EFFECT OF FRONT OFFICE SERVICE ACTIVITY ON THE PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA: A STUDY OF SELECTED SACCOS IN NAIROBI

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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 2 (35), pp 683-716, May 11, 2015, www.strategicjournals.com, ©strategic Journals

EFFECT OF FRONT OFFICE SERVICE ACTIVITY ON THE PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA: A STUDY OF SELECTED SACCOS IN NAIROBI

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Accepted May 11, 2015

ABSTRACT

FOSA is an investment of the Society that is geared towards providing more services/products to members and managing competition from other SACCOS/Banks. The main objective of this study was to establish the effect of Front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS). The specific objectives of the study were; To establish the Effect of FOSA on SACCO surplus, loan portfolio share capital and Membership recruitment. To establish the level of compliance with SASRA regulations. To establish if competition from other players in the industry namely banks and microfinance institutions affected the performance of the SACCO and FOSA. To establish the level of uptake of FOSA products.

The study applied a descriptive research design; the target population was 388 respondents. These involved FOSA accountants, FOSA marketing officer, FOSA manager and FOSA business development manager. The study applied cluster sampling to obtain a sample size of 116 respondents. Questionnaires were the major data collection instruments and the gathered findings were analyzed through the use of quantitative and qualitative analysis, tables and charts were used to present the findings.

The study found out that on awareness on FOSA products and services, majority of respondents who were (40) greed, (25) disagreed, (20) strongly agreed and (15) strongly agreed. On whether FOSA banking charges are better than banks and micro finance institution, majority of respondents who were (38) agreed, (32) strongly agreed, (20) disagreed and (20) strongly disagreed. On whether respondents had both FOSA and microfinance account, majority of respondents who were (32) disagreed, (25) strongly disagreed, (22) agreed and (21) strongly agreed. Majority of respondents who were (31) indicated average (23) very bad, (20) good, (17) bad and (9) very good. On whether banking charges of FOSA compared to banks and microfinance institutions, majority of respondents who were (29) indicated average, (26) very good, (24) good (6) bad and (5) very bad.

The study recommended that share capital should maintain an upward trend. FOSA should have a better loan portfolio compared to other financial institutions which should help attract more members. SASRA should monitor and ensure full registration of FOSA before being allowed to offer FOSA related services. Saccos should improve the level of awareness of FOSA products through continuous marketing. FOSA bank charges should be lower compared to banks and microfinance institutions.

Key Words: *Front Office, Performance, Savings and Credit Societies*

Background of the Study

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community. A Savings and Credit Co-operative's membership is open to all who belong to the group, regardless of race, religion, color, creed, and gender or job status. These members agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other (Paul, 2009).

There are 5,544 registered Saccos in Kenya as at December 21st 2011. Out of the 3,983 active Saccos in Kenya 218 or 6% operate FOSAs that is they are deposit taking. The rest or 84% do not have FOSAs (Paul 2009); This is the area of the researcher's interest being to find out if the introduction of FOSA has had a significant improvement in overall SACCO performance .By analysis the key performance indicators KPIs that measure the successes of SACCOS before and after the introduction of FOSA.

Global Perspective of SACCOs

With almost half of the World's six billion people living on less than two dollars a day, alleviation of poverty has become the biggest challenge to the human society. In response, the global campaign against poverty has gained momentum, with various development actors suggesting the use of different instruments to alleviate poverty(Boyd &Nicolo,2010).There is an emerging consensus among many actors, including the United Nations(UN),the International Labour Organization (ILO),the International Co-operative Alliance(ICA) and the European Union (EU),that the co-operative enterprise is one of the few forms of organization that can meet all dimensions of poverty(Kaplin,2009).

In 2005, the UN through ILO, in recognition of the important role played by the co-operatives in poverty reduction, entered into partnership with ICA in an initiative known as "The Global Co-operative Campaign against Poverty: with the theme; Co-operating out of poverty". The broad argument is that co-operatives have the advantages of identifying economic opportunities for the poor: empowering the disadvantaged to defend their interests; and providing security to the poor by allowing them to convert individual risks into collective risks (Gestel & Baesen, 2009).

Indeed, co-operatives are well placed to bring about equitable development and justice desperately needed as well as social continuity and cohesion for the disadvantaged. It is for this reason too that the UN Secretary General decided to dedicate his report on co-operatives in 2005 to the role of co-operatives in poverty eradication. Co-operatives were borne out of a situation of crisis. Indeed, the very way in which cooperatives were founded leads on to wonder if cooperatives could play a role not only in mitigating the impact of crisis for members but also contribute efforts that see a more stable and sustainable economic environment emerge (Abate, Keshare, Mahesh & Lalitha,2003).

The idea of improving the socio-economic situations through mobilization of self-help is central to the history of cooperatives. For example, the urban and agrarian distress associated with the industrial revolution saw the birth of two distinguishable cooperative financial models (Van den 2004; Adrian & Shin,2008).Both were located in Germany, one served the needs of those in rural agriculture and the other served the needs of urban dwellers. Tchami (2007) notes that these cooperatives were based on self-help in its purest form; that means that no outside intervention at all, not even from the state (Barrell, 2007).

The main advantage of FOSA relates to increased access to finance based on equitable terms, which increases social protection of members and mobilizes self help and collective responsibility. In today's society, cooperative financial institutions holds a considerable market share, with the IMF estimating that across all banking sector assets in developed countries, the market share of cooperative finance was equivalent to 14 percent in 2004 (Hesse & Cihak,2007).

Analysis from IMF indicates that SACCOS in developed countries tend to be more stable than commercial banks especially during financial crisis as their investment patterns tend to be less speculative and returns are therefore less volatile (Hesse&Cihak,2007).FOSA'S also tends to offer comparatively lower fees than other types of commercial banks, which not only helps to increase access of the poor to credit but also reduces the cost of remittance transfers (Schenk,2007).

Saving and Credit Companies in Kenya

Cooperatives play a significant role in the development of Kenya. They contribute or manage about 40% of Kenya's GDP (William, 2008).A large proportion of Kenyan population derives their livelihood from cooperatives. It is estimated that 63% of Kenyans derive their livelihoods directly or indirectly from cooperative based activities or sources. Indeed cooperatives have enabled members not only to acquire wealth and alleviate poverty but also create employment (RoK, 2008).

The SACCO subsector is part of the larger cooperative movement in Kenya. There are 2 categories of cooperatives: Financial and non financial cooperatives (includes farm produce and other commodities, marketing, housing transport &investment cooperatives (Kiplagat, 2008; Manyara, 2005). The establishment of SACCO societies Act 2008 places the licencing, supervision and regulation of deposit taking under the armpit of SACCO societies regulatory Authority(SASRA).Through this legal framework, prudential regulations have been introduced to guide SACCOS growth and development(SASRA,2012).

The cooperative societies Act have governed all societies and their apex structure since 1966 with several amendments. Recognizing the difficulty of supervising the operations of the SACCO'S under the cooperative societies Act given the dynamism in their operations, the government enacted the SACCO'S societies Act 2008, which established the SACCO society Regulatory Authority (SASRA) to licence, regulate, supervise and promote SACCO development in Kenya (Mbogo,2010).However, cases of mismanagement and corruption have been reported as the main challenges facing cooperative movement in Kenya.

Historical Background of Front Office Service Activity

From 1973 many Government Ministries and departments registered Saccos in accordance with their common bond. By 1975 there were over 1,000 registered Saccos in the country offering back office and credit facilities. At about the same time, marketing co-operatives had formed District Unions which had Union Banking Sections providing Front Office Savings Activities (FOSA) especially in those regions with industrial and commercial crops like Coffee, Dairy, Sugarcane, Cotton etc. The Unions were modeled in the Nordic Co-operative system. By 1992 there were 16 Union Banking Sections in the country, with savings of over Kshs 500 million (Nzuve, 2009).

Out of the 5000 Saccos have ventured into front office service activities (FOSA). The FOSA offer bank-like services, like withdraw able savings, deposits, debit cards, advances, money transfers etc. The FOSA activity came about after banks withdrew from many rural areas and the people were left un-banked. Many FOSAs have received Salary Codes from employers and their members' salaries are paid through the FOSAs. Sacco's with FOSAs are spread all over the country and include both Rural and Urban Sacco's (Paul, 2009) the management committee realized that the commercial banks (conventional banks) were becoming out of reach for the small savers. The small savers relied on the banks for simple services like processing the salaries, en-cashing cheques, acquiring cheques .Majority of the teachers fall under the small savers in the eyes of these commercial banks. The FOSA came as a very welcome department in the Sacco without which the members (teachers) would greatly suffer. Front Office Service Activity (FOSA) opened its doors in 1997 with only 450 customers since many of the members were still in doubt about the FOSA and chose to sit on the fence. Today FOSA is very popular with the society membership with over 3500 customers (Kimani, 2010).

The SACCO Societies Act was operationalized in June 2010 through the publication of the Sacco Societies (deposit taking Sacco business) Regulations. The Act empowers SASRA to license and supervise Sacco Societies operating Front Office Service Activities (FOSA). This category of Saccos number 218 accounting for Ksh.148 billion out of Ksh.195 billion in total assets and Ksh.96 billion out of Ksh.127 billion in member deposits of the 3,466 active Saccos as at December 2009. This translates to three-quarters (75%) of the total assets and member deposits held by the active Sacco Societies. The FOSA operating Saccos range from large urban-based Saccos serving the professionals to small unsophisticated rural-based Saccos serving the farmers; but they have all distinguished themselves as convenient vehicles for poverty reduction and for savings and credit for personal and enterprise development.

Statement of the Problem

SACCOS represent a considerable part of the Kenya financial sector especially with respect to access, savings mobilization and wealth creation. SACCO societies are member-based organizations that are focused on meeting financial needs of their members for personal and enterprise development. They have membership across different economic activities in both rural and urban areas and are engaged in Back Office Savings Activities (BOSAs), Front Office Savings Activities (FOSAs), or both. The Sacco societies operating FOSAs undertake near retail banking business operations. (Ministry of Finance, 2011).

Some SACCO's have stopped operating FOSA as they are still putting their houses in order for them to comply with the new law, they lack in place some minimum technology and infrastructure. They lack a qualified chief executive or manager; they lack certain policies and lack a banking hall, strong room, safe, lack good management policies before they are given a licence. Front office services activity is a savings and deposit taking enterprise, this attracts unscrupulous people. They are supervised by the Ministry of Co-operative Development. The Ministry does not have or seem to have capacity to adequately supervise the FOSAs. Due to loopholes created by inadequate supervision, corrupt Committee members embezzle funds from the front office services activity account-holders' savings accounts. Central Management Committee members are elected into office. Majority of them do not have qualifications to manage this Front Office Services Activity (Kinyajui, 2009).

Evidence show that SACCOs have a high liquidity because of high savings as opposed to credit. This is because a member's saving isn't accessible to the member unless they choose to withdraw from the SACCO or take out a loan. This protects the savings. The demand for savings accounts has driven one of the most significant developments among the SACCO – investments in 'front offices' (FOSA) and mobile services. In all cases loans are available to members (shareholders) in good standing. In Urban SACCO, a requirement for guarantors as security for the loan is common but in most rural SACCO the main security is crop which gives institution its common bond. Loans are given in four main categories; that is, Development, Refinance, Emergency and school fees loans. In SACCOs dividends are paid out to members at the end of the year according to their yield/share contributions for the year. The other services offered include safe deposits of documents, member's education and training, insurance of loans to members (Muriuki, 2001).

The other studies carried on SACCO include 'Contribution of SACCO to food crop production in Swaziland' (Mavimbela, et.al., 2010). 'The unpaved road ahead: Hiv/Aids and Microfinance: An exploration of Kenya SACCOs' (Evans, 2002), 'Repayment behavior in SACCO: Theoretical and Empirical Evidence from Rural Rwanda' (Malimba, 2004). 'The Dynamics of Competition in Karatina's Financial Markets' researches on MFIs (Johnson, 2003).

None of the studies looks at the specific contributions of Front office service activity (FOSA) on the performance of savings and credit co-operative societies. This prompted the need to carry out the study with a bias to those with FOSA. The research gap identified is that many studies have been carried out on various aspects of SACCO performance. Therefore the current research will seek to draw a comparison on the performance of SACCOs before the introduction and after the introduction of FOSA and find out the level of improvement on overall Sacco performance by using the key performance indicators (KPIs) namely, share capital, membership, and finally surplus.

Research Objectives

The main objective of the study will be to determine the effect of front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS) in Kenya

Specific Objectives

i. To establish the effect of FOSA on SACCO surplus, loan portfolio share capital and membership recruitment.
ii. To establish the level of compliance with SASRA regulations.
iii. To establish if competition from other players in the industry namely banks and microfinance institutions affected the performance of the SACCO and FOSA

iv. To establish the level of uptake of FOSA products

Research Questions

i. To what extent has the SACCO surplus, loan portfolio and Membership recruitment and share capital increased or reduced since FOSA was introduced?
ii. To what extent has the SACCO Complied with all the SASRA regulations?
iii. To what extent do members prefer FOSA to other products offered by other financial institutions?
iv. To what extent have members bought FOSA products?

Scope

This study selected Saccos in Nairobi Kenya. The study targeted the management of these Saccos who provide important information on the Contribution of Front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS) in Kenya. The main respondents of the study were mainly the FOSA accountants.

2.1 REVIEW OF LITERATURE

Member owned organizations have an ownership structure by the members and therefore loyalty and pride ensures their customers are loyal. Low minimum requirements in account balance ensure that even small savers are absorbed. Affordable products and services as well as low transaction costs keep their products sellable. Located in every corner of the country where other financial institutions have shied away from (Afraca 2008)

The FOSA operating Saccos range from large urban based serving the professionals to small unsophisticated rural based serving the farmers but they have all distinguished themselves as convenient vehicles for savings and credit for personal and enterprise development. The prudential regulation is aimed at improving financial condition and soundness of these Sacco Societies, thereby protecting member deposits. This will enhance public confidence thus increasing the level of savings and credit to members and SMEs, a key goal of Vision 2030. (Paul 2011)

A microfinance institution (MFI) is an organization that provides microfinance services, ranging from small non-profit organizations to large commercial banks. An MFI can be broadly be said to be any organization credit union, down-scaled commercial bank, financial NGO, or credit cooperative that provides financial services for the poor (Oketch, and Wachira, 1996).

Deposit Taking Saccos are those Saccos with front office activities. The term deposit taking is used because these Saccos have a banking facility as well as a banking hall. Here members not only save the salary they earn but also from other diverse sources of income. They also serve members outside their common bond. From the legal point of view, non deposit taking Saccos are those Saccos without FOSAs .The SACCOs that are operating FOSAs control 75 per cent of the Sh210 billion asset portfolio that SACCOs held as at December 2010. This figure constitutes the entire sector’s asset base. Theses SACCOs offer products and services that must be competitive just like those offered banks. If you are operating a FOSA you are able to generate a variety of saving products and give a variety of loan products. With a FOSA you can transact just like a bank because you can apply for your loan online, remit credit to your account and withdraw from wherever you are. (Ademba 2010)

Change Management and the Cooperative Movement

According to Paul (2009), depending on the phase of development of financial cooperatives in a country, they may range from formal cooperative banks to semiformal financial cooperatives and credit unions to informal village-based savings and loan entities. They are owned by members and follow a one-member one-vote principle. The higher-level financial cooperatives at the regional or state and national levels are owned by member cooperatives and voting is often according to share capital invested by the member organizations. Small local cooperatives are usually managed by voluntary members on a part-time basis. Bigger cooperatives have paid managers and staff, but the members still elect among themselves the management organs of the cooperative (Elias, 2010).This theory is relevant to this study as it symbolizes the change that co-operatives in Kenya have undergone since Kenya’s independence in 1963 from merry go rounds to the union banking sections and currently to the FOSA .despite all the changes the SACCOS have had to undergo they have remained as membership based organizations.

Both rural and urban members want to access financial services as fast as possible and in the manner they want. Therefore, SACCO's services should be technology driven. Banks are also providing Micro finance services and they have brought great competition to small microfinance providers like SACCOs. Banks use ATM cards, mobile phone services and electronic funds transfers. A big challenge to small MFIs and SACCOs in this country is that they are too small, less capitalized to invest in such kind of technology (Oketch and Wachira, 1996).

In 2003, the minister for Cooperative Development, Mr. Ndwiga revealed that un-remitted salary deductions have a played a big role in the poor performance of SACCOs. Operations of some SACCO are constrained by inadequate cash flow that has been caused by non-remittance by employers of the monthly deductions from the workers dues. The ministry of co-operatives development and marketing has confirmed that in the recent past, employers owed SACCO a total of Kshs 4.5 billion. This had reduced to Kshs 1.5 billion by 2003 (Daily Nation, 2003).

Some employers have viewed development of SACCO in their organization as a threat to their organization. Where employers promote SACCO and their interest through the check of system and thereby remit any salary deductions timely, workers are motivated and their worker productivity is relatively higher than where the employers have frustrated such efforts. Some employers have gone to extent of giving working capital to smoothen any cash flow problem that may face the SACCO. SACCOs also experience low capitalization. For a SACCO to operate effectively, it must raise sufficient capital. Most of the SACCO money comes from the members through check-off system once every month, which gives a SACCO undue disadvantage in capital mobilization. This traditional way of mobilizing funds once a month must therefore change (Wanyama, 2008).

According to Coetzee, Kabbucho, et al. (2002), the larger local SACCOs are also eager to enter these markets. In the current vacuum surrounding SACCO legislation, many are moving quickly to enter what they see as potentially lucrative markets attempting to attract salaried customers in particular. Also recognizing that salaried workers in rural areas are often also farmers attempting to offer services that cater to both these needs is important. A number of SACCOs expressed an interest in lending to small-scale business. While SACCO legislation is vague and there is no supervisory body, they may start to make moves into this area though it is an area fraught with dangers of which SACCOs are generally unaware and will require innovative ideas and thinking to avoid the potential pitfalls involved (Kimuyu, 1999).

Cooperatives Dynamic Theory

According to Nzuve (2009), cooperative and mutual organizational forms arise for reasons that include contracting problems between parties. Economic literature suggests a variety of allocative inefficiencies implied by these forms that largely have their origins in poor investment decisions. It is demonstrated that a multi-period model and the supplier and cooperative valuations it implies the essentials for understanding the sources of inefficiency and solutions to them. Using the case of supplier co-operative shows that economic inefficiency arises because of the common over-supply of input induced by suppliers responding to average, rather than marginal, revenue, and that investment is actually efficient given the supply of input. The presence of unowned capital is an important source of over-supply. We show that if the cooperative's shares are priced at the present value of expected dividends and supplier entry and exit decisions are taken solely on the basis of profitability of membership then there is no inefficiency and we describe a functioning example. Finally, our valuations show that that there is no "time horizon" investment problem, at least from an industry perspective (Chandler, 1962).

Saccos in Kenya have proved to be dynamic in the way they are formed Saccos exist in all spheres of society from the urban salaried workers Saccos to the rural farmers Saccos. All these are dynamic in the way they respond to their members needs using the capital at their disposal. The resource-based view is grounded in the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment. "Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment, the resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy. The business strategy chosen should allow firms to best exploit its core competencies relative to opportunities in the external environment" (Barney, 2002).

Co-operative Commonwealth Theory

In some Co-operative economics literature, the aim is the achievement of a Co-operative Commonwealth; a society based on cooperative and socialist principles. Co-operative economists - Federalist, Individualist, and otherwise - have presented the extension of their economic model to its natural limits as a goal. This ideal was widely supported in early-twentieth century U.S. and Canadian leftist circles. This ideal, and the language behind it, were central to the formation of the Co-operative Commonwealth Federation in 1935, which became Canada's largest left-wing political party, and continues to this day as the New Democratic Party. They were also important to the economic principles of the Farmer-Labor Party of the United States, particularly in the FLP's Minnesota_affiliate, where advocacy for a Co-operative Commonwealth formed the central theme of the Party's platform from 1934, until the Minnesota FLP merged with the state Democratic Party to form the Democratic–Farmer–Labor Party in 1944 (Eias, 2010)

In Kenya co-operatives have been formed as social organizations that are formed by people with a common goal of uplifting their financial well being .In Kenya many co-operative societies have had their influence in Kenya's political scene as co-operatives specifically SACCOS control a large chunk of the National savings as well as over 15 million Kenyans who are members. Some giant SACCOS mainly in Kenya have seen some of their officials be elected as members of parliament and have gone ahead to hold senior positions in Government .a case in point is the former minister of Co-operatives Mr Njeru Ndwiga who was a former chairman of Parliament SACCO. SACCOS have also grown to become a sector of the economy to an extent where the Government has formed the Ministry of Co-operative development to specifically formulate policies to regulate and supervise them.

Conceptual Framework

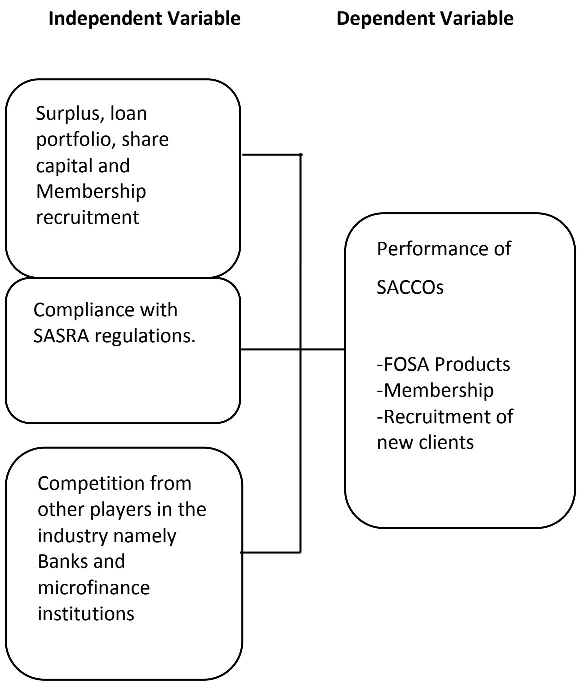

Figure 2.1: Conceptual Framework

SACCOs are member owned financial institutions that provide a safe and convenient place for most people who otherwise have little or no access to other formal financial services (Hulme and Mosley 1996).The SACCO Societies Act 2008 led to the formation of The Sacco and societies regulatory authority (SASRA) as the regulator and the Regulations there under defines capital and provides the minimum capital required for a SACCO Societies in the deposit taking Sacco business. To ensure that each SACCO Society maintains a level of capital which is adequate to protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces. These risks include credit, investment, legislative, liquidity, interest rate and competitive risks. Thus as a measure of a financial institution's safety and soundness, adequate capital promotes public confidence in the institution. This document provides explanatory notes to deposit taking SACCO Societies on the capital adequacy requirements and their computation pursuant to Section 9 of the SACCO Societies (Deposit Taking SACCO Business) Regulations 2010. Rule 52(3b) of Cooperative Society Rules, 2004 required Sacco societies operating FOSAs to maintain a capital adequacy of 10% of total liabilities (Elias, 2010).

Often we to find that the largest financial organizations also tend have large number of members or account holders. This is the case of Equity bank in Kenya with more than 2.2 million account holders. Harambee and Mwalimu SACCO are some of examples of institutions that have large financial base due to large number of members. They are owned by Kenya Civil servants and teachers respectively. Elsewhere, the French SACCOs or Credit Union Agricole is the largest bank in the world outside of Japan; the German people's banks have over 28 percent of the savings market share, Rabobank Netherlands 25 percent. Ireland has a strong SACCOs or Credit unions movement, with 1.6 million people (44 percent of the population) in membership (Birchall, 2004).

Credit facilities available to the members. Usually, collateral and/or guarantors are required before a loan is given. A member's deposit is used as a basis for issue of loan. There is always a charge on loan in form of interest. Loans given are mainly Development loans, Refinance loans, Emergency and school fees loans (Lindberg, 1993).

The successes and rapid growth of SACCOs has begun to reveal a number of basic flaws in the products they offer. In particular, the inherent liquidity problems of many SACCOs (they commonly offer loans equal to three times the savings balances of members) has led a small sub-set of them (218 at the last count) beginning to raise additional voluntary but more liquid savings deposits from members and even some non-members through the so-called Front Office Savings Activity (FOSAs). At one level, the growth of FOSA balances can be seen as a considerable success for the industry since total SACCO deposits have grown rapidly and are now equal to one quarter of all deposits in the banking system. However, at the same time the high levels of NPLs and the poorly regulated use of the large deposit balances constitutes a serious risk to financial stability that could easily become systemic. A number of the larger deposit taking SACCOs are already of a size that ranks them alongside mid-sized commercial banks and they warrant the same international-standard regulation that already applies in the case of banks (Okoro, 2009). Membership in SACCO Societies should be voluntary and open to all persons able to use their services and willing to accept the responsibilities of membership stated by General Assembly of members without gender, social, racial, political or religious discriminations. (Marvin, 1980).

Competition among Cooperatives and with other financial institutions is fierce. Within the co-operatives there has been rivalry between the large old district unions and newer separate rural SACCOs. The main cause leading to this state of affairs may be explained as follows; Liberalization of the co-operative sector which has created room for SACCO and their members to seek for services and goods from other institutions other than co-operative where they can get them fast and speedily. The members on the other hand have high demand for money that is readily available at the Commercial banks and other micro finance institutions. Members are therefore drawn to these institutions despite other underlying expensive financial cost for servicing the financial services obtained. Commercial banks and Micro finance institutions are offering services to customers promptly while the SACCO bureaucracy introduced by the co-operative legislation prevents the management of the SACCO to act faster and effectively in providing their services (Johnson, 2003).

Lack of access to financial services, and in particular, of convenient savings and credit products, and payment services, is a major constraint limiting the participation of low-income households and micro and small enterprises, both in the rural and urban areas, in the country's economic activity. According to the study on Access to Financial Services launched in 2007, only 27% of Kenyans have access to formal financial services including from Banks (19%), SACCOs and MFIs (8%). A further 35% has access to informal financial services ranging from ROSCAs, merry-go-rounds, relatives and friends, to moneylenders. Overall, some 38% of Kenyans are financially excluded, that is, they do not have access to financial products and services (Ondieki, 2010).

According to Manyara (2004), Proper legislation is very critical for the provision of financial services both to the rural and urban sectors. Majority of MFIs and SACCOs are not adequately registered and supervised. They do not conform to best practices which make them prone to loan defaulters. Lack of proper legal status and proper judiciary system looking at MFI issues compounds these problem creating problems to the SACCOs'profitability and sustainability. The story is usually different from major financial institutions like the banks which remain at advantage over SACCOs in terms of profitability and sustainability. Many banks use linkages and partnerships with other government or non-governmental organizations that provide services in the communities as a marketing strategy to strengthen their outreach capacities. SACCOs and MFIs on the other hand are limited by the available resources to engage in such arrangements with other organizations (Wanyama, 2008). Manyara (2004),

Members of SACCO are also in most cases not aware of the type of the products and services that they can access from their organizations (John, 1992). Commercial banks have catchy financial statements such as 'you do not need to save to borrow'. While on the other hand, Co-operatives emphasize on 'save wisely, borrow regularly and pay promptly'. Such phrases make SACCO members deviate their thinking and move to commercial banks for their financial needs. In the recent past commercial banks have been asking members of the SACCO movement to provide as security only an identification card , copies of current three months pay slips bearing the employers official stamp, a copy of Kenya Revenue (KRA) Personal Identification Number(PIN), and a letter of introduction from the employer. Such requirements makes it very easy for a SACCO member to move to a Commercial bank since the conditions are easier to meet than in a SACCO where a member has to initially first save for at least six months (Wanyama, 2008).

SASRA emphasizes that in accordance with vision 2030, the policy objective of establishing prudential regulation of deposit taking Sacco societies is to enhance transparency and accountability in the Sacco subsector. This is consistent with the ongoing reforms in the financial sector whose ultimate aim is to expand financial access, encourage efficiency and enhance financial stability of financial service providers in Kenya. The role of Sacco societies as convenient vehicles for savings and credit to individuals, across the income divide, both in urban and rural areas has been well documented with every seven out of ten Kenyans said to belong to a Sacco society. Thus a financially strong well governed deposit taking Sacco societies are necessary to expand financial access through deposit services and credit provision for personal and enterprise development. While there have been several reform initiatives in Sacco sub sector in the past, the introduction of a Sacco specific law is recognition of the unique financial intermediation function that Sacco societies play in an economy. Thus the operational regulations and performance standards are specific and prescriptive; not to make Sacco societies noncompetitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices. (Ademba 2010)

RESEARCH METHODOLOGY

Research Design

In this study a descriptive survey was used. Descriptive research portrays an accurate profile of persons, events, or situations (Mugenda & Mugenda, 2003). Surveys allowed the collection of large amount of data from a sizable population in a highly economical way. It allowed one to collect quantitative data, which was analyzed quantitatively using descriptive and inferential statistics (Mugenda & Mugenda. 2003).

Target Population

The introduction of FOSAs and other SACCO products have gone a long way in meeting this challenge. Currently, there are 97 SACCOs offering these quasi-banking services in the country, 29 of them in Nairobi (SASRA 2011.)The population, therefore, consists of all savings and credit cooperative societies (SACCOs) offering front office services (FOSA) in Nairobi County.

Sample Size

According to Cooper & Schindler (2007), a census is feasible when the population is small and necessary when the elements are quite different from each other. When the population is small and variable, any sample we draw may not be representative of the population from which it is drawn. Therefore for this case the researcher will conduct a census study.

DATA ANALYSIS, PRESENTATION AND INTERPRETATIONS OF FINDINGS

A total of 100 respondents were issued with the questionnaires the total numbers of questionnaires received from the respondents were 86% .

Sacco Performance

Level of Agreement	Strongly Agree	Agree	Disagree	disagree
Share Capital has increased since FOSA was introduced	30	50	12	8
Surplus has increased since FOSA was introduced	30	44	16	10
Loan portfolio has increased since FOSA was introduced	35	40	15	10
Membership has increased since FOSA was introduced	31	49	12	8

The table above shows the Sacco performance, on whether share capital has increased since FOSA was introduced, majority of respondents who were 50 agreed and 8 strongly disagreed which shows most SACCOs have increased share capital since FOSA was introduced. On whether surplus has increased since FOSA was introduced, 44 respondents were agreed and 10 strongly disagreed which shows that surplus had increased since FOSA was introduced. The study findings agrees with Ademba (2010), who found out that the SACCOs that are operating FOSAs control 75 per cent of the Sh210 billion asset portfolio that SACCOs held as at December 2010.

On whether Loan portfolio has increased since FOSA was introduced, 40 respondents agreed and 10 strongly disagreed which shows that loan portfolio have increased since FOSA was introduced. On whether the membership has increased, 49 respondents agreed and 8 strongly disagreed which shows that Saccos membership has increased since FOSA was introduced. The findings agrees with Ademba (2010) that Saccos serve members outside their common bond.

Sacco Performance Rating

Indicator	Rating				
	Very good	Good	Average	Bad	Very bad
Share capital	10	23	36	21	10
Surplus	11	19	40	17	13
Loan portfolio	20	21	33	15	11
Membership	24	26	31	10	9

The table showing SACCO performance rating showed that share capital was rated average by 36 respondents, 23 good and 10 very bad which shows that most Saccos were not performing well on share capital. The study findings agreed with Okoro (2009) that the growth of FOSA balances can be seen as a considerable success for the industry since total SACCO deposits have grown rapidly and are now equal to one quarter of all deposits in the banking system. On surplus, forty respondents indicated average and eleven very good which shows that most Saccos did not record surplus.

On loan portfolio, 33 respondents indicated average and 11 very bad which shows that most Saccos did not have the required loan portfolio. On membership, majority of respondents who were 31 in number indicated average and 9 very bad which shows that Saccos experienced good membership. The study findings agrees with Ademba (2010) that Saccos serve members outside their common bond.

FOSA products

Awareness of FOSA Products

Level of Agreement	Strongly Agree	Agree	Disagree	Strongly disagree
I am aware of all the FOSA products and services.	15	40	25	20
I have used one of the FOSA products and services	32	33	21	14
I frequently make use of the FOSA products and services.	12	18	44	26
FOSA services are adequate for my financial needs	19	21	39	21

The findings show that the level of usage of FOSA products was still low which was not aligned to the study findings by Ademba (2010) that showed that members not only save the salary they earn but also from other diverse sources of income. They also serve members outside their common bond.

On whether there is frequent use of FOSA products, 44 respondents disagreed and 12 strongly agreed which shows that there was low frequent usage of FOSA products. The study findings disagrees with Ademba (2010) that members not only save the salary they earn but also from other diverse sources of income. They also serve members outside their common bond. On whether FOSA services are adequate for financial needs, most respondents who were 39 disagreed and 19 strongly agreed which shows that FOSA services were not adequate for financial needs of the customers. The study findings disagrees with Ademba (2010) who found that with a FOSA you can transact just like a bank because you can apply for your loan online, remit credit to your account and withdraw from wherever customers are.

Rate of Performance of FOSA Products

Indicator	Very good	Good	Average	Bad	Very bad
Loan products	18	24	34	15	9
Savings products	13	14	36	20	17
Salary advances	20	33	30	10	7
FOSA innovation	7	10	20	30	33

The study shows the rate of performance of FOSA products, on performance of loan products, 34 respondents indicated average and 9 indicated very bad which shows that loan products were performing well which agrees with study by Ademba (2010) that SACCOs offer products and services that must be competitive just like those offered banks. On performance of savings products, 36 respondents indicated average and 13 indicated very good which shows that the performance of savings products was not doing very well. These agree with the study by Ademba (2010) that if you are operating a FOSA you are able to generate a variety of saving products and give a variety of loan products.

On performance of salary advances, 33 respondents indicated good and 7 very bad which shows that salary advances product was doing well. The findings agree with Ademba (2010) who found out that members not only save the salary they earn but also from other diverse sources of income. On FOSA innovation majority 33 respondents indicated very bad and 7 indicated very good which shows that there were no new innovations on FOSA.

Regulatory Framework

Overall Compliance with SASRA Regulations

Level of Agreement	Strongly Agree	Agree	Disagree	Strongly disagree
FOSA has complied with SASRA regulations of Registration	20	27	33	20
The FOSA facilities are in line with SASRA guidelines	16	21	34	29
The FOSA capital adequacy is in line with SASRA guidelines	27	21	22	30
The FOSA Liquidity management is in full compliance with SASRA guidelines	17	23	40	20
The FOSA Management Information System is in full compliance with SASRA guidelines	21	26	23	23

The table on compliance with SASRA regulations shows the overall compliance with SASRA regulations of registration, on whether FOSA has complied with SASRA regulations of registration, 33 respondents disagreed and 20 strongly disagreed which shows that FOSA in most of the Saccos did not comply with SASRA regulations of registration. The study findings disagrees with Elias (2010) who indicated that most Saccos had complied with SASRA regulations.

On whether the FOSA facilities are in line with SASRA guidelines, most respondents who were 34, disagreed and 16 strongly agreed which shows that most FOSA were not in line with SASRA guidelines. On whether FOSA capital adequacy is in line with SASRA guidelines, most respondents who were 30 strongly disagreed and 21 agreed which shows that capital adequacy did not comply with SASRA guidelines. The study findings disagreed with those of Elias (2010) that FOSA must comply with SASRA regulations which protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces.

On whether the FOSA Liquidity management is in full compliance with SASRA guidelines, forty of the respondents disagreed and 17 strongly agreed which shows that most Saccos FOSA Liquidity management were not in full compliance with SASRA guidelines which agrees with Okoro (2009) that the successes and rapid growth of SACCOs has begun to reveal a number of basic flaws in the products they offer. On whether FOSA Management Information System is in full compliance with SASRA guidelines, 26 respondents agreed and 21 strongly agreed which shows that most FOSA Management Information System is in full compliance with SASRA guidelines. These according to Ademba (2010) is not in consistent with the ongoing reforms in the financial sector whose ultimate aim is to expand financial access, encourage efficiency and enhance financial stability of financial service providers in Kenya.

Level of Compliance with SASRA Regulations

Indicator	Very good	Good	Average	Bad	Very bad
Registration	29	30	21	16	4
Facilities	8	12	20	29	31
Capital Adequacy	10	23	37	13	17
Liquidity	5	10	35	23	27
Management information systems	6	14	39	25	16

The table showing the level of compliance with SASRA regulations showed that on registration thirty respondents indicated good and 4 very bad which shows that most Saccos had not registered. These according to Ademba (2010) agrees SASRA policy objective of establishing prudential regulation of deposit taking Sacco societies is to enhance transparency and accountability in the Sacco subsector. On facilities, 31 respondents indicated very bad and 8 very good which shows there is increased registration which shows that most Saccos have no proper facilities.

On capital adequacy, majority of respondents who were 37 indicated average and 10 very good, which shows that most Saccos had good capital adequacy. On Liquidity, majority of respondents who 35 indicated average and 10 very good which shows most Saccos had low liquidity. The study findings agree with Okoro (2009) that the successes and rapid growth of SACCOs has begun to reveal a number of basic flaws in the products they offer. On management of information system, 39 respondents indicated average and 6 very good which shows that management of information system was not correctly done.

Other Players in the Industry

Overall Comparison between FOSA and other players in the industry

Overall comparison between FOSA and other players in the industry	Strongly Agree	Agree	Disagree	Strongly disagree
FOSA banking charges are better than banks and micro finance institution	32	38	20	10
The FOSA interest rates on loans are better than banks and microfinance institutions.	39	40	12	8
The FOSA interest rates on savings are better than banks and microfinance institutions.	17	23	33	27
I have both FOSA account and bank account.	31	39	22	8
I have both FOSA and micro finance account	21	22	32	25
I get served faster in FOSA than in bank or microfinance	40	35	20	5
I can access FOSA more conveniently than bank.	36	38	17	9

The study established that FOSA banking charges were better than banks and micro finance institution, 38 respondents agreed 20 strongly disagreed which shows that FOSA had lower banking charges as compared to microfinance institutions. The study findings agrees with study by Afraca (2008) who found out that affordable products and services as well as low transaction costs keep their products sellable. On whether FOSA interest rates on loans are better than banks and microfinance institutions, 40 respondents agreed and 8 strongly disagreed which shows that most respondents preferred FOSA.

On whether FOSA interest rates on savings are better than banks and microfinance institutions, 33 respondents disagreed and 17 strongly agreed which shows that FOSA interest rates was not good and most respondents preferred saving in microfinance than Saccos. The study findings disagrees with the study by Ademba (2010) who found out that operating a FOSA you are able to generate a variety of saving products and give a variety of loan products. . On whether respondents had both FOSA and bank account, 39 respondents agreed and 8 strongly disagreed which shows that most respondents had both bank and FOSA account.

On whether respondents had both FOSA and microfinance account, 32 respondents disagreed and 21 strongly agreed which shows that most respondents who had FOSA account did not have microfinance account. On whether respondents get served faster in FOSA than in banks or in microfinance institutions, 40 respondents agreed and 5 strongly disagreed which shows that FOSA had better service compared to banks and microfinance institutions. On whether respondents can access FOSA more conveniently than bank 38 respondents agreed and 9 strongly disagreed which shows that FOSA was more convenient to access as compared to banks.

Rate of FOSA in Comparison with Banks and Microfinance

Indicator	Very good	Good	Average	Bad	Very bad
Savings interest rates	9	20	31	17	23
Loan interest rates	22	23	32	15	8
Banking charges	26	24	29	6	5
Speed	21	27	30	16	6
Convenience	23	22	28	10	7

The savings interest rate of FOSA in Comparison with Banks and Microfinance showed that, 31 respondents indicated average and 9 very good which shows that FOSA were poor in savings interest rates as compared to banks and microfinance institutions. On Loan interest rates 32 respondents indicated average and 8 very bad which shows that FOSA had better interest rates on loan as compared to banks and microfinance institutions. These findings agree with Afraca (2008) who found out that affordable products and services as well as low transaction costs keep their products sellable.

On whether banking charges of FOSA compared to banks and microfinance institutions, 29 respondents indicated average and 5 very bad which shows that banking charges for FOSA were better than banks and microfinance institution. These agrees with the study by Afraca (2008) that low minimum requirements in account balance ensure that even small savers are absorbed. On whether FOSA had speed as compared to banks and microfinance institutions, 30 respondents indicated average and 6 very bad which shows that FOSA had speedy services as compared to banks and other financial institutions. The findings agrees with study by Afraca (2008), who found out that that FOSA are located in every corner of the country where other financial institutions have shied away from.

On convenience of FOSA as compared to banks and other microfinance institutions, 28 respondents indicated average and 7 very bad which shows that FOSA was more convenient compared to other banks and microfinance institutions. The study findings agrees with Paul (2011) who found out that the FOSA operating SACCOs range from large urban based serving the professionals to small unsophisticated rural based serving the farmers but they have all distinguished themselves as convenient vehicles for savings and credit for personal and enterprise development.

Table 4.14: Model Summary

Indicator	Coefficient
R	0.884
R Square	0.781
Adjusted R Square	0.702
Std. Error of the Estimate	1.81025

Predictors=SACCO membership, SACCO Loan portfolio, SACCO Share Contribution, SACCO Profitability

Adjusted R^2 is called the coefficient of determination and tells us how Sacco performance varied with; membership, Loan portfolio, Share Contribution and

Profitability. From the table above, the value of R2 is 0. 781 this implies that, there was a variation of 78.1% of Sacco performance with membership, Loan portfolio, Share Contribution and Profitability.

Regression Coefficients

Indicator	Un standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	1.191	1.367		0.871	0.000
Surplus, loan portfolio,share capital and membership recruitment	0.119	0.176	0.109	0.675	0.003
Compliance with Sasra regulations	0.026	0.182	0.023	0.145	0.004
Competition from other players in the industry	0.399	0.273	0.246	1.461	0.041
Fosa products	0.395	0.246	0.256	1.601	0.005

Dependent Variable: SACCO Performance

The model illustrates that when all variables are held at zero (constant), Sacco performance would be 1.191. However, holding other factors constant, a unit increase in surplus, loan portfolio, share capital and membership recruitment would lead to a 0.119 increase in Sacco performance and a unit increase in Fosa products would lead to a 0.395 increase in Sacco performance. On the other hand, a unit increase in Competition from other players in the industry would lead to a 0.399 increase in Sacco performance while a unit increase Compliance with Sasra regulations would lead to a 0.026 increase in Sacco performance.

This suggests that an increase in surplus, loan portfolio, share capital and membership recruitment Compliance with Sasra regulations Competition from other players in the industry and Fosa products would definitely increase Sacco performance. Moreover, the regression model shows that there is a significant relationship between Sacco performance with the four variables; (surplus, loan portfolio, share capital and membership recruitment =0.003, Compliance with Sasra regulations p= 0.004, Competition from other players in the industry p= 0.041 and Fosa products p= 0.005).

Conclusion

SACCOs in Kenya are gradually responding to the fast changes in the financial environment and adopting new approaches to the SACCO model. A good example is the FOSA concept and the development of products that are not tied to the traditional SACCO model, which relies on the tied shares deposits. However, Cooperative Societies need to keep up with changing demands. For instance, members want quick and easy access to financial services. If their SACCO cannot provide the loan when it is needed, then it is not meeting its members' needs. In this regard, SACCOs need to provide efficient services and remain liquid at all times

SACCOs have great potential but they are limiting themselves through their lending procedures, limited product offering and closed common bonds. SACCOs need to develop more products to meet current and potential members' needs. They need to build their institutional capacity in tandem with ever-changing market demands. Clients want products that match their needs. They want products that are flexible enough to respond to the varied requirements of their different business situations. Cooperative Societies need to handle customers in a more professional manner and develop expertise in areas such as product development, financial management, customer care and marketing.

With the advent of Front Office Service Activities (FOSA), SACCOs need to develop very attractive and innovative products that is continuously re-branding and re-packaging them according to market needs and tastes. The FOSA Prime account needs to take care of customers' regular transactions. The Savings account needs to assists customers to plan for their future financial needs.

Performance management needs to be embraced by most organizations in Kenya, including the civil service. It measures the performance of each individual employee, making everyone in the organization result-oriented. The SACCO need to implement performance management at all levels with a view to enhancing productivity and motivating the workforce.

Recommendations

Share capital should maintain an upward trend. FOSA should have a better loan portfolio compared to other financial institutions which should help attract more members. The management of Saccos should continuously evaluate Performance of FOSA so as to serve customers better. FOSA products should be as competitive as for banks so as to attract more members.

SASRA should monitor and ensure full registration of FOSA before being allowed to offer FOSA related services. SASRA should abolish some of registration procedure that are bureaucratic to enable more members to register with SASRA. SASRA guidelines should be clear to members and adhered to at all times. To safeguard the members against any risks, SASRA should ensure capital adequacy at all times. FOSA level of liquidity should be in line with SASRA requirements. With new innovations, management of information system should be in compliance with SASRA requirements. SASRA should ensure all Saccos operating FOSA are registered.

Saccos should improve the level of awareness of FOSA products through continuous marketing. Management of Saccos should ensure that FOSA products are competitive and they meet the financial needs of the members. The management should ensure that loan products are competitive with what banks are offering. FOSA's saving to members should be in line with the competitors. New innovations are necessary if FOSA is to stay ahead of competitors.

FOSA bank charges should be lower compared to banks and microfinance institutions. FOSA interest rates on loans should be lower or in line with banks and other financial institutions. The management of SACCO's should ensure that FOSA services are efficient and effective to the customers. FOSA services should be distributed every corner of the country to make convenient to members. FOSA should be secure on member's savings.

Suggestion for Further Studies

There are many effects of Front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS) in Kenya; this therefore makes it difficult to identify all the effects of Front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS) in Kenya. The study findings were narrowed into the four factors which were addressed by the research objectives, these factors cannot be fully relied upon to address future effects of Front office service activity (FOSA) on the performance of savings and credit co-operative societies (SACCOS) in Kenya. Suggestion for further studies is therefore advisable to contribute towards and assist in implementation of strategic measures.

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