay to its shareholders as dividend and the frequency of payment. It can also be termed as the decision made by managers on whether to pay dividends to shareholders or reinvest the company’s earnings (Brealy, Myers and Marcus 2007).

**Financial Growth:** The financial performance of a firm measures how well it utilizes its core business to generate revenue. It includes measuring the results of a firm’s operations in monetary terms to generate returns which maximize shareholder’s wealth (Almazari 2011).

**Loan default:** A default is a failure by an individual or an entity to honour obligations when they fall due. Therefore loan default occurs when a debtor fails to meet his/her legal financial obligation when they fall due. According to (Njiru 2003), he defined loan default as a failure of an entity to meet legal obligations.

**Membership size:** The state or status of belonging to an organization and the relation between an element of a set or class and the set or class.

**Operating costs:** Operating costs are expenses or costs incurred by businesses in their day to day running (Woods 2008). These costs include both administrative costs such as marketing costs, internet costs, salaries and wages, rates and rents etc and capital costs e.g. cost of loans borrowed by an entity.
ABSTRACT

While the main function of SACCOS is to mobilize members’ savings and grant them credit for their growth and development, it has been hard for the SACCOS to achieve this objective due to weak financial policies and controls. This therefore necessitated the study. The research was therefore carried out with an aim of establishing the factors affecting financial growth of SACCOS in Kilifi County. The following specific objectives were addressed. To establish whether loan defaulting affect the financial growth of SACCOS’ in Kilifi County. To determine whether membership size affect financial growth of SACCOS’ in Kilifi County. Examine how operating costs influences the financial growth of SACCOS’ in Kilifi County and to investigate whether dividend policy affect financial growth of SACCO’s in Kilifi County. Targeted population were active registered SACCOS of Kilifi County. Descriptive design was used in presenting information and stratified random sampling was used in coming up with the sample size. Primary information was gathered by use of a likert scale questionnaire. Data was collected from employees of the sampled SACCOS using questionnaires comprising of open and closed ended questions. Secondary data collection sheet was used to collect the secondary information regarding SACCOS’ performance from the audited financial reports of the sampled SACCOS. Variables used were loan default, operating costs, dividend policy and membership size. Statistical package for social sciences (SPSS) version 21 was used to sort, code and input information for the production of graphs, tables and descriptive statistics. Out of the 90 questionnaires, 12 were incomplete while 6 were rejects. This made the working to be based on the remaining 72 questionnaires from the SACCOS’ that were responsive giving a response rate of 80%. Male respondents made the majority with 45
respondents who were rated at 62.5%. Female respondents were rated at 37.5% with a representation of 27 respondents. Results showed that 79.17% of the SACCOS agreed that loan defaulting was rampant among their members and it has indeed affected financial performance. 68.25% of the respondents agreed that dividend policy affects financial growths of SACCOS. 65.2% agreed that operating cost influences the financial growth of SACCOS and 67% agreed that membership size influences financial growth of the SACCOS in Kilifi County. The researcher recommended that SACCO’s need to be strategically placed in making follow-up on loans before they become default. This will ensure reduced losses incurred in the form of default loans. Also management of dividends should remain policy guided. This will ensure there are maximum benefits of the SACCOS from the dividends and ultimately impact positively on the financial growth of the institutions. Operation costs should be minimized at all costs since they cannot be avoided. Membership size should be apriority for every SACCO since financial stability and growth is dependent on the membership size. The researcher concluded that loan default, dividend policy, operating cost and membership size greatly influences financial growth of the SACCOS in Kilifi County.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

SACCOS are important areas of economic growth and development in the world. SASRA (2013) approximates that one billion people are affiliated to Savings and credit co-operative societies across the globe as seen in the International Co-operative Alliance (ICA) composition. ICA is a worldwide apex body that represents co-operatives in the world (ICA Report 2006).

Lari (2009) defines Savings and Credit Co-operative societies as a type of co-operative movement with an objective of pooling savings for members and give them credit. ILO (2002) defines a co-operative as an association of persons voluntarily united to meet their common needs e.g. economic, social and cultural etc.

There are several principles of SACCOS majorly for helping one another in uplifting the standards of living of the members (Mwangi, 2013). Members with common interests jointly form these SACCOS through mobilizing of finances to uplift their standards of living. The main recognized co-operative principles are: Autonomy and independence, democratic member control, member economic participation; provision of education, training and information, voluntary and open membership (ICA 2005).

Countries that have active and vibrant co-operative sector have achieved great economic development (Olweny & Shiphoo, 2011). East African countries have experienced rapid development of SACCOS because of their focus to provide financial services to benefit start-ups which have enhanced great economic growth. Mokua (2015) acknowledges that SACCOS are popular for providing credit opportunities to Sacco members. The fundamental role of SACCOS as per the above researcher in
economic prosperity constitutes performing an active intermediation function between urban and rural areas in addition to linking of net savers and net borrowers.

The firms’ financial performance shows how best it maximizes its core business for revenue generation. It includes measuring the results of a firm’s operations in monetary terms to generate returns which maximize shareholder’s wealth. This is based on the firm’s resources allocated to the most profitable projects. The firms’ financial performance is measured through different methods e.g. financial ratio analysis.

SACCO sector in Kenya has been contributing greatly to total financial industry and economic development. Its contribution to the nation's Gross Domestic Product is over forty five per cent (MOCD 2010). SACCOs have been brought under supervision and regulation by the SACCO Act, 2008 and the subsequent SACCO Societies Regulatory Authority (SASRA). SACCOs face several problems that hinder them from exploiting their full potential (Mudibo 2005).

Many Kenya’s SACCOs have a long queue of unapproved loans from SACCO members. Also several SACCOs neither pays dividends nor interest on the savings of members which discourages the members hence making them withdraw their membership from such SACCOs thereby affecting their growth. Comparing the SACCOs with other financial institutions, several SACCO members and FOSA clients queue in the SACCOs for many hours in order to get services since most SACCOs have not yet automated their services. Mudibo (2005) in his study indicated the challenges affecting financial growth of SACCOs as low marketing, poor product and services, weak regulation, bad image etc. Report presented by Mvula (2013) on common challenges facing Malawi SACCOs’ performance indicated that challenges faced by SACCOs’ performance were poor governance, low capital, low profits, poor quality of assets, low liquidity and low compliance to laws and regulations.
1.1.1 Global Perspective of SACCOS

The effects of co-operatives in the economic world is both positive and impressive. Studies show co-operatives are more sustainable compared to other financial entities since they boost standards of living and growth rate (Silas Kobia 2011). SACCOS go through numerous problems which prevent them from exploiting their full potential. These challenges are non-compliance, little generated income, stiff competition, mission drifts, insufficient capital etc. Mudibo (2005) was concerned with the kind of leaders who run SACCOS. Being voluntary organizations, SACCO members can choose anyone without necessary knowledge of running a savings and credit cooperative society. He proposed a member to have many shares before being elected as a SACCO leader so that if he mismanages the SACCO he can feel the loss.

Statistics show that world over, Africa included, and huge populations depend on SACCOS. SACCOS too face many challenges like other business enterprises. These challenges include both those within the SACCOS and those outside the SACCOS. Those challenges within the SACCOS include deficiency in contemporary skills, governance, inadequate recourses, quality demand service, ethics and integrity environment, cooperative societies must build the necessary capacity to counter the problems that constrain among others. The external challenges include political, economic, sociological and technological reasons amidst these harsh and unpredictable developments (Ademba, 2005).

SACCO systems in the entire world vary in terms of assets, average institutions' share price in regulating these organizations. These vary from volunteer operations in organizations with few members to several billion asset value organizations. However in actual practice, there is variation by jurisdiction for legal provisions relating to these organizations (WOCCU 2011). Credit institutions in Canada are regulated as
institutions which do not make profit. Main aim is obtaining good profit for better services to members hence ensuring better living standards (Mumanyi, 2014).

These organizations have unique structures since agency problems exist. This is because the owners of the institutions are the ones using the services since their main principle is democratic member control. SACCO members are the owners of the SACCOS since they are the ones holding accounts in the SACCOS. This implies only SACCO members can save inform of shares and obtain loans from them.

Regional research shows that seven per cent of the African population is affiliated to co-operative societies. Pollet (2009) discovered particular social protection mechanisms associated with co-operative societies in Africa are so limited. The idea of saving and credit societies in Africa was first formed in Jipara, a small town on the upper west town of Ghana. This unique idea was brought by Father John McNulty, a Roman Catholic priest from Ireland. He came up with an idea of assisting the villagers to form a saving and co-operative society. He did this by training sixty teachers at first. The successful story of savings and credit societies in Jipara has been widely spread in the entire African continent (Alila & Obado 1990). Co-operative societies are deeply founded by intrinsic values and principles which guide them. These values are self-help, self-responsibility, democracy, equality, equity, solidarity etc. Co-operatives main aim is improving members’ living standards

1.1.2 Local Perspective of SACCOS

Many Kenyans’ lives have been impacted by the SACCO industry in Kenya hence raising the standards of living. There are two main types of the Kenya’s co-operative sector. These are financial and non-financial co-operatives. Financial co-operatives include SACCOS, housing, investment co-operatives etc. Non-financial co-operatives are majorly concerned with marketing of members’ products and services.
Being part of the Kenya financial services sector (FSS), the Kenyan SACCO industry is a critical player to achieving the ten per cent annual economic growth target. This is as indicated by Kenya’s Vision 2030. The key to achieve high level growth target and funding of the vision 2030 projects lies with the SACCOS’ central role of mobilising local financial resources and those in abroad

Being an important player in the social economic development of this country, the Ministry of Co-operative development and marketing has taken particular measures in creating an enabling environment for Co-operatives to prosper. These include establishment of the SACCO Societies Regulatory Authority (SASRA) to regulate the large financial SACCOS and the establishment of the Ethics Commission for Co-operative Societies (ECCOS) to address governance matters etc. Co-operatives cut across in the entire Kenya’s economic sector in providing crucial framework for mobilization of financial resources and human capital

SACCO Society Act was formed in 2008 in order to license, regulate, supervise and promote Savings and Credit Co-operatives societies. This Act established the SACCO Regulatory Authority with main aim of licensing SACCOS to carry out Deposit taking business and also regulate and supervise Savings and credit co-operative societies (Wanyama, 2009). The SACCO Regulations (2010) and the SACCO Societies Act (2008) provides prudent standards and minimum regulations for operating SACCOS. These standards help in ensuring stability of finances for the deposit-taking SACCO Societies. Also these regulations focus all high risk areas of the SACCO business which significantly affects the going-concern perspective. These measures include ensuring quality of loans being the core business for generating income in SACCO Societies, hence the availability of capital funds to cushion the SACCOS in case unexpected losses arise on poorly performing loans or investment. Also these measures
ensure that loans granted and lent conforms to the approved credit policy, ensuring continuous availability of finances to finance investment growth and respond members or suppliers’ needs, the overall asset structure of the SACCOS society and the reasonability of expenses incurred in relation to the income received.

In Kenya’s financial sector, SACCOS play an important role by providing areas where members can save their monies in terms of shares and loans to many people of Kenyan. Savings and credit co-operative societies are part of Kenya’s financial institutions that offer same products as those offered by other financial institutions e.g. banks. Many SACCOS formed more than a decade ago still experience poor performance than banks and other Kenya’s financial institutions (Gathurithu, 2011).

Report presented by (Mvula 2013) on common challenges facing Malawi SACCOS’ performance indicated that challenges faced by SACCOS’ performance were poor governance, low capital, low profits, poor quality of assets, low liquidity and low compliance to laws and regulations. Mudibo (2005) indicated that challenges facing SACCOS’ financial growth were low marketing, poor product and services, weak regulation, bad image etc. The potential of generating income in the Country and the overall economic development are affected by such issues affecting growth of SACCOS. Therefore the economic growth and development can be realized if a large number of professionally trained technical staff, co-operative officers and SACCO managers are maintained.

1.2 Problem statement

Kilifi County has 134 registered Savings and Credit co-operative societies. Considering the government effort to register, develop and promote these SACCOS with aim of raising members’ living standards, it seems that little have been done since members needs have not been met by many SACCOS to their satisfaction and expectation. Many
SACCOS still have long queue of pending loans not paid while others still use manual systems since their systems are not automated with the aim of ensuring accuracy and efficiency in service delivery (Mwaura, 2005).

Though several researches have been done in Kilifi County e.g. the study by (Mwatsuma, Mary and Owen 2015) on kilifi county co-operatives’ performance under the Government devolved system in Kenya, the study found that the direct factors affecting the performance of the co-operatives were the knowledge base of members, workers, managers and co-operatives’ resource base etc. Indirect factors which influenced these were the environment under which the co-operative operate, core values of the co-operative, state of the co-operative etc. The research was therefore carried out to critically analyze the factors affecting financial growth of SACCOS in Kilifi County such as dividend policy, loan default, operating cost and membership size.

1.3 Research Objective

The general objective and the specific objectives of the study were as follows:

1.3.1 General Objective

General objective of the study was to determine the factors affecting financial growth of savings and credit co-operatives in Kilifi County. The following specific objectives were addressed

1.3.2 Specific Objectives

i. To investigate how loan default affects the financial growth of SACCOS

ii. To establish how dividend policy affects the financial growth of SACCOS

iii. To investigate whether operating cost affects the financial growth of SACCOS
iv. To establish how membership size affects the financial growth of SACCOS

1.4 Research Hypotheses

The following hypotheses were tested at the 95% level of significance.

1) \( H_0 \): Loan default does not affect the financial growth of Kilifi County SACCOS

2) \( H_0 \): Dividend policy does not affect the financial growth of Kilifi County SACCOS

3) \( H_0 \): Operating cost does not affect the financial growth of Kilifi County SACCOS

4) \( H_0 \): Membership size does not affect the financial growth of Kilifi County SACCOS

1.5 Significance and justification of the study

The findings and conclusions of this study shall help Sacco managers make informed decisions and make important regulations to ensure SACCOS growth and better performance. For example a good dividend policy will attract more members to join the Sacco hence the expansion.

Also study findings will help the financial analysts to identify potential SACCOS in the county which can trade in the capital market and also help the government to come up with laws and regulations regarding SACCOS’ operations in the Country

1.6 Scope of the Study

The research was concerned with factors affecting financial growth of Kilifi County SACCOS. Sample was obtained from SACCOS operating in Kilifi County. Research only covered SACCOS among co-operatives and focused on the set objectives and the
variables concerned e.g. loan default, dividend policy, operating cost and membership size.

1.7 Basic Assumption of the Study

It was assumed that information provided by the respondents was true and valid to make reasonable conclusions and informed decisions and that the four variables in the objectives hold much weight.

1.8 Limitation of the Study

The challenge that was likely to be faced was the failure by few respondents to provide information due to fear that the responses they give could be used negatively which may affect them or the SACCOS they belong. However, this did not arise since the responses provided were taken as private and confidential mainly for academics only. The researcher further made the objective of the research clear before data collection from the target respondents was done.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This contains documented literature regarding affecting financial performance of SACCOS. The particular areas covered here were membership size, dividend policy, loan default and costs of operations of the SACCOS.

2.2 Review of theories

There are three theories of determinants of financial performance of SACCOS that will guide this study. These are signalling theory of dividends, theory of credit default and theory of micro-loan borrowing rates and default. The theory of credit default was the backbone of the study

2.2.1 Signalling Theory of Dividends

This theory of dividends indicates that dividends given to members give information about firms’ future earning or profits. It supports the fact that investors can refer information about a firm’s future financial status or stability so as to make informed decisions on where to invest their resources. Therefore this theory supports that dividend policy affects the firms’ financial performance positively

Modigliani and Miller (2001) suggested that information is freely accessible about a firm’s future performance to all stakeholders. Signalling theory says that information is accessed by investors about future earnings is signalled from the dividend announcement which indicates a firm’s stability. Khrawish, (2011).The information managers have needs to be communicated to the market for this hypothesis to hold.

A firm giving signals should be true and dividend payments should be based on performance. Therefore market should depend on the signals from the firms. Lintner
(2006) argued that if there is an indication of increased earnings, firm managers will raise the rate of dividends. This is in agreement with many theorists who believe that when stock prices rise due to dividends increase, it gives a positive information, indicating that managers can definitely use dividends as a signal of their views of future performance (Gugler and Yurtoglu, 2003). Dividend changes play the role of signalling. Brickley (2008) confirmed this after examining specially designated dividends comparing them to the regular dividends. He argued that both classes conveyed positive information about future earnings of a firm. Miller and Modigliani stated that firms operations and strategies lies with the top management of the firm who can forecast easily future earnings of a firm. Studies done by Griffin (1996) found that dividends carries information about firms performance to the market and to investors though the signals may not be perfect. Investors’ preference of dividends to retained earnings may not necessarily be dictated by investor’s focus to changes in payment of dividend rather may indicate that there is important announcements on dividends

2.2.2 Theory of credit default

When an entity fails to meet its financial obligations when they fall due, that is known as credit default (Keenan 1999). This theory gives the best explanation of the causes of loan default and their effects. The theory provides direct connection between macroeconomic causes of changing financial environment and their microeconomic effects on changing financial conditions hence loan default

Credit scoring model is the most widely used credit measure to predict future loan performance. Feldman (1997) defines credit scoring as the process of assigning a single quantitative score to potential borrower to represent the borrower's future loan performance. The models are statistical in nature such as logistical regression analysis or discriminant analysis etc. In estimating the likelihood of default based on historical
data on loan performance and characteristics of the borrower, credit scoring methods are used. If a customer statistics produce a score above the cut-off score in the small business environment, the application is considered for further assessment by specialized small business units. Thereafter it progresses to the small business credit department for further assessment and approval or disapproval.

In credit scoring, there is a basic assumption that a metric which can distinguish between good and bad credits and segregate them into two separate distributions exist. Credit scoring models used in for lending in SACCO's and MFI were more intricate than those used in consumer lending (Feldman 1997). This is because they have an ability of placing substantial weight on factors relating to the business owners’ financial history. Frame, Srinivasan and Woolsey (2001) in their study found that including more marginal classes of borrowers in credit scoring leads to an increase in overall lending.

2.2.3 Theory of Micro loan borrowing rates

The equilibrium borrowing rates and default Probabilities is determined by micro loans model. Loans need to be monitored by lenders especially those loans with longer period of maturity. Lending rates depends on several factors existing at a particular time e.g. structure of the market, expenses incurred in monitoring etc. Hoofman (2006) recommended that loan contracts to be designed in a way that borrowers pays more when conditions are favourable and pays less when conditions are worse.

Poor and less developed parts of the world have many people who cannot access financial services such credit facilities, insurances etc. Citizens in these countries live in poverty that they can only access credit in informal credit markets. These are shylocks, chamas, mobile lenders, shop-keepers etc. As a result, they pay higher interest rates than those borrowing from the formal credit markets.
2.3. Empirical Literature Review

2.3.1. Loan default and financial growth of SACCOS

A default is a failure by an individual or an entity to honour obligations when they fall due. Therefore loan default is when an entity fails to meet its legal financial obligation when they fall due. Default occurs when the debtor is not willing or not able to pay his or her debt due to unavoidable circumstances such as job loss, drastic decrease of salaries, collapsed businesses etc. One should consider so many factors and make informed decision before entering into a debt and also the lenders to do a thorough check of the financial history of the borrower before lending money.

Temporary causes can be managed through close supervision and monitoring and evaluating the projects financed by the loan. Proper training of loan applicant is necessary before loan disbursement.

In developed countries like Germany loan default is not frequent because of the mechanism they use to control and manage loan default. They offer loan management tips to their clients who have multiple loans with multiple service providers. They offer training, advice and counselling to borrowers to ensure that they remain in the path of repayment. Managing default takes a solid game plan (TG’S Default a version consultants, 2011).

Study carried out by Njiru (2003) on the list of non-performing loans, he assessed to determine if the situation of non-performing loans is reversible, what can be done to improve capability of loan repayment and whether plans for collecting monies from borrowers are working out or not hence determining saving and credit co-operative society’s capability in withstanding loan default. Investment practices of reserve funds in SACCOS studied by (Gachara 1990), he found that the performance of SACCOS
could be affected by the criteria of investing on reserve funds through reduction of financial problem and reduction of defaulters’ risk.

Multi-billion shilling savings and credit co-operative movement face a great risk of default on loan repayments by borrowers hence affecting their stability. This is according to the Kenya's five financial sector regulators e.g. Capital Market Authority (CMA), SACCO Societies Regulatory Authority (SASRA), Insurance Regulatory Authority (IRA), Central Bank of Kenya (CBK) and Retirement Benefit Authority (RBA). They further indicated that since the debts of SACCOS are only secured by member guarantees, the risk of loan default on personal loans is too high. They have also indicated that reliance on expensive bank loans have increased the probability of loan default by SACCOS since there is low liquidity and solvency ratios due to the high cost of borrowing in the banks.

Developing a useful set of performance indicators by managers for their organizations find it difficult (Johnson & Scholes 2007). This is because many indicators give a useful overall picture though by a small portion. Some indicators are also qualitative in nature which makes it hard for assessing financial performance.

The study carried out by (Kinuthia 2007) found that loan default made Savings and credit co-operative societies get losses hence affecting wealth of members. Recommendation made was savings and credit co-operative societies to provide rules on lending of loans and extend credit period to members and integrating the savings and credit co-operative societies’ information system to employers.

Study carried out in Kibaigwa Financial Services and Credit Co-operative of Tanzania in 2011 indicated that Management leniency on loan follow ups which has been going on for some time is the major cause of loan default. Loan default is one of the key factors that influence performance in SACCOS’ microfinance institutions and
commercial banks. This is because of their lending modality which influences loan repayment. Karumuna and Akyoo (2011) carried out a study on the factors that have an effect on settling loans. They found that these factors were inadequate loan follow ups by the management, bad repayment system and inadequate collateral verification etc.

2.3.2 Dividend Policy and financial growth of SACCOS

Company’s dividend policy is a guideline used to determine the amount the company will pay to its shareholders as dividend and the frequency of payment. It can also be termed as the decision made by managers on whether to pay dividends to shareholders or reinvest the company’s earnings (Brealy, Myers and Marcus 2007). Dividend policy was also described by (Nissim& Ziv 2001) as the regulation used by a company on whether to pay dividends to its shareholders or not. Different organizations pay dividends differently due to their diverse situations facing them. Dividends paid by company are viewed positively both by the investors and the firms since shareholders needs to get a return for the funds they invested in the companies. This enables an increase in share price hence increasing the market value. On the other hand, companies that pay no dividends to the shareholders are negatively rated by investors which affect the share price hence decreasing the market value.

Study carried out by Monogbe (2015) on effects of dividend payment on Financial Performance of an entity, the results showed a positive relationship of the earnings per share, profitability, investment and the dividend policy of the firm. In conclusion vital factors enhancing firms’ dividend payment are the firms’ investment, profits and earnings. The study carried out by Ademola& Oyefemi (2015) on dividend pay-out policy and financial performance of a firm, results of the study showed that firms paying dividends when its due recorded an increase in their profitability and those who didn’t recorded a decrease. The proper conclusion from the study is that dividend
payment by firms portrays some information. It is common for shareholders to invest in dividend paying firms and would prefer to dispose of their shares from low or poorly paying firms and reinvest on better dividend paying firms.

Study carried out by Kariuki (2014) on SACCOS registered by SASRA in the County of Nairobi on how dividend relate with SACCOS’ financial performance, the findings were factors like dividends, leverage and growth of the registered SACCOS positively influenced the SACCOS’ financial performance. He used regression model to analyze the outcome, the study findings indicate a high and strong correlation between the performances of SACCO’s in Nairobi County, with its dividend pay-out growth rates and asset growth rates. The findings show a positive correlation between firms’ profitability and rate of dividend paid.

Study carried out by Odhiambo (2015) on the firms listed at the Nairobi securities exchange on how dividend pay-out ratio is affected by the market capitalization, the study found out that value of shares of a firm in the long run is affected by dividend pay-out ratio and that the relationship was positive and significant. This clearly shows how firms’ share price is affected by the dividend pay-out ratio.

Gordon, D. (2014) advanced a theory that shows how a firm’s payment of dividends relates to the value in the market. He indicated firms dividend policy directly correlates to firms’ market value. Equally the bird in hand theory supports this. Payment of dividends is made to the firms’ shareholders from firms’ earnings generated either in the current year or the previous periods. Therefore it can be concluded that earnings are the primary determinants of dividends but not forgetting the importance of cash flows.

The most preferred forms of dividends by the shareholders are the cash dividends. Kenyan SACCOS have over period adopted annual dividend pay-out. When firms
announce cash dividends, this should not affect share prices especially in an efficient market. The market price per share is normally reduced by the amount of dividend per share when dividends are paid. 

Sometimes, a firm does share repurchase by buying back its outstanding shares instead of paying them out as cash dividends. These kinds of shares that have been bought back by the firm are normally referred to as treasury shares though this is not commonly practised by the SACCOS in Kenya. The bought back shares are not deregistered or cancelled by the firm but they are kept in the firm’s treasury and resold by the firm when need of money arises. No authorization is required by the shareholders when reselling these treasury shares and the shareholders enjoy no rights on such shares.

2.3.3 Operating cost and financial growth of SACCOS

Mumanyi (2014) studied on relationship between operating costs and financial growth of SACCOS. He found that the larger the SACCO the higher the operating costs incurred and hence the lower the profit realized. It also showed that the factors hindering SACCOS’ growth of Kenyan SACCOS were administrative cost, poor loan management and the high borrowing rate so as to lend to member. Further, he noted that due to the non-functional infrastructure and inefficient environment in which SACCOS operate, this led to the increase in the cost of operation. Makori, Munene and Muturi (2013) in their study also cited that the major cause of high costs of operations was the high dependency of SACCOS on short term borrowing.

Olando, Jagongo and Mbewa (2013) studied on how the financial stewardship of SACCOS in Kenya contributes to their growth. The study revealed that most SACCOS did not cover adequately their investment costs for investments undertaken. Study done by Asogwa et al. (2011) on factors affecting profitability of a firm, the study found that low profitability of firms is attributed by high level of cost of operations. Small scale
farmers’ revamped productivity which required collective farmers’ institutions provision of opportunities for improved bargaining power and risk sharing not available to individual farmers

Study done in Kenya by Njagi, Kimani & Ngugi (2012), the study revealed that low capital base was being experienced by Kenyan SACCOS. To prevent SACCO members to borrow from banks, SACCOS themselves borrow from banks at high interest rate due to low capital base so as to lend to their members. Borrowing from commercial banks causes the operating costs to be high due to the high interest rate hence affecting the financial performance of the SACCOS.

2.3.4 Membership Size and financial growth of SACCOS

A member willingly joins the SACCO by filling the membership form, paying the required membership fee and saving regularly in form of shares. There are two major categories of members in a SACCO i.e active members and dormant members. Active members deposit shares regularly in their SACCOS and therefore they enjoy the dividends declared yearly by the SACCOS while dormant members do not. Therefore a SACCO can be said to be an association of people who have come together with common goal geared towards improving their livelihood economically hence raise the standards of living (Sacco report, 2006).

Signalling theory shows that firms with high growth rate can easily pay dividends to its shareholders as a way to convey information to the markets’ high future performance. Chen and Dhanani (2009) found out those firms that practice recent development in revenues in New Zealand disbursed lower dividends. Growth when used as a firms’ performance measure, it is from the idea that it’s a way to attainment to profitability and added advantage against competitors. Bigger firms survive better in the market and enjoy economies of scale. Higher growth is however encountered with a lot of
difficulties due to increased costs and this leads to reduced profitability and financial
difficulty. Growth without profitability is a challenge to most SACCO’s. When a
SACCO is not in a position to fund its growth through its retained earnings it has to
rely on debt or equity finance. This shows the importance between the relationship
between growth and profitability.
Small firms grow faster and more variable than larger firms as shown by studies. The
concept of economies of scale is the underlying theoretical base that explains the
relationship between size and financial growth of a firm. These economies of scale may
occur due to various reasons such as financial, organizational and technical reasons.
The economies of scale enjoyed by large companies due to their lower cost of capital
than in small firms is the major rationale for mergers and takeovers. The big
organization can grow to a certain limit in order to achieve economies of scale. There
after the organization experiences diseconomies of scale since it becomes expensive to
manage large organizations due to their complexity, bureaucracy and inefficiencies.
Buying in large quantities makes large firms to enjoy better discount and interest rates
(pervan, 2012). Large firms are likely to attain large strategic diversification, enjoy
economies of scale and higher negotiation power over their customers and creditors.
Large firms also have easy access to credit for investment and a large range of qualified
human capital. Therefore due to this, we conclude that firms’ financial performance
relates positively with the size of the firm.
SACCOS should exercise caution when admitting new members and should ensure
adherence to the savings first principle and be alert to the demands of current members.
In a climate with poor access to credit, members of SACCOS can only have access to
credit through others. Moreover with wide spread poverty, provision of the right
climate for exploitative pyramid selling schemes to flourish is done by large informal
economy and associated informal lending. In such a context, it is vital for Savings and credit co-operative societies to adopt and implement mechanisms to rigorously verify the validity and authenticity of loan application requests before lending to members (Karumuna and Akyoo, 2011).

2.4 Summary and research gaps

Mbaabu (2004) studied on the factors affecting growth of wealth in businesses. In his study, he found that factors affecting the growth of wealth of firms included delays in approval of loans, poor management of business, lending not based on security, project under financing etc. The study indicated that in order to grow firms wealth, the firms need to ensure that non-performing loans are segmented, implementation of information system, loan applications to go through quality appraisal before they are approved and reassigning loans to respective risk departments etc. The research by Mbaabu (2004) concentrated on delinquency of loan as main factor affecting growth of wealth of firms hence failed to identify other factors e.g. size of the firm, high operating costs, dividend pay-out ratio etc.

ILO (2009) in his study on the factors influencing financial growth of SACCOS, he cited that liquidity problems were the major factors which lead to the failures of co-operatives. Study done by Makori, Munene and Muturi (2013) revealed that dependency on short term borrowing, lack of liquidity monitoring system, political interference, investment in non-earning assets and inadequate managerial competences were the major factors affecting financial growth of SACCOS.

Very little research have been done on the membership size, loan default, cost of operations and dividend policy on financial growth of SACCO’s' in Kilifi County. Therefore this study aims at filling the gap by determining the factors affecting financial growth of SACCOS in Kilifi County.
2.5 Conceptual Framework

Relationship between the independent variables and the dependent variable is presented graphically in the conceptual framework on figure 2.1. The dependent variable the profit made while independent variables were loan default, dividend policy, membership size and cost of operations.

**Independent variable**

- **Loan default**
  1. Interest charged on loans.
  2. Repayment period
  3) Multiple loans

- **Dividend policy.**
  1. Rate of dividend
  2. Frequency
  3) Denying dividends to defaulters
  4) Form of dividends

- **Cost of operations**
  1. Administrative costs
  2. Training cost

- **Membership size.**
  1. Active members.
  2) Non-active members

**Intervening variable**

- **Government policy**
- **Size of the SACCO**

**Dependent variable**

- **Financial Growth of Sacco's**
  1. Improved profitability
  2. Improved members satisfaction

Figure 2:1 conceptual framework
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

It contains methodology used in gathering and analysing data. It covers in details methods used in collecting and analysing data, data collection instruments, sampling techniques and data presentation.

3.2 Research design

Descriptive research design was used for data collection, data analysis and data presentation. Mugenda and Mugenda (2003) confirmed that when conducting research, descriptive research design was preferred since it’s able to make respondents give their attitudes, views, beliefs and ideas towards a given factor under study. A case study of Kilifi County was looked into, to establish the factors affecting financial growth of SACCOS in Kilifi County. Study results were deemed to be concurrent with other SACCOS of other counties as well.

3.3 Target population

Research target population of the study was 90 active registered SACCOS of Kilifi County according to the Kilifi County Co-operative annual reports of the financial year 2018/2019.
Table 3:1 Population size source: Kilifi county co-operative annual reports

<table>
<thead>
<tr>
<th>SUB COUNTY</th>
<th>ACTIVE SACCOS</th>
<th>DORMANT SACCOS</th>
<th>NEWLY FORMED</th>
<th>TOTAL SACCOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kilifi North</td>
<td>18</td>
<td>6</td>
<td>4</td>
<td>28</td>
</tr>
<tr>
<td>Kilifi South</td>
<td>16</td>
<td>7</td>
<td></td>
<td>23</td>
</tr>
<tr>
<td>Kaloleni</td>
<td>10</td>
<td>3</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Malindi</td>
<td>28</td>
<td>6</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Ganze</td>
<td>2</td>
<td>1</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Rabai</td>
<td>7</td>
<td>1</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Magarini</td>
<td>9</td>
<td>2</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>26</td>
<td>6</td>
<td>122</td>
</tr>
</tbody>
</table>

3.4 Sample size and Sampling Procedure

Sample comprises some members obtained from the population. This implies that it’s a subset of the population (Bryman.1997). This study adopted stratified random sampling as the sampling technique, whereby the Sub county SACCOS formed the strata from which non-proportional samples were selected based on capital base, membership and the activeness of the SACCOS.

This study had its sample picked as guided by the Krejcie and Morgan (1970) formula of determining sample size. Krejcie and Morgan formula of determining sample size was used since it assured representation of all groups and characteristics of each stratum could be estimated and comparisons made. The sampling procedure saw each stratum give its sample as guided by Krejcie and Morgan (1970) formula of sampling. According to Krejcie and Morgan (1970), the Krejcie and Morgan formula is expressed as follows:
\[
S = \frac{X^2 NP(1-P)}{d^2(N-1)+X^2P(1-P)}
\]

Where,

\(S=\) sample size

\(X\) is the Z value of a given confidence level i.e. at 95% level of confidence, \(X\) is 1.96

\(N\) is the population size i.e. 90

\(P\) is the proportion of the population i.e. 0.5

\(d\) is the margin of error i.e. 0.05

Therefore as per the above formula, the distribution of the sample size is as per the table 3.2 below

**Table 3.2: Determination of sample size**

<table>
<thead>
<tr>
<th>Sub County</th>
<th>Population(N)</th>
<th>Sample size(S)</th>
<th>Sample Size(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kilifi North</td>
<td>18</td>
<td>14</td>
<td>78%</td>
</tr>
<tr>
<td>Kilifi South</td>
<td>16</td>
<td>13</td>
<td>81%</td>
</tr>
<tr>
<td>Kaloleni</td>
<td>10</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td>Malindi</td>
<td>28</td>
<td>22</td>
<td>78%</td>
</tr>
<tr>
<td>Ganze</td>
<td>2</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td>Magarini</td>
<td>7</td>
<td>6</td>
<td>86%</td>
</tr>
<tr>
<td>Rabai</td>
<td>9</td>
<td>7</td>
<td>78%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>72</strong></td>
<td><strong>80%</strong></td>
</tr>
</tbody>
</table>

Sample size source (Krejcie and Morgan1970).

From the table results, it showed that 72 SACCOS were considered as the sample size for the study as chosen from the various strata above. 90 questionnaires were sent to the SACCOS. Stratified sampling was first applied where each sample was categorized in
its own strata i.e. the Sub counties and later on a simple random sampling followed to pick the respondents as guided by the Krejcie and Morgan calculations as shown in table 3.2 above. The sample of 72 was deemed adequate due to the fact that the SACCOS are spread all over the County and getting information from all of them on timely basis was not feasible. It was anticipated that the sample was a reflective of the other SACCOS of the County.

3.5 Data Collection instruments and procedure

Gathering of primary information was done by use of a questionnaire and informal interviews guided by the questionnaire. A Likert scale questionnaire of 1 to 5 was used where 1=Strongly disagree 2= Disagree, 3= Neutral 4= Agree, and 5= Strongly agree for collecting the primary information. The perception of the respondents was obtained by giving out questionnaires so that they could get room for airing their views well hence obtaining adequate information. Secondary information regarding SACCOS’ performance was obtained by using secondary data collection sheet from the audited Sampled SACCOS’ financial reports for the past decade. The variables used were loan default, operating costs, and membership size and dividend policy.

3.6 Data Analysis techniques

Data was analysed to bring data accumulation into manageable size (Cooper, Schindler, 2011). To ensure completeness, data collected was checked for errors that could have been committed or omitted. Collected data was analysed through descriptive statistical tools e.g. mean, frequency distribution, percentages and standard deviation. Tables were used in data presentation for ease understanding and Statistical Package for Social Sciences (SPSS 2.1) for obtaining regression output
3.6.1 Empirical Model

In fitting the regression analysis, the financial growth was the dependent variable while loan default, cost of operations, and rate of dividend and membership size were used as the independent variables. The regression model for the data is as shown below:

\[ Y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + \varepsilon \]

\( b_0 \) = Constant

Where \( Y \) = SACCO's Profitability;

\( x_1 \) = Loan defaulted

\( x_2 \) = Cost of operations-amongst of cost incurred by the SACCO as per the income statement for the last 10 years.

\( x_3 \) = Dividend-SACCO’s dividend payable.

\( x_4 \) = Active members of SACCO

\( \varepsilon \) = Error term

\( x_i \)'s = Regression coefficients

The hypothesis was tested by use of the Chi-square

3.7 Pilot Test

Reliability and validity of the instrument was established by testing 10 respondents in a nearby SACCO and the results obtained were used to make the necessary changes in the final questionnaire. Questionnaires were assigned to 10 respondents twice in an interval of two weeks and then the results were used to get the general trend of the suitability and acceptability of the instrument.
3.7.1 Instruments’ validity

Validity is the degree in which an instrument measures what it purports to measure (Kothari 2008). Both content validity and face validity were checked. Validity of the questionnaire was tested in two ways i.e. content and face validity. Face validity was measured to ensure there is no misunderstanding or misinterpretation of the questions in the questionnaire. On the other hand, content validity was measured to ensure the instrument provides adequate coverage of the topic. Instruments were prepared adequately through guidance of supervisors and pre-testing of open ended questions hence establishing content validity.

3.7.2 Instruments’ reliability

Mugenda (2008) defines reliability as the extent to which a measurement procedure or technique can be relied on to secure unswerving outcomes upon recurrent application. This study obtained its reliability by subjecting the research instrument to the Cronbach calculation and an alpha (α) coefficient. According to Sekeran (2010), when an alpha (α) coefficient of 0.8 is obtained, it can be said to be satisfactory.
CHAPTER FOUR
RESULTS AND DISCUSSIONS

4.1 Introduction
This outlines the analysed data, the presentation of the data and its interpretations. It has the questionnaire return rate, the respondents’ information, the objective based questions and the chi square tests of the hypotheses.

4.2 Response Return Rate
The data was obtained through administering questionnaires. Out of 90 questionnaires given out, 12 were incomplete, while 6 were rejected. This made the working to be based on the remaining 72 questionnaires from the SACCO’s that were responsive hence giving 80% as the response rate. 50% or more response rate according to Mugenda and Mugenda (2003) is adequate. It was also asserted by Babbie (2004) that 50% return rate was acceptable to analyze and publish. 60% return rate is good and 70% return rate is very good.

4.3 Demographic characteristics of respondents
The following data is a summary of the respondents who participated in the study
Table 4.1 Demographic characteristics

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>45</td>
<td>62.5%</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
<td>37.5%</td>
</tr>
<tr>
<td><strong>Age bracket</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-35 years</td>
<td>37</td>
<td>51%</td>
</tr>
<tr>
<td>36-45 years</td>
<td>22</td>
<td>31%</td>
</tr>
<tr>
<td>Above 45 years</td>
<td>13</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Education level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Those with O level</td>
<td>10</td>
<td>14%</td>
</tr>
<tr>
<td>Those with Diploma</td>
<td>15</td>
<td>21%</td>
</tr>
<tr>
<td>Those with Degree</td>
<td>33</td>
<td>46%</td>
</tr>
<tr>
<td>Those with Masters</td>
<td>14</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Work experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Those with less than 1 year</td>
<td>8</td>
<td>11%</td>
</tr>
<tr>
<td>Those with 1-5 years</td>
<td>35</td>
<td>49%</td>
</tr>
<tr>
<td>Those with 6-10 years</td>
<td>24</td>
<td>33%</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>5</td>
<td>7%</td>
</tr>
</tbody>
</table>

The male respondents made the majority with 45 respondents who were rated at 62.5%. The female were rated at 37.5% with a representation of 27 respondents. This indicated that both men and women were involved in the research hence no gender biasness was experienced in the study. Those between 20-35 years scored 51% making them the majority. Those between 36-45 years were 31% and those with above 45 years were the minority with a score of 18%. This implies that middle aged respondents were the majority hence information obtained was both valid and reliable. Academic qualifications indicated that those respondents who had a secondary level of education
were 10 and rated at 14%. Those with degree level of education scored 46% making them the majority followed by those with diploma level of education that scored 21%. Those with masters’ degree concluded the level of education with a rating score of 19%. This shows that the respondents are relatively highly educated hence the information obtained was reliable. In relation to work experience, those respondents with less than 1 year of work experience scored 11%, those with between 1-5 years’ work experience were 49% while those with 6-10 years had a score of 33%. The final category was that of those employees who had over 10 years work experience whose score was 7%. The results show that many respondents have worked in those particular SACCOS in more than one year. This implied that they were so knowledgeable about the questions being asked in the questionnaire and hence ensuring reliability of data obtained

4.4 Data analysis

4.4.1 Establishing the effects of loan defaulting in financial growth of SACCOS

In the following areas, the respondents were requested to give the extent to which they agreed or disagreed with the information through a likert scale of 1 to 5 in relation to the effects of loan default on Kilifi County SACCOS financial growth
Table 4.2 Effects of loan default on SACCOS' financial growth

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple borrowing</td>
<td>4%</td>
<td>14%</td>
<td>8%</td>
<td>46%</td>
<td>28%</td>
<td>3.79</td>
<td>1.12</td>
</tr>
<tr>
<td>influences the financial growth of SACCOS in Kilifi County</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan repayment period</td>
<td>9%</td>
<td>11%</td>
<td>15%</td>
<td>35%</td>
<td>30%</td>
<td>3.44</td>
<td>1.35</td>
</tr>
<tr>
<td>influences the financial growth of SACCOS in Kilifi County</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate charged</td>
<td>3%</td>
<td>8%</td>
<td>10%</td>
<td>54%</td>
<td>25%</td>
<td>3.90</td>
<td>0.97</td>
</tr>
<tr>
<td>influences the financial growth of SACCOS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consequences of loan default</td>
<td>4%</td>
<td>15%</td>
<td>19%</td>
<td>32%</td>
<td>30%</td>
<td>3.45</td>
<td>1.28</td>
</tr>
<tr>
<td>influences the financial growth of SACCOS in Kilifi County</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results in table 4.2 indicated that 74% agreed that multiple borrowing affect financial growth 3.79 as the mean and 1.12 as the standard deviation. 65% of respondents agreed
loan repayment has had a negative impact in the financial growth of SACCOS with 3.44 as the mean and 1.35 as the standard deviation. 79\% of the respondents agreed that interest rate negatively affect the financial growth of SACCOS with 3.90 as the mean and 0.97 as the standard deviation while 62\% of respondents agreed that consequences of loan defaulting have a bad connotation in financial growth of savings and credit co-operative societies with 3.45 as the mean and 1.28 as the standard deviation. 3.65 as the mean score indicated that majority of respondents accepted loan defaulting as a key factor that affects financial growths of Kilifi County SACCOS. The findings implies that multiple borrowing, loan repayment period, interest rate charged and consequences of loan defaulting influenced financial growths of SACCOS in Kilifi County.

Kinuthia (2007) confirmed this by carrying out a study. The study found that loan default was the major cause of losses to Savings and credit co-operative societies hence impacting negatively the members’ funds. The research recommendation was that savings and credit co-operative societies to provide rules for lending to members and how credit can be extended. The SACCOS should also integrate information system of savings and credit co-operative societies to employers. This is confirmed with 79.17\% of the respondents who agreed that indeed loan defaulting remain a bigger challenge to the operations of the SACCOS in Kilifi County.
### 4.4.2 Determining how dividend policy affects SACCOS’ financial growth

**Table 4.3: Effects of dividend policy in the financial growths of SACCOS**

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forms of dividends influences the financial growths of SACCOS</td>
<td>6%</td>
<td>4%</td>
<td>16%</td>
<td>25%</td>
<td>49%</td>
<td>3.83</td>
<td>1.03</td>
</tr>
<tr>
<td>Declared rate of dividends influences the financial growths of SACCOS in Kilifi County</td>
<td>7%</td>
<td>8%</td>
<td>11%</td>
<td>32%</td>
<td>42%</td>
<td>3.83</td>
<td>1.03</td>
</tr>
<tr>
<td>Denial of dividends to defaulters affects Kilifi County SACCOS’</td>
<td>8%</td>
<td>15%</td>
<td>17%</td>
<td>25%</td>
<td>35%</td>
<td>3.89</td>
<td>1.14</td>
</tr>
<tr>
<td>Cash dividends influences financial growth of SACCOS in Kilifi County</td>
<td>7%</td>
<td>13%</td>
<td>16%</td>
<td>29%</td>
<td>35%</td>
<td>3.67</td>
<td>1.35</td>
</tr>
<tr>
<td>Frequent dividends influences the financial growth of SACCOS</td>
<td>4%</td>
<td>7%</td>
<td>11%</td>
<td>29%</td>
<td>49%</td>
<td>3.90</td>
<td>1.09</td>
</tr>
</tbody>
</table>

Table 4.3 shows that 74% of the respondents agreed that forms and declared rate of dividends influences the financial growth with 3.83 as the mean and 1.03 as the
standard deviation. 60% of respondents agreed denial of dividends to defaulters had an impact on financial growth of SACCOS with 3.89 as the mean and 1.14 as the standard deviation. 61% agreed cash dividends affects financial growth of SACCOS with 3.67 as the mean and 1.35 as the standard deviation while 78% agreed giving dividends frequently influences the financial growth of SACCOS with 3.90 as the mean and 1.09 as the standard deviation. Mean score of 3.82 indicates that majority of respondents accepted dividend policy is a factor to financial growths of SACCOS in Kilifi County. Therefore, this implies that forms of dividends, declared rate of interest, denial of dividends to defaulters, cash dividends and frequency in giving dividends influenced financial growths of SACCOS in Kilifi County.

The findings were in line with those of Ademola and Oyefemi (2015) who studied the dividend pay-out policy and financial performance of a firm. Study results showed firms paying dividends when its due recorded an increase in their profitability and those who didn’t recorded a decrease. The proper conclusion from the study is that dividend payment by firms portrays some information. It is common for shareholders to invest in dividend paying firms and would prefer to dispose of their shares from low or poorly paying firms and reinvest on better dividend paying firms.

Also the study done by Kariuki (2014), on how dividends relate with SACCOS’ financial performance for those registered by Sasra in the County of Nairobi. He found out that there were factors such as dividends, leverage and growth which influenced positively on the Nairobi SACCOS’ financial performance. He used regression model to analyze the outcome, the study findings indicate a high and strong correlation between the performances of SACCO’s in Nairobi County with its dividend payout growth rates and asset growth rates. The findings showed positive correlation between
dividend payout and profitability. This implies that dividend policy influences the financial growth of SACCOS

**4.4.3 Examining the effects of operating cost on financial growth of SACCOS**

This objective was attained through the consideration of all the possible social factors that seem to have an effect on the financial growth of SACCO’s through the influence of operating costs. Factors including salaries, rent and rates, committee allowances, training and marketing costs were considered in making this objective attainable.
### Table: 4.4 Effects of Operating cost on financial growth of SACCOS

<table>
<thead>
<tr>
<th>Operating Cost</th>
<th>Strongly disagree %</th>
<th>Disagree %</th>
<th>Neutral %</th>
<th>Agree %</th>
<th>Strongly agree %</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries influences the financial growth of SACCOS in Kilifi County</td>
<td>7</td>
<td>10</td>
<td>21</td>
<td>47</td>
<td>15</td>
<td>3.54</td>
<td>1.08</td>
</tr>
<tr>
<td>Rent and rates affects the financial growths of SACCOS in Kilifi County</td>
<td>4</td>
<td>19</td>
<td>12</td>
<td>44</td>
<td>21</td>
<td>3.15</td>
<td>1.00</td>
</tr>
<tr>
<td>Committee allowances affects the financial growth of SACCOS in Kilifi County</td>
<td>7</td>
<td>15</td>
<td>13</td>
<td>28</td>
<td>37</td>
<td>3.21</td>
<td>1.19</td>
</tr>
<tr>
<td>Training costs influences the financial growth of SACCOS in Kilifi County</td>
<td>8</td>
<td>7</td>
<td>22</td>
<td>23</td>
<td>40</td>
<td>3.46</td>
<td>1.29</td>
</tr>
<tr>
<td>Marketing costs influences the financial growth of SACCOS in Kilifi County</td>
<td>4</td>
<td>10</td>
<td>14</td>
<td>46</td>
<td>26</td>
<td>3.71</td>
<td>0.99</td>
</tr>
</tbody>
</table>
Table 4.4 indicates that 62% agreed that salaries influence the financial growth with 3.54 as the mean and 1.08 as the standard deviation. 65% of respondents agreed rates and rent have an impact on the financial growth of SACCOS with 3.15 as mean and 1.00 as the standard deviation. 64% agreed that committee allowances influences financial growth of SACCOS with 3.21 as the mean and 1.19 as the standard deviation while 63% agreed training cost affects the financial growth of SACCOS with 3.46 as the mean and 1.29 as the standard deviation. 72% of respondents agreed marketing cost influences the financial growths of SACCOS with 3.71 as the mean and 0.99 as the standard deviation. 3.44 as the mean score indicated majority of respondents accepted operating cost is a factor to financial growths of SACCOS in Kilifi County. This implies that salaries, rent and rates, committee allowances, training costs and marketing cost influenced financial growths of SACCOS in Kilifi County.

This was confirmed by (Mumanyi.2014) on his study on the problems faced by Mombasa County Savings and credit co-operative societies. The study showed that factors hindering growth of SACCOS in Kenya were poor management of small loans, high cost of administration and the high borrowing interest rate incurred so that the SACCOS can lend to their members. Further, he noted that due to the non-functional infrastructure and inefficient environment in which SACCOS operate, operating cost increases.

4.4.4 Establishing the effects of membership size to financial growth of SACCOS

To establish how membership size of SACCO’s influence the financial growth, it was important to put into consideration factors such as; active members, members’ savings, SACCO enrolment, and non-active status of members.
In the following areas, the respondents were requested to give the extent to which they agreed or disagreed with the information through a likert scale of 1 to 5 in relation to the effects of membership size on Kilifi County SACCOS financial growth.

**Table 4.5: Effects of membership size on the financial growths of SACCOS in Kilifi County**

<table>
<thead>
<tr>
<th></th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active membership affects financial growth of SACCOS</td>
<td>4</td>
<td>14</td>
<td>11</td>
<td>46</td>
<td>25</td>
<td>3.71</td>
<td>1.13</td>
</tr>
<tr>
<td>Members savings affects the financial growths of SACCOS</td>
<td>10</td>
<td>11</td>
<td>17</td>
<td>40</td>
<td>22</td>
<td>3.55</td>
<td>1.24</td>
</tr>
<tr>
<td>Membership enrolment influences the financial growths of SACCOS in Kilifi</td>
<td>6</td>
<td>4</td>
<td>13</td>
<td>33</td>
<td>44</td>
<td>4.07</td>
<td>1.12</td>
</tr>
<tr>
<td>Dormant membership influences the financial growths of SACCOS in Kilifi County</td>
<td>7</td>
<td>21</td>
<td>14</td>
<td>19</td>
<td>39</td>
<td>3.50</td>
<td>1.34</td>
</tr>
</tbody>
</table>
Results in table 4.5 indicate that 67% agreed that membership size influences financial growth of SACCOS in Kilifi County. 71% agreed that active membership size affects the financial growth with 3.71 as the mean and 1.13 as the standard deviation. 62% of respondents agreed members’ savings affects the financial growth of SACCOS with 3.55 as the mean and 1.24 as standard deviation. 77% agreed that membership enrolment influences financial growth of SACCOS with 4.07 as the mean and 1.12 as the standard deviation while 58% of the respondents agreed that dormant membership influences the financial growth of SACCOS with 3.50 as the mean and 1.34 as the standard deviation.

Mean score of 3.71 indicates majority of respondents accepted membership size as a factor to financial growths of SACCOS in Kilifi County. This implies active membership, members’ savings, membership enrolment and dormant membership influenced financial growths of SACCOS in Kilifi County.

The findings were also confirmed by Pervan (2012) who found that since large firms buy in large quantities, they enjoy better discount and interest rates. Large firms are likely to attain large strategic diversification and higher negotiation power over their creditors and their customers. Bigger firms also can easily access credit from other lending financial institutions for investment and a large range of qualified human resource. Therefore due to this, we can say that size of the firm relates positively with the financial performance of the firm.
4.5 Descriptive statistics

The descriptive statistics for both independent variables and dependent variable is as shown below

Table 4.6: Descriptive statistics for independent and dependent variables

<table>
<thead>
<tr>
<th>Sample size</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>profitability of SACCO measured before expenses for the last 10 years</td>
<td>72</td>
<td>10</td>
<td>200</td>
<td>67.29</td>
</tr>
<tr>
<td>Amount of loan that the SACCO terms as default</td>
<td>72</td>
<td>10</td>
<td>150</td>
<td>44.17</td>
</tr>
<tr>
<td>Cost of operations(amount of cost incurred by the SACCO for the last 10 years as per the income statement)</td>
<td>72</td>
<td>10</td>
<td>140</td>
<td>59.86</td>
</tr>
<tr>
<td>SACCO’s payable dividend</td>
<td>72</td>
<td>6</td>
<td>160</td>
<td>70.36</td>
</tr>
<tr>
<td>Membership</td>
<td>72</td>
<td>45</td>
<td>200</td>
<td>114.26</td>
</tr>
</tbody>
</table>

Any data that follows a normal distribution has the mean greater than the standard deviation. A closer scrutiny of the descriptive statistics above reveals that for the five variables, the mean values are higher than the standard deviation. The unit of measure for; profit, cost, dividend and loan default was in millions while that of membership was in numbers. The highest profit gathered by the SACCO’s was Ksh. 200 million while the least was 10 million, the lowest loan default Ksh. 10 million while the highest
Ksh. 150 million. Highest cost of operations was Ksh. 140 million and Ksh. 10 million was the minimum. The SACCO’s lowest payable dividend Ksh. 6M, while the highest payable dividend Ksh. 160M. Out of the total 72 SACCO’s, the membership ranged between 45 and 200.

4.6 Normality test

The data was explored for normality test to justify use and analysis of the data for the project. Shown below were the results of Kolmogorov-smirnov test of normality

Table 4.7: Normality test

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
<th>profitability of Sacco</th>
<th>loan default</th>
<th>cost of operations</th>
<th>Sacco's payable divid</th>
<th>membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Normal parameters&lt;sup&gt;a,b&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>67.29</td>
<td>44.17</td>
<td>59.86</td>
<td>70.36</td>
<td>114.26</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>53.207</td>
<td>31.881</td>
<td>38.333</td>
<td>44.549</td>
<td>35.615</td>
</tr>
<tr>
<td>Most Extreme Difference</td>
<td>Absolute</td>
<td>.142</td>
<td>.191</td>
<td>.101</td>
<td>.121</td>
</tr>
<tr>
<td>Positive</td>
<td>.142</td>
<td>.191</td>
<td>.101</td>
<td>.121</td>
<td>.079</td>
</tr>
<tr>
<td>Negative</td>
<td>-.141</td>
<td>-.142</td>
<td>-.097</td>
<td>-.076</td>
<td>-.053</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>1.203</td>
<td>1.623</td>
<td>.855</td>
<td>1.026</td>
<td>.673</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.111</td>
<td>.010</td>
<td>.457</td>
<td>.244</td>
<td>.756</td>
</tr>
</tbody>
</table>

<sup>a</sup> Test distribution is normal

<sup>b</sup> Calculated from data.

Table 4.7 presents the results from a well-known test of normality, namely the Kolmogorov-Smirnov Test. Considering the variables above; Profit, Loan Default, Cost of operations, Dividends and Membership have their Kolmogorov-Smirnov Z test
statistics as 1.203, 1.623, 0.855, 1.026 and 0.673 which are all above 0.05. Hence the data is normal and fit for use in realizing the objective of the project.

4.7 Regression model and test of hypothesis.

4.7.1 Goodness of fit

First step was first determining how the data fitted in table 4.8. Table 4.8 is a table showing the model summary of good fit.

Table 4.8 Goodness of fit

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>Rsquare</th>
<th>Adjusted R-square</th>
<th>Standard error of estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.780</td>
<td>0.597</td>
<td>0.574</td>
<td>38.6233</td>
</tr>
</tbody>
</table>

The value of "Adjusted R-square" is 0.574. It’s a measure to dependent variable’s quality of prediction. The value of 0.574 shown above indicates that the prediction level is good. The coefficient of determination (Adjusted R-square”), represents a portion of variance of independent variables explaining dependent variable. This is the proportion of variation accounted for by the regression model above and beyond the mean model. Regression model above indicates how strongly dependent variable (profit) relates with independent variables i.e loan default, dividend policy, operating cost and membership size. The 57.4% clearly shows that independent variables relates strongly to dependent variable.
4.7.2 Analysis of Variance

In establishing the homogeneity of data, ANOVA was conducted as seen in the below table. The combined model was significant as indicated by 17.167 as F statistic supported by (0.000) as the value of probability. Model was fit to predict the financial growth using loan default, dividend policy, operating cost and membership size since the reported probability of (0.000) was less than the conventional probability of (0.05). The results indicate that loan default, dividend policy, operating cost and membership size are influential in predicting Kilifi County SACCOS’ financial performance.

Table 4:9 ANOVA Model for factors affecting Financial growth of SACCOS

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>101737.305</td>
<td>4</td>
<td>25434.326</td>
<td>17.167</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>99265.570</td>
<td>67</td>
<td>1481.570</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>201002.875</td>
<td>71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.7.3 Hypothesis Testing

Holding all the other independent variables constant, unstandardized coefficients indicates the variation between the dependent variable and an independent variable. Below model revealed that holding loan default, dividend policy, operating cost and membership size to zero, SACCOS’ financial performance would be 67.354. Consider the effect of loan default, (-0.212), -0.876 for cost of operations, 0.515 for payable dividends and 0.695 for membership. This means that for every change of loan default, profit realized by a particular SACCO decreases by 0.212, an increase in the cost of operations of any given SACCO would lead to an automatic decrease of profit with a margin of 0.876, when the payable dividends are increased, the level of profit will tend
to increase by 0.515. Change in membership to the positive would result to a positive change in the profit made by the SACCO with a margin of 0.695.

The level of significance for loan default, dividend policy, operating cost and membership size at 5% significance level and 95% confidence level were as follows. Loan default was 0.023, Dividend payable was 0.000, operating cost was 0.000 and membership size was 0.00. Since the p values of all the independent variables were less than 0.05 i.e (p<0.05), then it means they were all significant. In all the independent variables, we therefore reject the null hypothesis and say loan default, dividend payable, operating cost and membership size influences the financial growths of Kilifi County SACCOS significantly.

Table 4.10: OLS regression results of determinants of financial growth of SACCOS, Kilifi County

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>67.354</td>
<td>19.226</td>
</tr>
<tr>
<td>loan default</td>
<td>-0.212</td>
<td>.175</td>
</tr>
<tr>
<td>Cost of operations</td>
<td>-0.876</td>
<td>.158</td>
</tr>
<tr>
<td>Sacco’s payable dividend</td>
<td>0.515</td>
<td>.116</td>
</tr>
<tr>
<td>Membership</td>
<td>0.695</td>
<td>.172</td>
</tr>
</tbody>
</table>
4.7.4 Fitting the regression model

In determining effects of independent variables on profit made by SACCOS, a regression analysis was carried and the below model was obtained;

\[
\text{profit made by the SACCO} = 67.354 + (0.212)x_1 + (0.876)x_2 + 0.515x_3 + 0.695x_4
\]

Where,

Profit made by the SACCO = response variable

67.354 =constant

\(x_i\)\( (i=1-4)\) =Regression coefficients

\(x_1\) = loan default

\(x_2\) = cost of operations

\(x_3\) = payable dividends

\(x_4\) = membership size

This means that holding loan default, dividend policy, operating cost and membership size to zero, SACCOS’ financial performance would be 67.354. For every change in loan default, profit realized by a particular SACCO decreases by 0.212. Kinuthia (2007) confirmed this by carrying out a study. The study found that loan default was the major cause of losses to Savings and credit co-operative societies hence impacting negatively the members’ funds

An increase in the cost of operations of any given SACCO would lead to an automatic decrease of profit with a margin of 0.876. When the payable dividends are increased, the level of profit will tend to increase by 0.51. This was confirmed by Ademola and Oyefemi (2015) who studied on dividend pay-out policy and financial performance of a
firm. Study results showed that firms paying dividends when its due recorded an increase in their profitability and those who didn’t recorded a decrease. Also a change in membership to the positive would result to a positive change in the profit made by the SACCO with a margin of 0.695.

It can therefore be concluded that dividends payable and membership size has positive effects on profit realized by SACCOS while loan default and cost of operations have an inverse effects on the profit realized by SACCO’s.
CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The researcher here will give the study findings in summary, interpret the research results, and give a brief discussion, conclusion, and recommendations. Finally the researcher shall suggest some topics that can be looked into during the future studies.

5.2 Summary of the Findings
The study was carried out to establish factors affecting financial growth of Kilifi County SACCOS. 90 questionnaires were fronted in the field. Out of the total allocated questionnaires, only 72 were dully filled and thus made the useful response rate. The return rate was therefore 80%. The male respondents made the majority with 45 respondents who were rated at 62.5%. The female were rated at 37.5% with a representation of 27 respondents. Age bracket indicated that those between 20-35 years were the majority of the respondents with 51%. With regard to education, those with degree scored 46% making them the majority and most of them had worked between 1-5 years with a representation of 49%.

5.2.1 Determining the effects of loan default to the financial growth of SACCOS
The first objective that sought to determine how loan default influenced financial growths of SACCOS, results showed that 79.17% of the SACCOS agreed that loan defaulting was rampant among their members and it has indeed affected financial performance. 74% of the respondents agreed that multiple borrowing affect financial growth having a mean of 3.79 and 1.12 as the standard deviation. 65% of respondents agreed loan repayment has had a negative impact on financial growth of SACCOS with 3.44 as the mean and 1.35 as the standard deviation. 79% of the respondents agreed
that interest rate negatively affect the financial growth of SACCOS with 3.90 as the mean and 0.97 as the standard deviation while 62% of respondents agreed that consequences of loan defaulting had a bad connotation to the financial growth of SACCOS with 3.45 as the mean and 1.28 as the standard deviation.

Kinuthia (2007) confirmed this by carrying out a study. The study found that loan default was the major cause of losses to Savings and credit co-operative societies hence impacting negatively the members’ funds. The research recommendation was that savings and credit co-operative societies to provide rules for lending to members and how credit can be extended. The SACCOS should also integrate information system of savings and credit co-operative societies to employers.

5.2.2 Establishing the effects of dividend policy on the financial growth of SACCOS

On establishing how dividend policy effect financial growths of SACCOS, table indicated that 74% of respondents agreed that forms and declared rate of dividends influences the financial growth with 3.83 as the mean and 1.03 as the standard deviation. 60% of respondents agreed denying dividends to defaulters affected financial growth of SACCOS with 3.89 as the mean and 1.14 as the standard deviation in Kilifi County. 61% respondents agreed cash dividends have an impact on the financial growth of SACCOS with 3.67 as the mean and 1.35 as the standard deviation. The respondents that agreed that giving dividends frequently influences the financial growth of SACCOS were 78% with 3.90 as the mean and 1.09 as the standard deviation.

This was confirmed by Ademola and Oyefemi (2015) who studied on dividend pay-out policy and financial performance of a firm. Study results showed that firms paying dividends when its due recorded an increase in their profitability and those who didn’t
recorded a decrease. The proper conclusion from the study is that dividend payment by firms portrays some information. It is common for shareholders to invest in dividend paying firms and would prefer to dispose of their shares from low or poorly paying firms and reinvest on better dividend paying firms. Also the study done by Kariuki (2014), on how dividends relate with SACCOS’ financial performance for SACCOS registered by Sasra in the County of Nairobi. He found out that there were factors such as dividends, leverage and growth which influenced positively on the Nairobi SACCOS’ financial performance. He used regression model to analyze the outcome, the study findings indicate a high and strong correlation between the performances of SACCOn’s in Nairobi County, with its dividend payout growth rates and asset growth rates. The findings showed positive correlation between dividend payout and profitability. This implies that dividend policy influences the financial growth of SACCOS

5.2.3 Establishing how operating cost affect the financial growth of SACCOS

On establishing the effects of operating cost to the financial growth of Savings and credit co-operative societies, 62% of respondents agreed that salaries influence the financial growth with 3.54 as the mean and 1.08 as the standard deviation. 65% of respondents agreed rent and rates affects the financial growth of Savings and credit co-operative societies with 3.15 as the mean and 1.00 as the standard deviation. 64% of respondents agreed committee allowances influences financial growth of SACCOS with 3.21 as the mean and 1.19 as the standard deviation while 63% of the respondents agreed that training cost influences the financial growth of SACCOS with 3.46 as the mean and 1.29 as the standard deviation and 72% of respondents agreed marketing cost influences the financial growths of SACCOS with 3.71 as the mean and 0.99 as the
standard deviation. From the above, results indicates that 65.2\% agreed that operating cost influences the financial growth of SACCOS in Kilifi County.

This means operating cost greatly influences financial growth of SACCOS. Mumanyi (2014) confirmed this on his study on the problems faced by Mombasa County Savings and credit co-operative societies. The study showed that factors hindering growth of SACCOS in Kenya were poor management of small loans, high cost of administration and the high borrowing interest rate incurred so that the SACCOS can lend to their members. Further, he noted that due to the non-functional infrastructure and inefficient environment in which SACCOS operate, operating cost increases. Makori, Munene and Muturi (2013) did a study and cited that the main cause of high costs of operations were the high dependency on short term borrowing.

5.2.4 Establishing how membership size affects the financial growth of SACCOS

Fourth objective that sought to determine how membership size influences the financial growth of the SACCOS 71\% of respondents agreed that active membership influences the financial growth with 3.71 as the mean and 1.13 as the standard deviation. 62\% of respondents agreed members’ savings have an impact on the financial growth of SACCOS with 3.55 as the mean and 1.24 as the standard deviation. 77\% of respondents agreed membership enrolment influences the financial growth of SACCOS with 4.07 as the mean and 1.12 as the standard deviation while 58\% of respondents agreed dormant membership influences the financial growth of SACCOS with 3.50 as the mean and 1.34 as the standard deviation.

Since large firms buy in large quantities, they enjoy better discount and interest rates (pervan, 2012). Large firms are likely to attain large strategic diversification and higher negotiation power over their creditors and their customers. Bigger firms also can easily
access credit from other lending financial institutions for investment and a large range of qualified human resource. Therefore due to this, we can say that size of the firm relates positively with the financial performance of the firm.

5.3 Conclusions

Financial growth of SACCOS is a major concern globally. Questions included in the survey on the financial performance were fairly basic and hence giving an overall mean of about 52%. This means in Kenya, SACCOS are struggling a lot in realizing financial growth and stability in their operations. The findings showed that level of financial growth among SACCOS varies significantly due to various operational factors. Clearly, loan default, operational costs, dividend policy, and membership size influence SACCO’s level of financial growth and stability. In conclusion loan default, operational costs, dividend policy, and membership size significantly affects the financial performance of SACCOS

5.4 Recommendations

I recommend the following from the study findings:

5.4.1 Loan default

SACCO’s need to be strategically placed in making follow-up on loans before they become default. This will ensure reduced losses incurred in the form of default loans.

5.4.2 Dividends policy

Management of dividends should remain policy guided. This will ensure there are maximum benefits of the SACCOS from the dividends and ultimately impact positively on the financial growth of the institutions.
5.4.3 Operating costs

Operation costs should be minimized at all costs since they cannot be avoided. Marketing and training costs are integral for the existence of the institution however their incurrence should be well thought.

5.4.4 Membership size

Membership size should be a priority for every SACCO. Financial stability and growth is dependent on the membership size. The main goal should be ensuring a higher number of members who are active. This would also inculcate in them the tradition of being satisfied with their levels of income that would give them more time in their places of work in the process of making them more productive.

5.5 Suggestion for Further Research

Since the research study was carried out only in Kilifi County, I suggest same study to be carried out in different counties especially the neighboring Counties like Mombasa, Lamu, Kwale and Tana River. For the purposes of comparing the results for counties in the coast region. This is aimed at improving the financial stability and growth of SACCOS in the region and country at large.
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APPENDIX 1: INFORMED CONSENT

My name is PHILISTER KATHUMU KAHINDI, Admission number D53/PU/3107/14. I am a post graduate student taking Masters in Business Administration (MBA) at Pwani University. I am inviting you to participate in a research study. Involvement in the study is voluntary, so you may choose to participate or not. Please feel free to ask any questions that you may have about the research; I will be happy to explain anything in greater detail.

I am interested in learning more about factors affecting financial growth of SACCOS in Kilifi County. I am kindly requesting you to fill the questionnaire which will take approximately 30 minutes of your time. All information will be kept confidential since it’s meant for academic purposes only.

**Benefits of the Study:** The study will help us understand the determinants of financial growth of SACCOS’ in Kilifi County. This information will help the management to understand the strategies to be taken in order to improve the performance of the savings and credit co-operative societies and also help financial analysts to identify potential SACCOS in the county which can trade in the capital market.

**Risks:** The risks of this study are letting personal information provided to the public domain. These risks will be eliminated by ensuring confidentiality of information provided.

Participant – I have read and understood the concerns of this study. I choose, voluntarily, to participate in this research project. I certify that I am at least 18 years of age.
Name of the participant……………………………………………………………………

Signature of participant…………………………Date…………………………

Researcher name: PHILISTER KATHUMU KAHINDI

Signature of the researcher…………………. Date………………
APPENDIX 2: QUESTIONNAIRE

INTRODUCTION

Please I am assigning you this questionnaire in order to gather information regarding the factors affecting financial growth of SACCOS in Kilifi County. Your participation in filling this questionnaire is highly appreciated and wherever you don't understand a concept please do not hesitate to inquire. Your responses to this questionnaire will be handled confidentially and ethically.

Instructions

1. Answer all questions in all sections

2. You are not required to write your name on the questionnaire.

3. Indicate your answers in the provided area.

PART A: DEMOGRAPHIC INFORMATION

1) What is your gender?
   a) Man [    ]
   b) Woman [    ]

2) What is your age bracket?
   a) 20-35 [    ]
   b) 36-45 [    ]
   c) Above 45 [    ]

3) What is your highest level of education?
   a) O Level [    ]
   b) Diploma [    ]
   c) Degree [    ]
   d) Masters [    ]
4) Please indicate the period you have been working with your current SACCO

   a) Less than 1 year [ ]
   b) 1-5 Years [ ]
   c) 6-10 years [ ]
   d) Above 10 years [ ]

**PART B: QUESTIONS AS GUIDED BY THE OBJECTIVES**

This section constitute four objectives of the factors affecting financial growth of SACCOS and each objective has statements.

**OBJECTIVE ONE: LOAN DEFAULT**

1) Is loan default rampant in your SACCO?

   a) yes [ ]
   b) No [ ]

2) On a rating scale of 1-5, indicate the extent to which you agree or disagree with the following statements in relation to the influence of loan default on the financial growth of SACCOS in Kilifi County

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a) Multiple borrowing by</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
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<td></td>
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</tr>
<tr>
<td><strong>members influences financial growth of the SACCO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>b)</strong> The loan repayment period given influences financial growth of the SACCO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>c)</strong> The interest rate charged for loans influences financial growth of the SACCO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>d)</strong> The consequences of loan defaulting stated upon loan application influences financial growth of the SACCO</td>
<td></td>
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</tr>
</tbody>
</table>

**OBJECTIVE TWO: DIVIDEND POLICY**

1) Does your SACCO give dividends to the members annually?

   a) Yes [    ]

   b) No [    ]
2) On a rating scale of 1-5, indicate the extent to which you agree or disagree with the following statements in relation to the influence of dividend policy on the financial growth of SACCOS in Kilifi County

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>The forms of dividends used by the SACCO in paying out dividends to members influences the financial growth of the Sacco</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>b)</td>
<td>The dividend interest rate declared at end of each financial year influences the financial growth of the SACCO.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>c)</td>
<td>Denying dividends to defaulters influences financial growth of the SACCO.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>d)</td>
<td>Cash dividends</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
influences the financial growth of SACCO

e) Paying dividends frequently influences financial growth of the SACCO

OBJECTIVE THREE: OPERATING COSTS

1) Do operating costs affect the financial growth of your SACCO?

a) Yes [  ]

b) No [  ]

2) On a rating scale of 1-5, indicate the extent to which you agree or disagree with the following statements in relation to the influence of operating cost on the financial growth of SACCO in Kilifi County

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Salaries influence the financial growth of the SACCO</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries influence the financial growth of the SACCO</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
b) Rent and council rates influences the financial growth of the SACCO.

c) Committee allowances influence the financial growth of the SACCO

d) Training cost influences the financial growth of the SACCO

e) Marketing cost influences the financial growth of the SACCO.

**OBJECTIVE FOUR: MEMBERSHIP SIZE**

1) Does the SACCO have non-active members?

   a) Yes [ ]

   b) No [ ]

2) On a rating scale of 1-5, indicate the extent to which you agree or disagree with the following statements in relation to the influence of membership size on the financial growth of SACCOS in Kilifi County

<table>
<thead>
<tr>
<th>No</th>
<th>Statement</th>
<th>Strongly disagree</th>
<th>disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>a)</td>
<td>Active membership influences the financial growth of the SACCO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b)</td>
<td>Members savings influences the financial growth of Sacco.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c)</td>
<td>Membership enrolment influences the financial growth of the SACCO.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d)</td>
<td>Non-active membership influences the financial growth of the SACCO.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
APPENDIX 3: DATA COLLECTION SHEET

Table 1: Factors affecting financial growth

This section has four sub-section for the last ten years. Kindly fill as required in the table below.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Loan defaulted (Amount)</th>
<th>Operating cost (Amount)</th>
<th>Dividend payable</th>
<th>Membership (Number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
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<tr>
<td>2016</td>
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<td>2015</td>
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<td>2010</td>
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<tr>
<td>2009</td>
<td></td>
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</tr>
</tbody>
</table>
### Table 2: Financial performance for the last ten years

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Total Revenue (Amount)</th>
<th>Net income (Amount)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
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<td>2016</td>
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<tr>
<td>2009</td>
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</tr>
</tbody>
</table>
## APPENDIX 4: ITEMIZED PROJECT BUDGET

<table>
<thead>
<tr>
<th>ITEM</th>
<th>QUANTITY</th>
<th>UNIT COST(KSH)</th>
<th>TOTAL COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stationery: photocopying</td>
<td>8</td>
<td>500</td>
<td>4,000</td>
</tr>
<tr>
<td>Papers (reams)</td>
<td>3</td>
<td>2,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Ink cartridges</td>
<td>4</td>
<td>1,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Binding materials</td>
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<td></td>
<td></td>
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<tr>
<td>Transport</td>
<td></td>
<td>7,000</td>
<td>7,000</td>
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<tr>
<td>Internet charges</td>
<td></td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Telephone charges</td>
<td></td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Research assistants</td>
<td>3</td>
<td>3,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td>3,000</td>
<td>3,000</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>40,000</strong></td>
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</table>
## APPENDIX 5: WORK PLAN: ACADEMIC YEAR 2019/2020

<table>
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<tr>
<th>ACTIVITY</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NO</th>
<th>DE</th>
<th>JAN</th>
<th>FE</th>
<th>M</th>
<th>A</th>
<th>M</th>
<th>R</th>
<th>R</th>
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<td>Allocation of supervisors</td>
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<td>Presentation of proposal</td>
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<tr>
<td>Data collection</td>
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<tr>
<td>Data analysis</td>
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<td>Submission and presentation</td>
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<tr>
<td>Graduation</td>
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</tr>
</tbody>
</table>

- **Submission of Research topic**: JUL
- **Allocation of supervisors**: AUG
- **Submission of proposal**: SEP
- **Presentation of proposal**: OCT
- **Data collection**: NO
- **Data analysis**: DE
- **Submission and presentation of thesis**: JAN
- **Graduation**: FEB
## APPENDIX 6: LIST OF ACTIVE REGISTERED SACCOS

<table>
<thead>
<tr>
<th>S/N</th>
<th>KILIFI NORTH</th>
<th>Membership</th>
<th>S/N</th>
<th>MALINDI</th>
<th>M/ship</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Juhudi sacco</td>
<td>101</td>
<td>1</td>
<td>Turtle bay</td>
<td>35</td>
</tr>
<tr>
<td>2</td>
<td>Imarika</td>
<td>64901</td>
<td>2</td>
<td>Malindi women sacco</td>
<td>350</td>
</tr>
<tr>
<td>3</td>
<td>Kilifi utafiti</td>
<td>306</td>
<td>3</td>
<td>Jiendeleze</td>
<td>93</td>
</tr>
<tr>
<td>4</td>
<td>Pwani university</td>
<td>232</td>
<td>4</td>
<td>Lengo</td>
<td>7031</td>
</tr>
<tr>
<td>5</td>
<td>Bahari women</td>
<td>128</td>
<td>5</td>
<td>San macro</td>
<td>208</td>
</tr>
<tr>
<td>6</td>
<td>Madzo sacco</td>
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