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ABSTRACT

ROSCA activities normally experience challenges and most of the organizations under ROSCAS are either failing or perform dismally global wise since participation in ROSCAS is costly and needs perseverance. Opportunity cost of time spent attending meetings and uniting members is another challenge, members also suffer from the risk of default from other members which could eventually lead to the breakdown of the ROSCA. There is a need to search on ways of promoting ROSCA Activities in Kenya to enable those who lives in an informal settlements to have something that they can count on and this is what prompted the researcher to assess the influence of financial investment decisions on registered rotating savings and credit associations' performance in Siaya County Kenya with specific objective being; to establish the influence of Cash investment decision on performance of registered rotating savings and credit associations in Siaya County Kenya, the target population was 26 registered ROSCAs in Siaya County, the design adopted was cross-sectional survey, the data collection tool was questionnaire and the model for analysis was linear regression equation. The finding reveals that RASCOs need to diversify their investment portfolio if they have to realize the full maximization of the contributors' wealth. There should be a proper advice on the areas of investment after carrying out due diligence on the potential investment avenues. Members should also be encouraged to participate fully on the investment decisions of their organizations. These are the forums that will enable them gain awareness on the key project that generate a good return.

Key Words: *Cash Investment, ROSCA, Investments*

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INTRODUCTION

Studies on methods of eliminating poverty and enhancing strategies that lead to savings in society have been undertaken as a result of the majority of people in the world still living below the poverty index and the high rate of poverty that exists globally. Savings normally makes important contribution to development and speeding up the rate of economic growth and this coincides with having the financial resources required for investment and the investment choices one has to make in life. It is for this reason that many financial institutions have emerged to provide avenues for savings and provision of credit to reduce the poverty levels in the society and improves people's lives. Kenya has a relatively developed formal financial sector with 48 commercial Banks. Kenya's financial sector grew steadily in the 1990s as indicated by the growth of the share of the financial sector in GDP from 7.9% in 1990 to 9.6% in 1994, and to 10% in 1997 (ROK, 1997, 1998). This share however declined in the 21st century to 5.6% in 2010 (ROK, 2011). McCormick and Pederson (1996) noted that Kenya has a large and growing financial services sector contributing to almost 10% of the Gross Domestic product (GDP). Some of which have been specifically designed for lending to the MSEs sector. These include Kenya Industrial Estates (KIE), the joint loan Board Scheme (JLBS), among others. In addition, other institutions have developed within their portfolio, special credit programs for the MSE sector include industrial and commercial development corporation (ICDC) Kenya Commercial Bank Ltd., Barclays Bank of Kenya Ltd., Co-operative Bank of Kenya and National Bank of Kenya Ltd. Other sources of limited credit to the MSEs sector have been from the Non-Governmental organizations (NGO's) registered in the country and a few small enterprise associations (Session Paper No. 2, 1992). According to the National Baseline Survey of 1999, only 10% of MSEs have access to credit. Despite Kenya having a relatively well developed formal financial sector, access to them has been beyond the reach of ordinary citizens. A report released by the central bank of Kenya in 2009 (CBK, 2009) showed that only 22% of Kenyans are banked and thus have formal access to financial services through commercial banks, building societies and the Post Bank. An additional 17.9% are served by Savings and Credit Cooperative Societies (ROSCAs) and Micro-finance institutions, 26.8% depend primarily on informal financial services such as Rotating Savings and Credit Associations (Roscas) and Accumulating Savings and Credit Associations (Ascas). It indicated that 32.7% of Kenyans are financially excluded, i.e. they have no access to financial services and are classified as "un-banked", reporting no usage of formal or informal financial services. (CBK, 2009). The reasons which have traditionally been given as behind this poor access to formal financial services include the distance between the urban-based formal institutions and the rural poor, which has been aggravated by poor transport and communication networks, long bureaucratic procedures. Lack of familiarity and interaction between them and the poor makes them un-approachable. Further, their lending policies displayed in forms of prescribed minimum loan amounts and complicated application procedures and restriction of credit for specific purposes complicate the problem. Their rules and regulations have created the myth that the poor are not bankable and since they cannot afford the required collateral, they are considered un-creditworthy.

Following these arguments, formal financial institutions have institutionalized flexible and attractive lending mechanisms for attracting all forms of clients including the informal sector participants but the informal financial sector continues to thrive side by side the formal financial institutions. Many microfinance institutions have also come up but informal sector participants still rely on the informal financial sector to meet their savings and credit needs. Among the MSEs that do not receive outside financing the most frequent source was Rotating Savings and Credit Association (Roscas), Sethna, (1992). The informal financial institutions include rotating savings and credit associations (roscas) and accumulating savings and credit associations (Ascas), investment groups and welfare/clan groups. A Rosca can be defined as "a voluntary grouping of individuals who agree to contribute financially at each of a set of uniformly-spaced dates toward the creation of a fund, which will then be allotted in accordance with some prearranged principle to each member of the group in turn" (Calomiris and Rajaraman,1998). Roscas are popular among high- as well as low- income households and flourish in economic settings where formal financial institutions seem to fail to meet the needs of a large fraction of the population. They serve as a financial intermediary by transforming the bundled savings of a group into what might be considered a loan to one rosca participant in each period (Klonner, 2003). Rotating savings and credit associations (roscas) are the most prevalent forms of informal financial institutions in developing countries (Ambec and Treich, 2007). They involve between 50% and 95% of the adult population in several African countries and mobilize about one-half of national savings in Cameroon (Bouman, 1995). Studies in Kenya have also shown the prevalence of roscas for example, Kimuyu (1999) found that between 45-50% of the respondents in Central Kenya belonged to roscas. Anderson and Baland (2002) found that in 57% of the households in Kiberaslum at least one person belonged to a rosca. Similarly, Johnson (2004) found that 49% of respondents in Central Kenya belonged to roscas whereas 9% belonged to independent ascas and 6% to managed ascas. Further, the data from both the Western rural and Nairobi indicate that rosca members were more likely to be women (Gugerty 2007). Similarly, Johnson (2004) found that in Central Kenya, 66% of women in the sample were rosca participants compared to 30% of men. Malkamaki and Johnson, (2009)) showed that roscas are the most widely used informal groups in Kenya (28.3%), meaning that close to 5 million adults are members of at least one rosca group.

Statement of the Problem

In many countries in the world, the informal financial sector co-exists with the formal financial sector that enable individual to save and have their lives improved. Available evidence suggests that informal financial sector is larger than the formal financial sector. In Kenya, for example a report released in 2007 by the Banking Supervision department of Central Bank of Kenya in collaboration with representatives from the financial sector reported that only 19% of Kenyans are banked and thus have formal access to financial services through commercial banks and building societies and the post bank. An additional 8% are served by ROSCAs and Micro-finance institutions, 35% depend primarily on informal financial services such as Rotating Savings and Credit Associations (roscas) and Accumulating Savings and Credit Associations (ascas) (CBK 2019). Of the informal financial institutions, Rotating Savings and Credit associations are the most prevalent in developing countries. In Kenya for example, among the unbanked population who use informal financial institutions, 31.3% use roscas, 13.1% use welfare/clan groups, 4.8% use independent Ascas, 3% use investment clubs while 1% use managed Ascas (Malkamaki & Johnson, 2009) Participation in roscas is costly. For example, there is the opportunity cost of time spent attending meetings. Moreover, members suffer from the risk of default from other members which could eventually lead to the breakdown of the rosca. There is a need to search on ways of promoting ROSCA Activities in Kenya to enable those who lives in an informal settlement to have something that they can count on and this is what prompted the researcher to assess the influence of financial investment decisions on registered rotating savings and credit associations' performance in Siaya County Kenya.

Study Objectives

To assess the influence of financial investment decisions on registered Rotating Savings and Credit Associations' Performance in Siaya County Kenya. The specific objective was to establish the influence of Cash investment decision on registered rotating savings and credit associations' performance in Siaya County Kenya.

LITERATURE REVIEW

Economic Theory

The theory was developed by Rostow in 1950 and state that the development in any country is a gradual process and follows the linear-stages-of-growth which was based on a *Non-Communist Manifesto,* following work of Marx and List in 1950. This theory modifies Marx's stages theory of development and focuses on the accelerated accumulation of capital, through the utilization of both domestic and international savings as a means of spurring investment, as the primary means of promoting economic growth and, thus, increased development in the informal set up of undeveloped countries in the world. The linear-stages-of-growth model posits that there are a series of five consecutive stages of development which all countries must go through during the process of development. These stages are "the traditional society, the pre-conditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption" Simple versions of. Such theories have been criticized for not recognizing that, while necessary capital accumulation is not a sufficient condition for development but the savings and investment from the capital accumulation is and individual should always try to invest their money in any kind of investment worth generating interest that maximizes shareholders' wealth and ROSCAs should also tend to embrace the idea of investing the shareholders' funds. That is to say that this early and simplistic theory failed to account for political, social and institutional obstacles to development. Furthermore, this theory was developed in the early years of the cold war and was largely derived from the successes of the marshal plan. This has led to the major criticism that the theory assumes that the conditions found in developing countries are the same as those found in post-WWII Europe which is not the case. The theory is relevant to the study since it tends to address the investment and choices that the Rosca members should embrace for the realization of the improved performance and attraction of more such associations in the country.

Conceptual Framework

Growth investment decision
- Treasury bills
- Bonds

→

ROSCAs' Performance
- Members Expansion
- Firms Expansion
- Wealth creation

Independent variable **Dependent Variable**

Figure 1: Conceptual Framework

Growth Investment Decision

Growth investing is an investment are investments focusing on increasing an investor's capital. Growth investors typically is the investment in growth stock by young or small companies whose earnings are expected to increase at an above-average rate compared to their industry sector or the overall market. Growth investing is highly attractive to many investors because buying stock in emerging companies can provide impressive returns if the companies are successful.

It is another popular type of financial assets is bonds, which are usually sold by companies or government to help short-term fund projects. A bond is a legal document that states how much money the investor has lent the borrower and when

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it needs to be paid back (plus interest) and the bond's maturity date. Stocks are the only type of financial assets that do not have an agreed-upon ending date. Investing in stocks gives depositors part ownership of a company and share in the company's profits and losses. Stocks can be kept for any period time until the shareholder decides to sell it to another investor. (Rotich et al. 2011).

The critical task of financial assets, which were discussed above, is the process of generating income. The ability to produce a steady income in the process of investment or operating activities is a crucial characteristic of the financial asset. It is essential to understand that the values that are in the process of use of assets have a direct relationship to the factor of liquidity. We are talking about the principle that assets should be liquid. This means that you can convert them into cash at fair market value. This characteristic is essential because it ensures the restructuring of enterprises under adverse conditions.

Such financial assets as checking accounts, savings accounts and money market accounts are quickly turned into cash for paying bills and covering household financial needs, such as plumbing works. Ill-considered investments in illiquid assets may result in a lack of money and usage of a high-interest credit cards to cover bills, inevitably leading to debts increase and negatively affecting overall financial status of the investor. In the case of stocks, to receive cash investor has to sell stock and wait for the settlement date, and it is worth doing to have another financial asset available for emergency cases.

Even though checking accounts and savings accounts refer to liquid assets, they have a more limited return on investment. At the same time, CDs and money market accounts restrict withdrawals for months or years. When interest rates fall, callable CDs are often called, and investors face moving their money to potentially lower-income investments. (Joseph 2004) On the other hand, keeping money in savings accounts results in more exceptional preservation of capital. All financial risks related to bank accounts in all financial institutions are typically covered by the Federal Deposit Insurance Corporation (FDIC) and insure deposits against loss. More investments in liquid assets give an investor an opportunity to purchase aggressive assets such as real estate or trade in the Forex market with greater confidence

Empirical review

There are many recorded drivers of performance of financial institutions, Harker and Zenios (1998) list the following as the main drivers. One of them is the strategy. A strategy is a crucial driver for success. The approach should be in the areas of product mix, client mix, geographical locations and distribution channels. Other drivers are flexibility and responsiveness operations, ability to understand time-based competition in response to customers' needs, diversification and organizational efficiency. They also list some environmental drivers of performance which are innovation, regulation and technology that need to be adopted by ROSCAs. Innovation enables a firm to produce new products, produce former products but more efficiently, among others. Regulation prevents unfair competition for firms hence enhancing performance. Technology as a driver of performance enables efficient production, new product production, among others.

This has been an area of much debate on the effects of financial innovation but what is agreed is that product diversification affects economic performance. One argument is that diversification has no significant impact on performance though it has an effect on risk-adjusted performance (Chang and Elyasiani2008). Another view is that diversification has had significant effect on the performance of financial institutions especially during economic crisis Among the effects on performance is that it increases efficiency (Rotich 2011).

METHODOLOGY

This study adopted a mixed research design considering descriptive and cross-sectional survey approaches and aimed at addressing the objectives of the study. The target population for this study was all 26 ROSCAs in Siaya County Kenya, fully licensed and registered to offer financial services to clients and members. The unit of selection was based on the management levels and membership in the registered ROSCAs in Siaya County which gave a sample size of 158 members who were selected by stratified random sampling. The researcher used well-structured questionnaires to collect both quantitative and qualitative data from the sample population. These were administered physically through a drop and pick later method. The collected data was cleaned, coded and then keyed into the SPSS software for analysis. The data was then presented in pie charts, graphs and frequency tables to show the distribution of scores. Inferential statistics like multiple regression was used to test relationship between the independent and dependent variables of the study.

FINDINGS AND DISCUSSION

A total of 158 questionnaires were administered to the respondents. out this number only 152 questionnaires were returned back to the researcher correctly filled representing 96%. This response rate was considered adequate and sufficient for analysis based on Orodho (2009) recommendations.

Growth Investment Decision

The study sought to reveal if the respondents if their organizations participate in the investment in bonds. Fifty eighty percent (58%) of the respondents disagreed, 4% were undecided while a mere 38% agreed. They claimed that they had little knowledge on how the bonds work since the only method of acquiring finance that they know is to raise funds through bank loans. The 6% who strongly agreed sighted the knowledge they had as the driving force to diversify the source of finance.

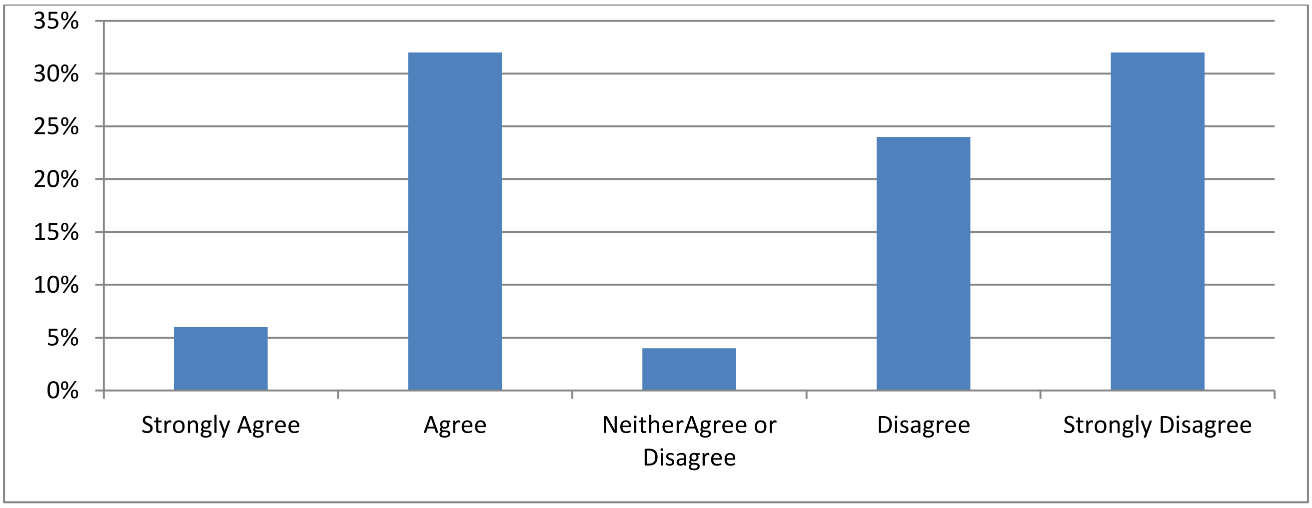

Figure 1: Level of agreement with the participation in bonds investment.

On the level of agreement with statements relating to respective organizations preference to investing on treasury bills, the response was all in agreement that their organizations do not participate in investing in the treasury bills. Eighty-nine percent (89%) strongly disagreed, seven (7) percent agreed while a paltry 4% of the respondents were undecided. This implies that most of the local financial institutions does not have enough knowledge on treasury bills or are not interested in.

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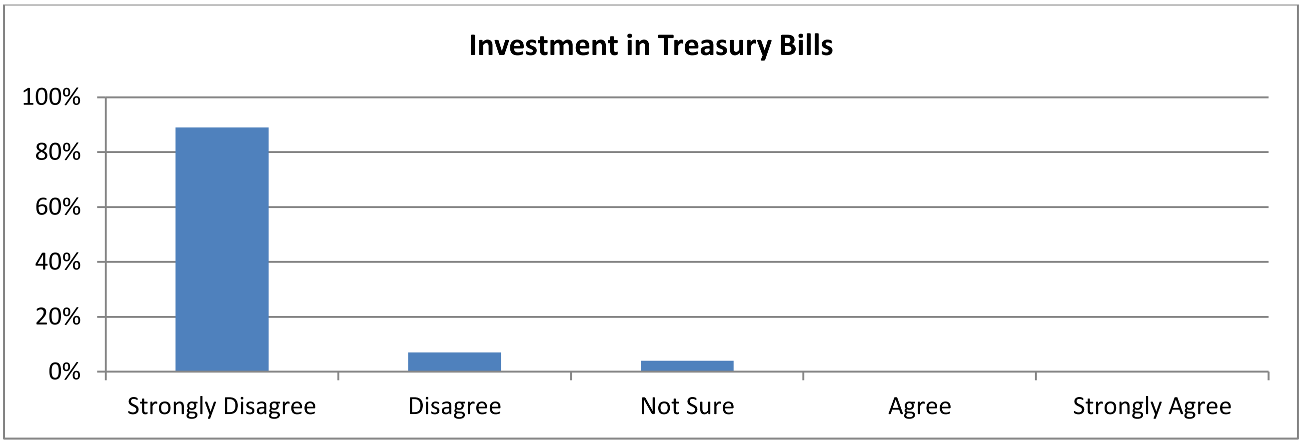

Figure 2: Level of agreement with organization's participation in the investment in treasury bills

The study also sought to find out if the organizations normally prefer to invest in fixed interest where they deposit their money in fixed interest bank accounts. The level of the respondents was that 17% disagreed, a paltry 2% were not sure while a population of 71% affirmatively responded. This shows that most organization make an investment for a period of time where they believe that their fund is safe while earning some interests. This was attributed to the fact that most local saccos distribute part of the members' savings at the end of the year.

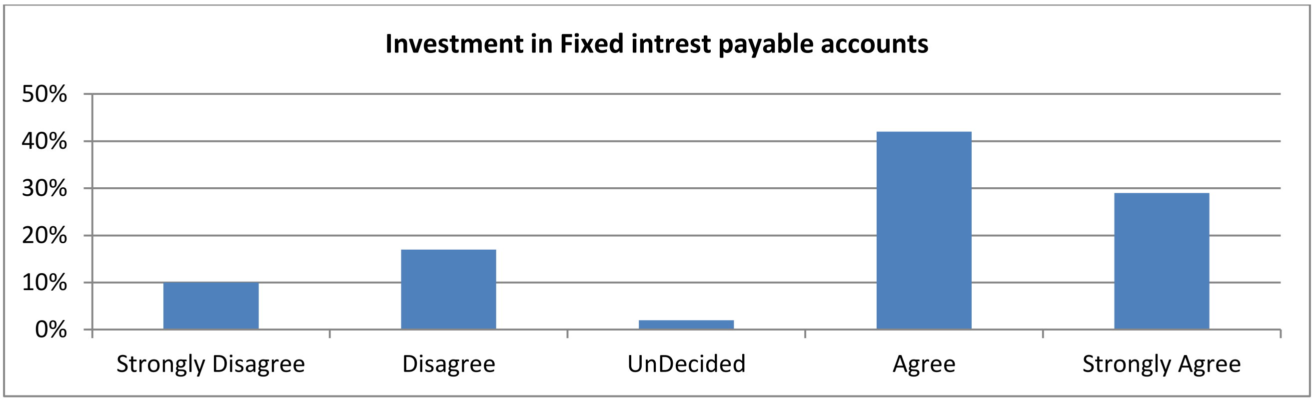

Figure 3: Level of agreement with organization's participation in the investment in fixed interest payable accounts

This study also sought to know if before decision is made on growth investment all members contributions must count. It is a fact that this are small manageable institutions run by members' contributions. A great number of respondents (75%) agreed that the investment opportunities undertaken must involve all members and their contributions are put into consideration. Only 21% were neither undecided or did not agree.

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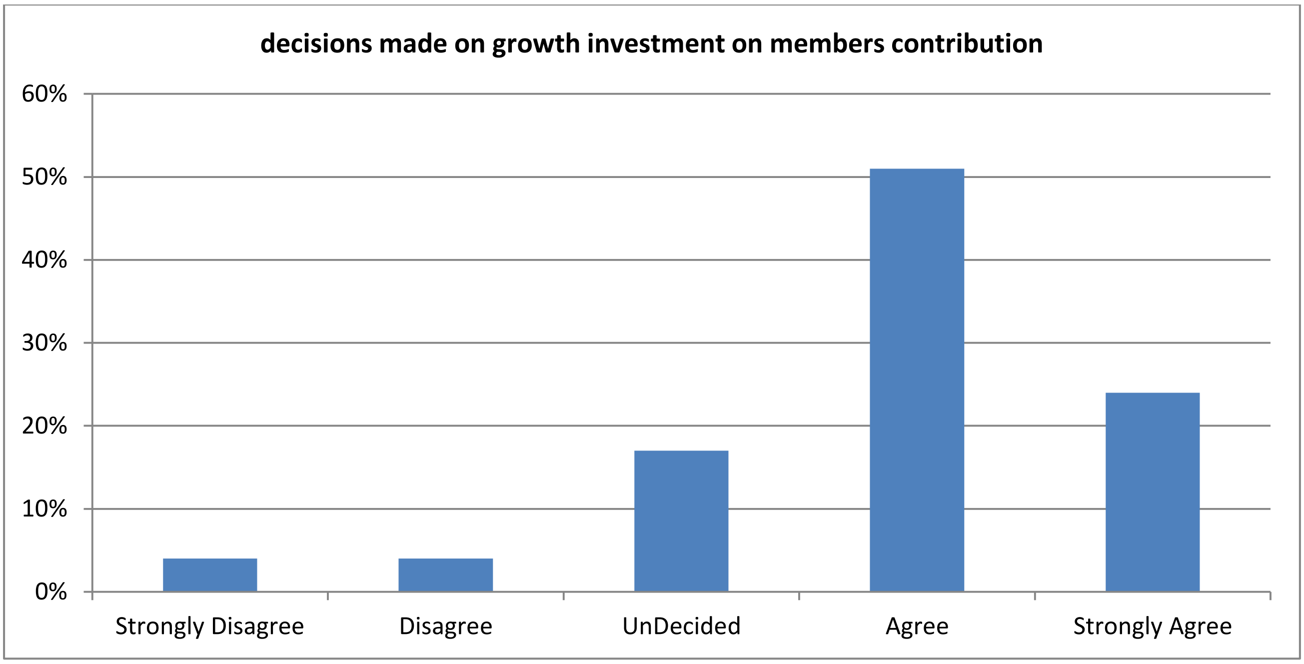

Figure 4: Level of agreement with the idea that decision is made on growth investment where every member's contribution must count

On whether this organization have considered intercompany alliance for growth investment, the study found that most organizations have not partnered with others to diversify but are solely working independently as financial providers. A bigger percentage of 70% were in total disagreement, 24% agreeing with a mere 5% undecided. This is represented in the figure below:

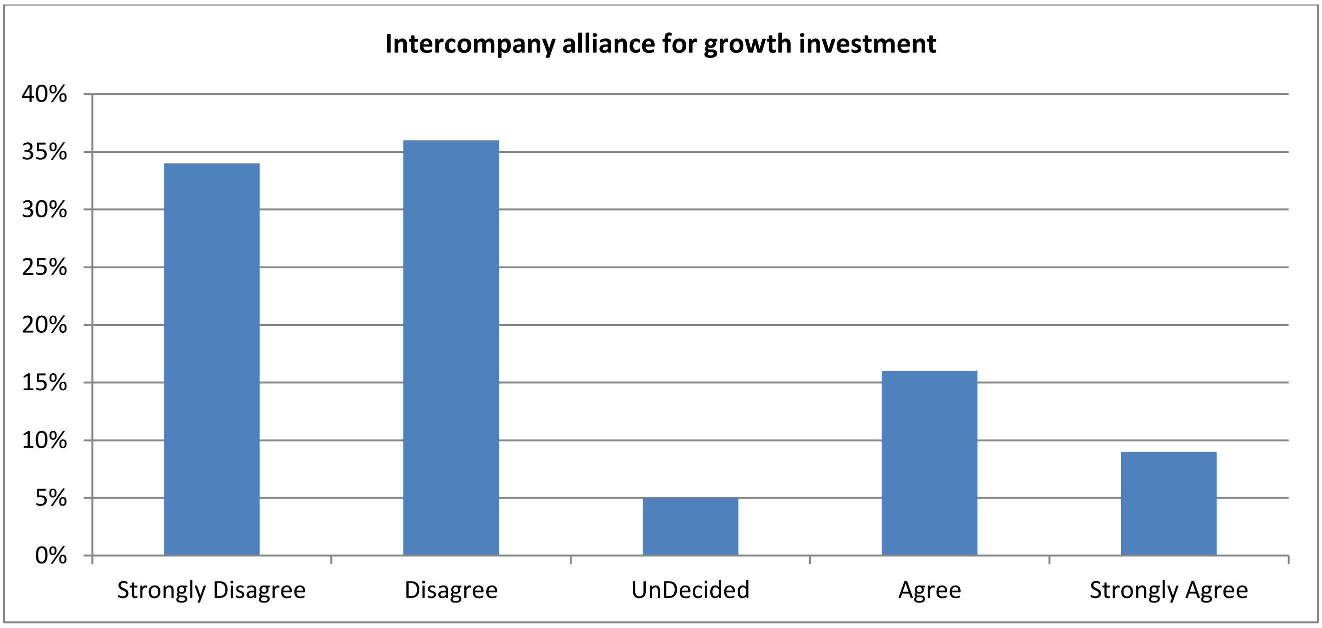

Figure 5: Level of agreement with the idea that their organizations considered intercompany alliance for growth investment

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ROSCAS Performance

Table 1: Level of agreement with the statements relating to performances by the ROSCAs

***(Key**: SA: Strongly Agree; A: Agree; UD: Undecided; D: Disagree, SD: Strongly Disagree*)

No.	Item	SD	D	UD	A	SA
	My ROSCA has gained a significant increase in market share	5%	14%	4%	44%	33%
	My Rosca has an increased in customer loyalty	19%	17%	8%	33%	23%
	My ROSCA has ensured member satisfaction is a priority and works towards it.	11%	22%	9%	31%	27%
	In spite of the unanticipated challenges in the market the ROSCA has been improving in its performance as far as the Return on investment is concern.	23%	42%	8%	21%	6%

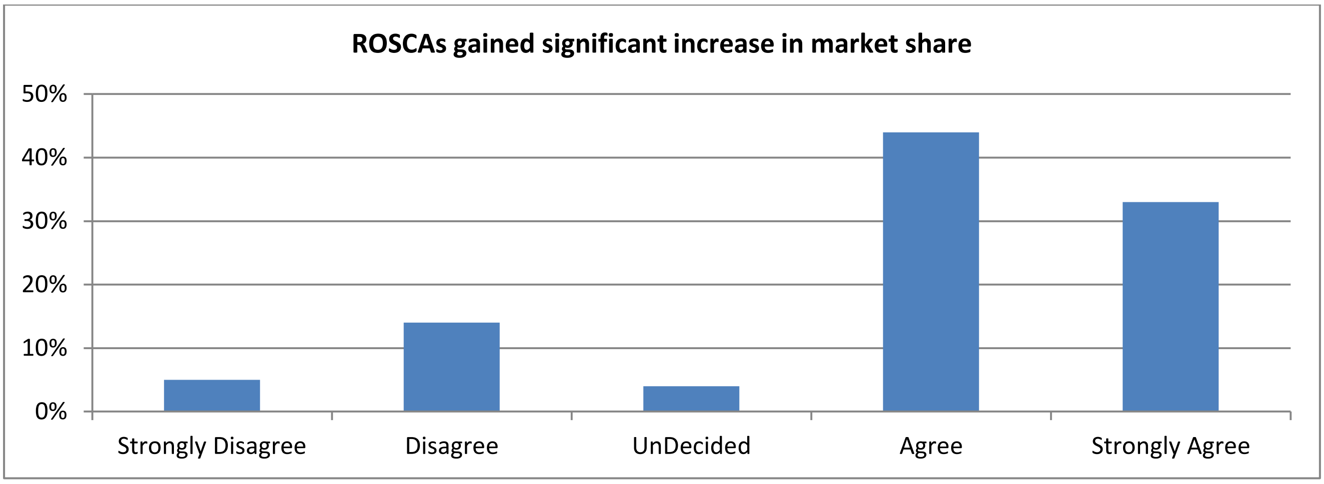

Figure 6: Level of agreement with the idea that ROSCA has gained a significant increase in market share

The study sought to the level of agreement with the fact that the ROSCAs have gained a significant increase in market share. This is because the members believe that with the low levels of income of the inhabitants of the county, the members have resorted to the local saccos to increase their savings and investments. Over 70% of the respondents were in agreement while less than 20% disagreed with a mere 4% undecided.

The study also sought to establish the level of agreement with the respondents on the fact that there has been customer loyalty to the ROSCAs. Members are able to invest in projects they can see and feel the ownership thus increasing their belief and loyalty with over 55% concurring and less than 35% dissatisfied as presented in the figure below:

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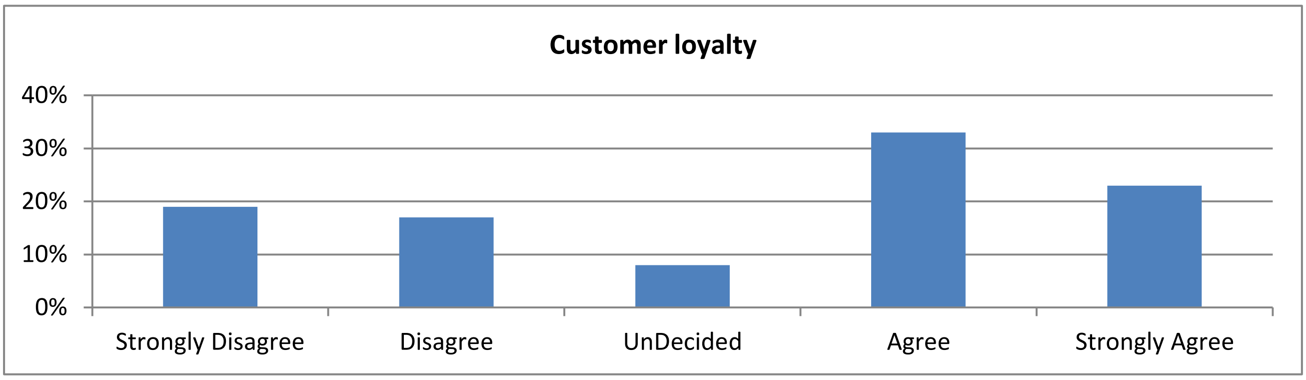

Figure 7: Level of agreement with the idea that there has been customer loyalty to the ROSCAs

The study further sought to find out the level of agreement of the respondents if ROSCA has ensured member satisfaction is a priority and works towards it. Over 58% of the respondents registered that they were ok with the effort of giving them a priority in the investment issues of the ROSCAs while slightly below half of the respondents either were undecided of disagreed with the statement at 42 %.

Figure 8: Level of agreement with the idea that ROSCA has ensured member satisfaction is a priority and works towards it

Finally, on the ROSCAs performance, the study sought to establish whether in spite of the unanticipated challenges in the market the ROSCAs has been improving in its performance as far as the return on investment is concern. Over 60% disagreed with this sighting that the unforeseen pandemic that brought the country to a standstill and bad loans have continue to harm the business. A few at 27% agreed that there has been a rise in returns despite the unforeseen challenges in the economy with only 8% not sure.

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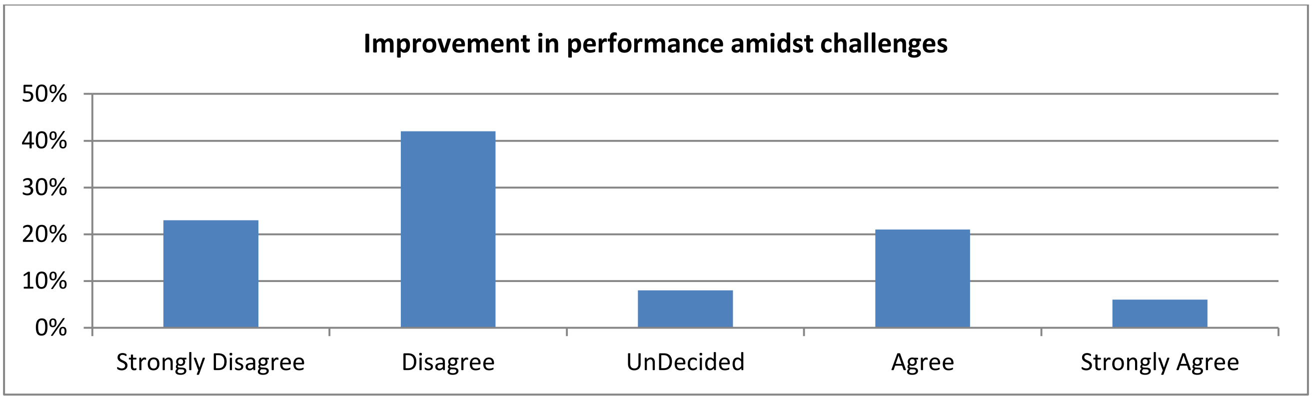

Figure 9: Level of agreement with the idea that ROSCA has been improving in its performance as far as the return on investment is concern

CONCLUSIONS AND RECOMMENDATIONS

The study sought to first determine the influence of growth investment decision on registered Rotating Savings and Credit Associations' Performance. According to the results of the findings, most respondents felt that some of the ROSCAs have considered growth investments but do not seek alliances with other likeminded organization. They further stated that before an investment id done, every member's contribution must count. A major dissatisfaction was recorded in the fact that their organizations did not consider investment on bonds as a best option for Return on Investment. The study further established that performance of the ROSCAs was influenced by the financial investment decisions as reflected by a significant increase in the market share and the customer loyalty. This has even enhanced the level of membership as the decisions made suit the members and hence given priority.

The study established that there was a relationship between growth investment decision and the performance of ROSCAs. There was a positive connection on members being participants in key financial decisions and their finances being in a fixed deposit that earns them a return. However, investment in bonds has not been fully embraced as it seems many RASCOs do not have the capabilities of investing in them. The study revealed that the performances of these RASCOs are greatly affected by the financial investment decisions that they make. If they invest in projects that due diligence has not been done, then it is obvious that this will affect the return on investment.

The RASCOs need to diversify their investment portfolio if they have to realize the full maximization of the contributor's wealth. There should be a proper advice on the areas of investment after carrying out due diligence on the potential investment avenues. Members should also be encouraged to participate fully on the investment decisions of their organizations. These are the forums that will enable them gain awareness on the key project that generate a good return.

Areas for further reading

Similar studies should be conducted on other organizations to ascertain the sustainability of such results of this study on the influence of financial investment decision on financial performance of those organizations under study.

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