ISSN 2250-3153

ROLE PLAYED BY SACCOS IN FINANCIAL INTERMEDIATION IN THE IMPROVEMENT OF THE WELFARE OF MEMBERS, A CASE STUDY OF FUNDILIMA SACCO

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ABSTRACT: Financial intermediation is an exciting field in the demand and supply of funds for investment, liquidity and consumption purposes. Through financial intermediation economic growth occurs and the improvement of the welfare improves: Funds are routed from the savers to borrowers who use the funds in most profitable economic activities (King and Levine 1993).The cooperative movement has been in existence since pre-independence times, they have been touted as the major ways of economic empowerment and poverty reduction. The growth of Saccos has been tremendous and thus they are now in the vision 2030 blueprint as one of the mobilizes of savings and investments. The government through the regulatory authority has seen importance of the Saccos and thus they have formed SASRA to oversee the transition from microfinance player to major finance player with focus on togetherness of the members in Kenya. The importance of the Saccos needs to be highlighted with the members at the heart of this paper. The benefits that members derive from belonging to Saccos are of importance and they need to be highlighted. This study is guided by the following objectives: To find out how Saccos are financial intermediators ; To establish the effect of low interest rates on the improvement of the members welfare; to find out the effect of dividends on the members welfare; To find out the effect of risk diversification on the improvement of members welfare. This researcher employed a survey research design in carrying this research. The target population wasmade up of members of Fundilima sacco who are also the staff members of JKUAT. A sample size of 234 respondents was selected with a stratum of Fundilima board members, Fundilima top management, Fundilima employees and the members. Questionnaires were used to collect data and analyzed using descriptive statistics. The study findings showed that there is a great role played by Saccos in financial intermediation in the improvement of the welfare of its members.

Key Terms- Financial intermediation, financial system, Sacco Members Welfare, Social intermediation

I. INTRODUCTION

Financial intermediation can be described as the process performed by financial intermediaries of collecting savings and deposits from savers and depositors' and lending out the same to borrowers. According to Gorton, Winton (2002), financial intermediation is the root institution in the savings-investment process. According OECD (2001), in financial intermediation a financial institution will engage in financial transactions on behalf of lenders and savers in a specialised market i.e. a financial market e.g. stock exchange market, banking sector and in the money market. The institution will therefore expose itself to the risk of losing money on behalf of the lenders/saver by lending the same to borrowers; thus the role of financial intermediaries therefore is to channel funds from lenders to borrowers by intermediating between them.According to the State University of New York (2014), financial intermediation performs the following functions:

Pooling the resources of small savers; many borrowers require large sums, while many savers offer small sums. Without intermediaries the borrowers of large credit would be disadvantaged as they would incur huge costs of looking for savers who would provide the needed amount to be borrowed.

Providing safekeeping, accounting, and payments mechanisms for resources;banks are a good example for the safekeeping of money in accounts, the records of payments, deposits and withdrawals and the use of debit/ATM cards and checks as payment mechanisms.

Providing liquidity, liquidity refers to how easily and cheaply an asset can be converted to a means of payment. Financial intermediaries make is easy to transform various assets into a means of payment through ATMs, checking accounts, and debit cards.

Diversifying risk; financial intermediaries help investors diversify in ways they would be unable to do on their own. When a financial intermediary wants to loan someone it minimises the risk by securing the debt as compared to an individual offering a loan to someone.

Collecting and processing information; financial intermediaries are experts at collecting and processing information in order to accurately gauge the risk of various investments and to price them accordingly. This can be seen in the pricing of loans, investment products and other financial products offered by the intermediaries.

According to King and Levine (1993), financial development is a good predictor of future growth; financial growth can be well described by the growth of financial intermediaries and financial innovations i.e. securitization (a process where mere assets are converted to a tradable position on the money markets) which are active in the financial intermediation process. According to Dondo (2007), SACCOs are established under the Co-operative Societies Act and are an important form of financial intermediary, which play a vital role in provision of financial services to their members. The societies accept monthly payment/savings for shares from which members may borrow an amount equivalent to two or three times their own savings if they can get other members to guarantee them. SACCOs are currently organized as workplace or agricultural based savings or an economic activity based association e.g. sculptors, traders and credit associations whereby people with a common bond, e.g. by working together in the same company or institution, save regularly thus building enough deposits for lending within the group. Some of these savings and credit societies are actually larger (in asset terms) Harambee sacco has assets of upto Kes.17.6bn. (Harambee Sacco, 2014)

Financial intermediation is closely linked to social intermediation. Members belong to a society that enhances their welfare through group linked activities e.g. financial literacy trainings, pooling of savings (SACCOS). Also members are able to access loans at lower interest rates as compared to mainstream financial institutionsand members being able to share in profits for group investment and risk diversification of the group through shared guarantor ship and compulsory savings. Hans (2009) argues that social intermediation serves both as preparation for financial intermediation and for wider purposes. Hans says that social intermediation through a range of activities and capacity-building has enabled people to become good borrowers and savers, better manage their own finances or their own financial groups. It has also helped them to put whatever 'social capital' they have to more productive use and thereby improving the welfare of the group members. According to Boston University Center for Law and Policy (2014), financial institutions involved in microfinance in Kenya include formal institutions (banks, non-bank financial institutions, licensed Savings and Credit Cooperatives (SACCOs)). SACCOs are regulated by the SACCO Societies Regulatory Authority (SASRA), which began operations in 2010. Under the new SACCO regulations, all deposit-taking SACCOs are required to apply for a SASRA license by June 17, 2011.

According to Ledgerwood (1999), MFIs provide social intermediation such as group formations, development of self-confidence, and training in financial literacy and management capabilities of members of the group. This can be viewed as necessary step in the enhancement of social welfare of the members who belong to a SACCO. Also the MFIs financial activities involve:Small loans offered to members; Informal appraisal of loans and investments; Collateral substitutes such as group guarantees and or compulsory savings; Access to repeat or larger loans basing on repayment history; Streamlined loan disbursements and monitoring; secure savings.

Saccos can be touted to increase the welfare of its members through lowering the cost of investment and growth; this can be achieved through borrowing at lower lending rates and accumulation of savings which imply access to higher levels of credit to members with higher savings. Saccos also play a crucial role in smoothing of incomes of households of members, where members can borrow to increase their consumption or acquire household items that they might not be able to purchase immediately. It has also been observed that Saccos have diversified from their traditional lending to other investments including real estate, purchase of securities and other high earning revenue investments which aim in increasing the asset base of the Saccos so as to enable them match up to the demand of financial services and products they offer.

This study will focus on Fundilima Sacco Ltd. Fundilima Sacco Ltd is derived from the words 'Fundi' and 'Lima' which mean craftsmanship and cultivation. The membership is derived from the employees of JKUAT. The Sacco was established in the year 1982. The structures of leadership involve the board of directors and the employees who include management and operations employees. The main aim of forming the sacco was to create a vehicle for mobilizing savings and access to cheaper credit as compared to mainstream financial institutions. The membership as of 2014 stands at 2350 contributing members. The loan portfolio of the sacco includes: Development Loans; School Fees Loans; College Fees Loans; Emergency Loans; Yellow Loans and Pink Loans. The sacco also offers FOSA services (Front Office Services Activity).

According to a survey done by SASRA the following areas needed be strengthened so as to enhance the performance of Saccos: Governance; whereby best practices are to enhanced in the management of Saccos through diligent management and eradication of conflicts of interests between the management ,board of directors and the members; Credit management where best credit practices are to be enhanced to reduce the exposure of the members savings to bad debts and defaults; Risk management; the risk environment of Saccos is diverse i.e. default risk, legal and political risk, having a robust risk management system can enable the Saccos perform better in the presence of risks; Management information systems, this includes integration of information technology in the operations of Saccos thus reduce the cost of information processing thereby streamlining the operations of the Saccos; Marketing and product development; this will enable the Saccos to deviate from the traditional financial and investment products to new robust and high return products that will ensure members get a favorable return on the amount saved/shares acquired in the Saccos and Human resources management, this will include hiring of competent staff in the management and operations of the Saccos so as to ensure the can match up to the other intermediaries. According to Shaw (2006), the cooperative sector as a whole remains poorly understood and its specific challenges as yet largely unexplored.

According to Cheruiyot et al (2012), the major objectives of Saccos is to promote economic interests and general welfare of members, Saccos provide members with the avenue of borrowing to enhance production and welfare purposes this in turn reflects the various loan products that Saccos have i.e. provident loans which are used to smoothen incomes of families to which the members hail from

and also loans for productive purposes e.g. investments and educational loans and also emergency loans which members can access in case of an emergency e.g. sickness, death and any mishap . Magill (1994) also further states that, cooperatives justifications arise due to maximization of profits, enhancement of financial accessibility, harnessing skills of the members, boosting social capital, enhancing advocacy and bargaining power, promoting investment, providing educational opportunities and contributing to poverty reduction.
This study will therefore undertake a critical analysis of financial intermediation and the role played by Saccos in the improvement of the welfare of the members. The study will also look at collective risk management, informal credit appraisals, easy access to cheaper credit and profit sharing (profits gotten from loans disbursed to members and investments undertaken by the Sacco) through dividends offered at the end of a financial year.

II. Objectives of the Study

General Objective
The main objective of this study will be to analyze the role played by Saccos in Financial Intermediation in the improvement of the welfare of members; a case study of Fundilima Sacco Ltd.
Specific Objectives
The specific objectives will be as follows:
To find out the effect of low interest loan on the improvement of member's welfare.
To find out the effect of profit share (e.g. dividend) on the improvement of member's welfare.
To find out the effect of risk diversification (member's guaranteeing each other) on the improvement of member's welfare.

III. LITERATURE REVIEW

Many researchers argue that financial intermediation is the oil that lubricates the wheels of economic growth and social intermediation is the labor that makes those wheels move. Due to the challenges and the opportunities that financial and social intermediation offers this chapter will explore previous researches done in respect to the above.

IV. Theoretical Review

Theory of Financial Intermediation

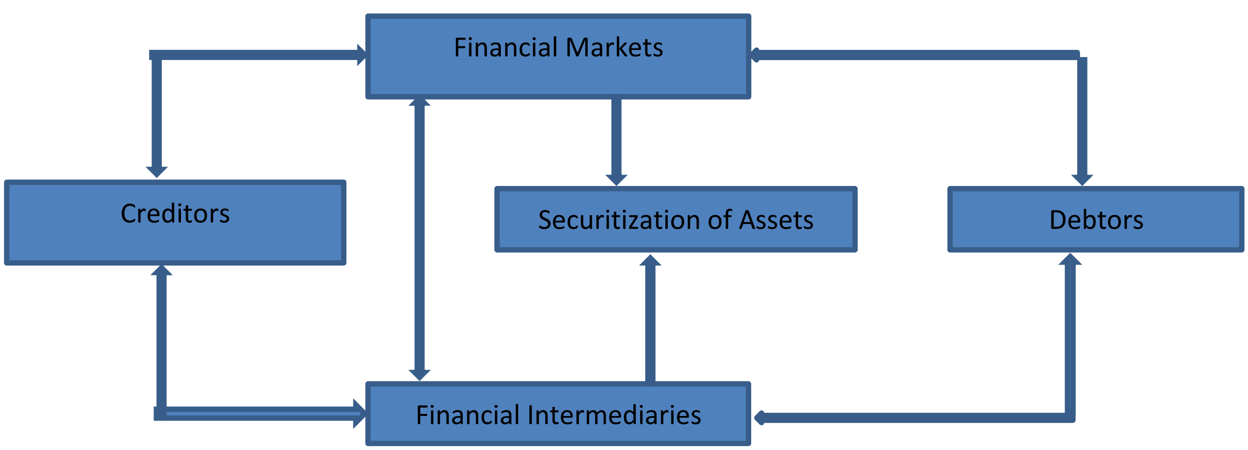

Fig 2.2.1. Process of financial Intermediation (Source Andries 2009)

The saving/investment process revolves around financial intermediation, thus financial intermediation is a powerful tool in the economy as it enables the allocation of resources to profitable/activities with a higher rate of return.The theory of financial intermediation thus analyses the main functions of financial intermediation in an economy.The major functions of financial intermediation thus include: pooling of savings; custodial services and accounting; provision of liquidity for the operations of the economy; risk sharing where the risk of loaning is distributed through secured credit and guarantee schemes; and information sharing so as to reduce the transactional costs of financial intermediation and reduce the emergence of information asymmetry.
Financial intermediaries exist due to the following; reasons high cost of transactions (the cost of marriage between the lenders and borrowers); lack of complete information (information asymmetry) and the method of regulation. According to Nayyar (1990), information asymmetries are considered to as to leading costs to both the buyers and sellers in an exchange situation. Thus the existence of information asymmetry can lead to either of the party being at an advantageous position and the other at a losing situation this will arise due to one party having access to superior information as compared to the other party and vice versa. The existence of the asymmetrical information can lead the market to break down or perform inefficiently as the information advantaged group can

take advantage of the information deprived group. Information asymmetries usually lead to higher prices in order to access the services, there's a concerted effort aiming to reduce the cost accessing such services thus the need of financial intermediation.

Problems that may arise due to information asymmetries include moral hazard, adverse selection and information monopoly. Adverse selection occurs when the wrong type of persons are selected for a transaction in the case of financial intermediation. They may be customers with bad credit risk or persons who are considered to have a low or a negative level of creditworthiness. Financial intermediaries are able to assess the credit risk that a customer brings with the loans/finances borrowed. Moral hazard arises when the borrower uses the funds borrowed for a non-profitable activity that would likely lead to a difficulty in paying. Financial intermediaries are able to mitigate the above through negotiations and binding contractual agreements so as to protect their position. Moral hazard has often hampered the flow of information between the market players thus creating inefficiencies in the market.

The current financial intermediation theory builds on the view that the existence of financial intermediaries is to reduce the transactional costs and informational asymmetries. Manyof the transactional costs of financial intermediation areusually the end result of asymmetrical information. Benston and Smith (1976) interpreted transactional costs as the transportation costs, administration cost, searching, evaluation and monitoring in regard to financial transactions. Thus the financial intermediaries bear these costs on behalf of the suppliers of funds (lenders/savers). Financial intermediaries are able to reduce this cost due to the economies of scale that they have due to the large number of customers that they serve in the intermediation process.

The agency theory in financial intermediation usually relies heavily on the principal-agent relationship that exists between borrowers and lenders through the financial intermediaries. The financial intermediaries usually provide management, fiduciary and information management. Due to the agents being in the financial markets they have access to information that gives them a knowledge superior position thus the intermediary is able to reduce its costs (transactional and information costs). The agents (financial intermediaries) are usually given authority either implied or contractual to act on behalf of their clients. Their decisions have a far reaching implication regarding financial safeguard of the assets of the principals (lenders/savers) through better decision making and risk management processes. The drawback of this model is that the agent might be at a better of information level (the existence of hidden information) as compared to the principal and thus make a decision that greatly favors him at the expense of the principal.

The financial markets are very volatile as they are important to economic growth due to their resource allocation role and the financial intermediation role. Their growth is quite phenomenon thus the need for regulation as the growth in size usually brings new challenges which will stem from financial innovation and new financial products developments. These new developments thus call for the need for regulation. Regulation according to Cecchetti (2012) he views regulation as necessary for systemic stability, the reason to proscribe certain activities, to constrain certain actions, and to require certain behaviors is to not to protect individuals from facing the consequences of their own actions. But regulation is to keep the individual mistakes from affecting the whole system.

The theory of Delegated monitoring

Delegation is brought about by this basic question, why do savers/households give money to financial intermediaries and the intermediaries loan the same to borrowers/investors? The theory of delegated monitoring is one of the major explanations why financial intermediaries exist. The theory largely revolves around the collection of information regarding an individual or an institution before a financial transaction is done, this is done especially during the process of issuance of loans and securities. Delegated monitoring revolves to the idea that savers are professionally and timedeficient to monitor institutional and individual borrowers for default risk. Default risk is the likelihood of a borrower not to honor repayment on a debt borrowed/a debt contract signed. Also borrowers are most likely to hide information thus the need for monitoring.According to Gastineau (1999) delegated monitoring is a commercial banking function that involves collecting and analyzing information about the investments and obligations of borrowers to evaluate their ongoing creditworthiness for their own risk management purposes and as a supplement to risk management by their borrowers.

Financial intermediaries reduce the degree of information imperfection and asymmetry between the ultimate suppliers and users of funds. The cost of collection of information regarding financial transactions for savers is costly and thus that function is usually delegated to the financial intermediaries. A failure to do so would expose the investor to agency costs, which relate to the risk that the owners and/or managers of the firm will take actions that are contrary to the interests of the investor. Such agency costs arise whenever economic agents enter into contracts in a situation of incomplete information and thus costly information collection. The common solution to the problem of incomplete information is for the households to pool their resources i.e. savings into a financial institution that will invest directly in another corporation/invest in activities that bring in better returns. Saccos have always pooled resources through the monthly member contributions that are used to issue loans and also invest in other economic activities.

According to Diamond (1996), Financial intermediaries are agents, or groups of agents, who are delegated the authority to invest in financial assets on behalf of households/savers. The cost of monitoring and enforcing debt contracts issued directly to investors (equity) is a reason that raising funds through an intermediary can be superior. The easiest way to lower the cost of information in the delegated theory is to acquire unmonitored debt and to disburse the same to borrowers. The unmonitored debt is usually in the form of deposits from households held by the financial intermediaries e.g. Saccos, banks and other financial institutions that provide loans/funds for the investment process.Financial intermediaries have profited from the role of collecting information that they use in disbursing private loans as compared to purchasing already securitized debts in the financial markets (the stock exchange).

One of the most important things in delegated monitoring is the analysis of benefits and costs associated with the same. Monitoring involves increasing returns to scale which implies that it will be best done by a profession i.e. an intermediary. The collection of private information by the financial intermediarieswill benefit them as the information can be used in lending. Though it's usually hard to verify if the monitoring has been done or not. Delegated monitoring pays off when its cost is equal or less than the cost of contracting without monitoring and the cost of direct monitoring.

Conceptual Framework
The conceptual framework to be used in this study discusses the idea that financial intermediation with the collaboration of social intermediation will either contribute the improvement of the welfare of the members positively or negatively.

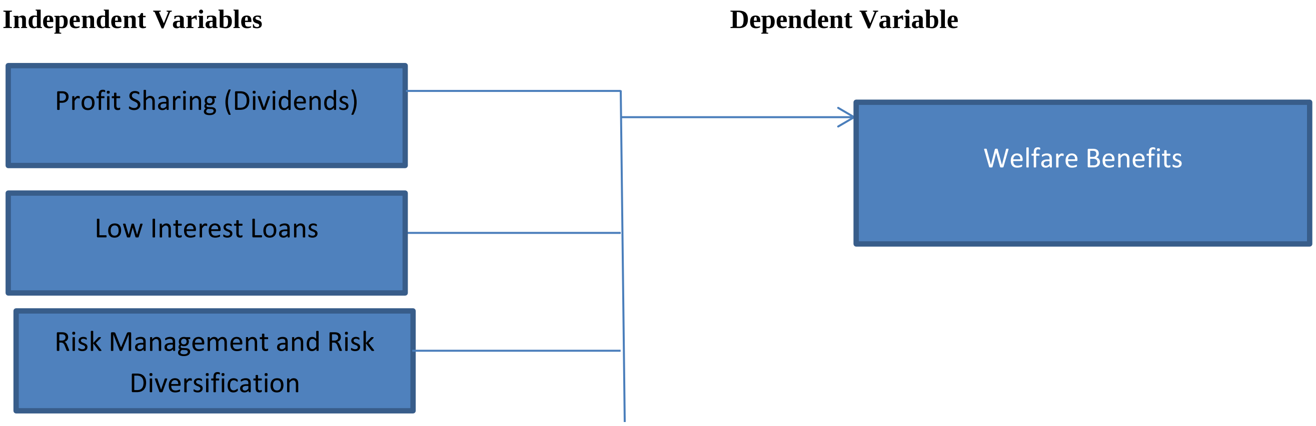

Fig. Relationship between the various aspects of financial intermediation and the operational aspects of the Sacco in respect to welfare benefits (Author 2014)

Low Interest Loans
Most Saccomembers (who belong to households) borrow from formal or informal lenders, and they also save in financial deposits or in real goods. Second, they also face a credit limit. Resources are lent in the present for the promise to repay in the future, so saving/borrowing choices in the present affect consumption in the future. Fourth, the members earn less for saving than they pay for borrowing. Fifth, income for the members is variable and uncertain (Besley, 1995). Second, households smooth both consumption and income, so production and consumption choices depend on each other (Morduch, 1995). The members also may save not only for precautionary motives but also for investment, speculation, and convenience. The members who are able to save more/borrow (more as the amount borrowed depends directly on the amount of savings one has) thus can engage in production and thus wealth creation.

The members' savings form a good pool of money, from which loans are made to members with fair lending interest and the interest rate is decided by members (USAID 2006). This is usually done in the context of costs management and risk management so as to ensure the growth and sustainability of the Sacco is taken care of when deciding the interest rates.

Saccos have enabled their members' access affordable credit and have also made it easier for their members to access credit due to their non-stringent policies and rules. Also Saccos cover the traditionally non bankable population that would find it hard to access banking services due to their unique needs e.g. microloans (Kes.1,000 to Kes.10,000).Saccos have experienced exponential growth; thus have attracted the attention of the financial regulators who formed SASRA (Sacco Society Regulatory Authority) which is the overseer of the activities of the Saccos. Through SASRA there's enhanced corporate governance in the operations of SACCOS, enhanced risk management and internal controls, disclosures and transparency and enhanced board of directors' roles in the management of the Saccos.
Luyirika (2010) observed that women who had accessed credit, their life had transformed greatly as they were able to pay for school fees, expanded their investments and were able to start businesses and they were able to purchase household items, confidences were improved and participation in leadership was observed. She also concluded in her study that the MFIs have greatly improved the lives of women in the area of socio-economic development. Hans (2009) also observed that MFIs were less likely to be affected by the imperfections of the financial markets where loans are inter-guaranteed among the members thereby reducing credit risk and default risk; Also MFIs are able to offer noncredit financial services e.g. savings and investments, this can also be further explained by the emergence of Saccos that engage in other income generating activities.
Ksoll (2013), observed that the access to microcredit facilities through Village Savings and Loans association (the equivalent of Saccos in Kenya) improved the welfare of its members through the following ways: improved food security and strengthened household income indicators. The research had targeted the lower income families and the financial institutions constrained families. However we can mirror the above research to the Sacco situation where the members' welfare improves with the improved access to financial institutions and financial literacy. In the research the members used the funds acquired from the loans disbursed to open enterprises and engage in food production activities that enabled them to be food secure.

Profit Sharing

In recent times, where growth of the wealth of shareholders is a major factor in the management of enterprises and organization Saccos included. There has been a great shift from the traditional financial products to high returns investments e.g. real estate development and investment in government securities in which Saccos engage in. The vision 2030 blueprint has emphasized the role to be played by financial intermediaries in the mobilization of saving and development so as to achieve economic growth and realization of the vision. Thus Saccos have embraced other economic activities that will enable them mobilize savings from the members and be able to create investments that will have a favorable return on investment to the members.

The lending activity of the Sacco which generates income through the interest paid by the members goes back to the members as a dividend based on the capital participation/member contributions, but the competitors i.e. banks and other formal financial institutions never do this.

The leadership and the management of Saccos ought to streamline their operations and minimize their cost and maximize the earnings of the Sacco and thereby increase the wealth of members.Fischel (1981), Management does not benefit from maximizing growth; it benefits from maximizing profits and thus shareholder welfare, the dividend policy ought to maximize the welfare of the shareholders.Thus this leads to lower turnover in organizations thus the organizations can be able to grow and thus lead to the expansion of the welfare of the shareholders .Whenever the shareholders are pleased and happy with the management this in turn reduces turnover of the management and thus sustained growth. The managers are able to make better business decisions that will lead to a better bottom-line for the enterprise that will lead to higher profits and thus a better dividend policy. A dividend policy is an internal document of an organization regulating the procedure of the dividend amount determination and the procedure of its payment, aiming at raising the welfare of shareholders and provision of capitalization growth of the organization.

According to Olando, Jagongo & Mbewa (2013), the funds invested by the members of the SACCOs through monthly contributions, should generate enough surpluses to contribute to institutional capital as they provide for dividends and rebates. So, for the growth of wealth to be visible, the surpluses generated should be enough to contribute to capital levels which maintain institutional capital and provide for shareholders dividends and rebates. The increase of the shareholder/member power has always tended to reduce the animalistic behaviors of the management. This in turn has led to better management of Saccos and thus increased the dividends paid out.

Risk management through risk diversification

Hulme & Paul (1996), defined social intermediation as process that combines functions of social organization and financial linkage carried out through an NGO, local government organization, through self-help groups or through individuals. In most cases financial linkage occurs when members of a common bond e.g. employees from the same organization come together to start a group with a view of investing or saving. Thus the birth of Saccos is brought by this need of belonging and security in a group of likeminded fellows or associates. Saccos also have the nonfinancial services that are geared to the improvement of the wellbeing of their members through literacy training (financial), education, group formation and leadership training.Social intermediation can also be viewed as a facilitator in capacity building with biasness towards the lack of access of credit and saving facilities thereby creating an intermediary. Social intermediation helps create systems and structures that enable the disadvantaged access financial services that would have been farfetched in the case of banks and other major financial intermediaries

One of the major functionalities of social intermediation is the creation of social capital. The creation of such requires an intermediary and a Sacco can be viewed as an intermediary where a population with a common bond seeks to foster its growth through collectiveness and connectedness. Social capital can be described as the networks, norms and trust that enable cooperation for mutual benefit (Putnam 1993). Social capital enhances trust and through trust cooperation can be fostered and agreements can be arrived at faster that involve risks (Dusuki 2008 and Claressens 2005). Microfinance industry relies on social capital as part of its building blocks. Due to the membership of Saccos borrowers can enhance their credit worthiness as their debt is secured by their friends in the Sacco also the lack of collateral and reliance on the group for security of the loan borrowed.

Bhat and Tang (2008) argued that the moral hazard that would subsequently arise due to default is greatly reduced due to the existence of strong networks within the group. They further support this claim by emphasizing on the monitoring that would arise from the guarantee mechanisms (the members guaranteeing each other) whereby members would guarantee other members with a good repayment history and ability to secure the other parties .Social capital thus is the information asset that the financial intermediary can adopt in place of other tangible assets when approving a loan to a member of a microfinance i.e. a Sacco. Saccos have been able to embrace the benefits that beget them due to social intermediation. One of the benefits includes embraced social capital and strong ties that come with it. There's the low cost of marketing, information diffusion, low operational costs as they are likely to employ a few employees that arises from the closeness that the social intermediation brings

Persons of a same vision and unifying factors are usually encouraged to join Saccos. Saccos are the saving grace for the persons with lower incomes and are usually viewed as the stepping stone from alleviation of poverty and growth of wealth. The major reasons that may encourage people to join Saccos include: easy access to finance through cheaper and simplified borrowing processes; there's the mobilization of saving for further investments e.g. Fundilima Sacco which has an in-house investment vehicle where members save and investments and thus they get a return on investment as a dividend at the end of the financial year; Also for the interaction between members of a common bond through Sacco sanctioned activities e.g. financial literacy training; there's also the issue of insurance in numbers where members guarantee each other for loans.

Critique of existing literature

Luyirinka (2010) in her research, her paper tested the relationship that exists between Micro Finance Institutions and the socio-economic development of women in Uganda. The study was carried out regarding social intermediation and with little financial intermediation, She focused on the role played by the microfinance on the socio-economic development.

There needs to be a research undertaken to tackle the issue of financial intermediation at sacco level with biasness towards social intermediation and social capital development which is a factor of social intermediation. According to Rau (2004) in his paper, Financial Intermediation and Access to Finance in African Countries South of Sahara; He investigated the factors that lead/influenced access to finance in view of financial intermediation in sub Saharan countries. He however didn't tackle the issue of social intermediation and the benefits that accrue to members who belong to Saccos and theaccess to finance by the members of the same he researched on the financial products and the accessibility of the same.

Research Gaps

The paper will look at the Role played by Saccos in Financial intermediation in the improvement of the welfare members. Mwangi (2011) undertook a research on the role of savings and credit cooperative societies (Saccos) in financial intermediation in Nairobi County. Little has been done on the role played on the improvement of the welfare of the members of the Sacco in light of financial intermediation with biasness on social intermediation.

There exists a wide range of researches made regarding financial intermediation both from the microfinance level all the way to the macro finance level. The existing studies have tackled only the financial intermediation and few have linked financial intermediation to social intermediation. Whereby social intermediation forms the building blocks for the existence of Saccos and their activities i.e. it is the heartbeat of Saccos.

Summary

The major role of Saccos is to promote growth of social capital through social intermediation and thus develop each individual member to the betterment of the group. The financial intermediation role played by the Sacco is important as the pooling of resources is concurrently done with the pooling of persons to better utilize the pooled resources.

Due to the need to link financial intermediation to the welfare of the members, this has necessitated the need to carry out this research to assess and determine the role played by Saccos in financial intermediation and the improvement of the welfare of the members of Fundilima Sacco.

V. METHODOLOGY

Research Design

The study adopted descriptive design that investigated the study variables in an attempt to understand, describe and explain well the Role played by Saccos in Financial intermediation in the improvement of the welfare members.

A research design was the conceptual structure within which research was conducted. According to Mugenda et al., (1999), this design is a systematic inquiry into which the researcher does not have direct control of the independent variables because their manifestation has already occurred.

Target population

The population for this study constituted the membership of the Sacco. The population information will be supplied by the Sacco management. The Sacco membership stood at 2352 members.

This population was heterogeneous in terms of memberships, board composition, management composition and the Sacco employee composition.

Sample size

A more representative study requires that the whole population or as big as possible be studied. However, due to lack of time and resources, the research sampled 10% percentage of the population (241 Sacco members which will include the employees, board members and management). Mugenda et al, (1999) suggests that for discipline studies, 10% of the accessible population is enough for a study sample. The operations of the Sacco's are deemed to be very related hence the sampling of only 10% which will be a representative of the Sacco's whole body The main factor considered in determining the sample size is the need to keep it manageable enough (Warwick and Lininger, 1975). This was to enablethe researcher to derive from it detailed data at an affordable cost in terms of time, finances and human resources.

Sampling techniques

The respondents will include the Sacco staff and members that the researcher will feel competent to provide relevant information. The researcher will target the board members, Sacco members, Sacco management staff and the Sacco employees. Stratified samplingwill used in selecting the sample from the population.This was due to the different nature of the population i.e. management, Sacco employees,Sacco members and the Sacco board members. In selecting the sample sizes of the strata of the board members the researcher felt that a sample size of two (2) from a population of ten (10) would be a good representation of the strata. The management of the Sacco since the Sacco has an operations manager and a general manager the researcher felt that interviewing both of them would provide complete information relevant to this study. For the employee strata the researcher felt that a sample of three (3) employees in a population of twelve (12) employees.For the membership the researcher employed the prescribed 10% by Mugenda et al (1999).

S/No	GROUP	POPULATION	SAMPLE SIZE
1	Board Members	10	2
2	Management	2	2

3	Employees	12	3
4	Members	2340	234
	Total	**2352**	**241**

Data Collection Procedure

A questionnaire was administered for data collection. A questionnaire is a data instrument in which a respondent is asked a variety of questions in a pre-determined order. Close ended questions will be used to guide the respondents' responses. That was to facilitate ease of analysis. Open ended questions were also be used in cases of where more details and information was needed.The questionnaires were hand-delivered to the respondents and collected after a few days.

3.7 Data Processing and analysis

According to Kombo and Tromp (2011), data analysis procedure includes the process of packaging the collected information, putting in order and structuring its main components in a way that the findings can be easily and effectively communicated. After the field research was completed, all the questionnaires were adequately checked for reliability and verification.

Data was analysed qualitatively and quantitatively. After the relevant data were collected, and appropriate data selected and the next step was to check and convert the data into formats that were appropriate for analysis and interpretation. Data collected from secondary sources and from the questionnaires was tabulated because tabulation makes the data orderly and easier for presentation. After tabulation the data was analyzed and interpreted .Descriptive analysis was largely employed to analyze data presented in the form of tables.The data gathered from interviews and other secondary sources was organized thematically.

The relationship between variables was analyzed. Finally, the data was interpreted and summarized in order to draw conclusions and make recommendations.. Care was taken by the researcher to note the number of times a view was expressed and the number of respondents that expressed that view and this formed the basis for drawing the conclusions. The researcher also used statistics to analyse the data. The statistical formulae that were used in the survey questionnaire were as follows

Percentage – to determine the magnitude of the responses to the questionnaire.

$$\% = \frac{n}{N} * 100\%$$

Where n= Number of responses

N= Number of respondents

Weighted Mean

$$x = (f1x1 + f2x2 + f3x3 + f4x4)/xt$$

x = number of responses

xt = total number of responses.

SPSS software was used to come up with statistical analysis for the study.

RESEARCH FINDINGS AND DISCUSSION

Response Rate

Out of a target population of 2352 members of the Sacco, management of the Sacco ,Sacco employees and the board of directors used in the case study, this research was able to collect data from 180 respondents, giving a response rate of 74.69% which was considered adequate for this study as indicated by Monkey(2005) who reveals that response rates above 70 percent can be termed as acceptable for a given study hence can be used for generalization. The high response rate was achieved by the researcher by administering the questionnaires with the help of friends and acquaintances at the Fundilima Sacco Ltd. The questionnaires were dropped and later picked by the researcher.

Years of Membership to the Sacco

The Sacco being incorporated in 1982 which implies the Sacco is 32 years old. The table below entails the years of each member interviewed in the study has been in the Sacco. The bulk of the members of the Sacco who have been in the Sacco the longest range between 12-21 years which is 47%. The numbers indicate the much trust that the bulk of the group has in the Sacco, also the numbers are indicative of the university workforce which pre-dominantly has been working for between 10-20 years.

Table 4.4 the years of membership to the Sacco

Years	Frequency	Percentage	Cumulative %
2-11 years	54	30%	30
12-21 years	85	47%	77
22-31 years	41	23%	100
Total	**180**	**100%**	**100%**

Level of financial literacy

The respondents were asked questions regarding how well or informed they are concerning financial literacy. Financial literacy entails the ability to understand how money works i.e. how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources (Geisler & Ela, 2014).The respondents responded in the following way regarding financial literacy: 56% alluded to the fact that they are financially literate while the members with minimum or no financial literacy stood at 6% .The members with a little bit financial literacy stood at 38% thus a considerable of respondent had a little bit understanding about financial literacy i.e. at cumulative percentage of 94%.

Table 4.5 Level of financial literacy

Level of Literacy	Frequency	Percentage	Cumulative %
High	101	56%	56
Low	68	38%	94
No idea	11	6%	100
Total	**180**	**100%**	**100**

Levels of the saving culture

Though the Sacco requires all members to contribute Kes.1, 500.00 per month .The researcher chose to know if the members save more than the prescribed volume by the Sacco. The minimum amount required by the Sacco at the end of the month is Kes.1,500 that formed the basis of lukewarm savers. The large percentage of savers fall at 45% contributing minimally at Kes.10,000. The low savers are categorised at 40% and contributing between Kes.1,501 and Kes.9,999 per month.

Table 4.6 Level of saving culture

Level of Saving Culture	Frequency	Percentage	Cumulative
High (Kes.10,000 and above)	81	45%	45
Low (Between Kes.1,501 and Kes.9,999)	72	40%	85
Lukewarm	45	25%	100
Total	**180**	**100**	**100**

Reasons for Savings

The respondents were supplied with seven reasons why they were saving with the Sacco. Many members are motivated by different reasons why they are saving. The researcher came up with the common reasons that motivate people to save .The respondents responded in the following way concerning the following reasons to save. One of the major reasons that motivated members to save was to start and or expand an existing business, the members responded with 30%; The other major reasons that members save is to acquire assets (Simply stated, assets represent value of ownership that can be converted into cash (Sullivan and Sheffrin 2003)), which stood at 25%; Members also save for emergencies the number that save for emergencies stood at 15%.This was followed by members who save to accumulate funds for other purposes known to them, they stood at 12%. Another 10% saved for retirement purposes as they wanted to create a buffer security on top of the monthly pension contributions. The members who save for educational purposes i.e. for their own education and their family education stood at 5%. There is a group that sae because their friends save this group stands at 3%.

Table 4.7 Reasons for saving

Reason For Saving	Frequency	Percentage	Cumulative%
Emergencies	27	15%	15
Retirement	18	10%	25
Acquire an asset	45	25%	50
Education	9	5%	55
Peer Influence	5	3%	58
Start and/ expand business	54	30%	88
Accumulate funds	22	12%	100
Total	**180**	**100%**	**100**

The favourability of lending policies

The researcher sought to find out the favourability of the lending policies at the sacco and thus be able to gauge the ease of accessing funds. The favourable lending policies of the sacco include intra-guarantees (members guaranteeing each other for loans), loans on savings, low interest rate, faster rate of disbursements and friendly repayment terms. The members responded in the following ways in the quest to find out the effect on lending policies on the uptake of loans. 39% of the members confirmed that the Sacco had good lending policies. 30% of the responded that the lending policies were fair.25% also responded that the lending policies were very good. 5% responded that the lending policies were poor and a further 1% responded that the lending policies were poor.

Table 4.8 Favourability of lending practices

Favourability	Frequency	Percentage	Cumulative
Very good	45	25%	25
Good	70	39%	64

Fair	54	30%	94
Poor	9	5%	99
Very Poor	2	1%	100
Total	**180**	**100**	**100**

4.9 Dividend policy and growth

The researcher sought to find out if the members of the Sacco feel they are getting a better return on their savings through the dividends offered by the Sacco. The researcher combined the favourability of the dividend policy and the growth of the same as they both go hand in hand. Dividends give the members a chance to participate in the profits generated by the Sacco. The members responded in the following way: 46% members interviewed felt that the dividend policy and growth was good. 31% felt that the policy was fair. 18% felt that policy was very good. Another 5% of the respondents felt that the policy was poor.

Table 4.9 Dividend policy and growth

Policy/Growth	Frequency	Percentage	Cumulative %
Very Good	32	18%	18
Good	83	46%	64
Fair	56	31%	95
Poor	9	5%	100
Very Poor	0	0	0
Total	**180**	**100%**	**100**

Welfare Improvement

The researcher sought to find out the welfare implications derived from the membership of the Sacco. Therefore a set of questions were asked so as to find out if the welfare of the members had improved due the credit facilities offered by the Sacco. The welfare benefits derived from the Sacco was the major research variable for this study. The respondents responded in the following way when a set of questions seeking to investigate their welfare was asked. 65% of the respondents felt that their family life had improved (family life include housing conditions, dietary conditions and access to good medical care).55% respondents felt that their assets had grown. 75% respondents felt that their human capital investments had grown(Simkovic, 2013)(Human Capital is a collection of resources—all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population (Simkovic 2013). Therefore human capital investments entail use of resources to better the skills and knowledge through training both formal (going to school, colleges and universities) and informal (apprenticeship).85% of the respondents felt that their incomes had increased due to investments done by the loans received from the sacco.

Table 4.10 Welfare Improvement

Welfare Aspect	YES%	NO%	Cumulative
Improved Family Life	65	35	100
Asset Growth	55	45	100
Human Capital Investments	75	25	100
Increased incomes due t investments	85	15	100
Total			

VI. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of findings

The study found out that the respondents had a commendable 94% financial literacy thus they were able to plan for their financial future effectively. Off the cuff remarks from the respondents suggested that the Sacco had done so much in enlightening the members concerning financial literacy in their trainings.

Though the respondents save monthly the study found out that 85% saved more than the Sacco prescribed saving rate. This entails that not all members are keen savers others are saving for the reason of belonging to some collective likeminded group and others due to peer pressure.

The study also found out that most members have memberships between 2-21 years. Which stands at 77%. The membership could be attributed due to the population of the employees who form a bulk of the active working class of the university.

The study also found that most members had some sort of formal learning. The level of formal education stood at 95%.The existence of learning could be attributed to the fact the the membership was drawn from the employees of JKUAT.
The study found out the participation of women in the Sacco stood at 37.3% this was attributed to the fact the workforce is pre-dominantly male.
The study also found out middle-ages formed the bulk of the Sacco membership which had a cumulative percentage of 59.5%.
The study found out that the Sacco greatly improved the welfare of its members. The questions asked to the respondents gave a sneak peek into the improvement of their welfare. The weighted average mean score for the welfare items was 0.5025.

Conclusion

This study was to investigate the impact of low interest rates members' welfare in respect to the financial intermediation role played by the Sacco. The study findings show that Sacco members' welfare improved due to access to cheaper loans.
The study also was to investigate the impact of dividends on the members' welfare in respect. The study found out that members were happy with the dividend policy and the growth of the same.
The study was to investigate the impact of risk diversification on the members' welfare. The risk diversification of the Sacco includes intra-guarantees and loans based on the level of saving that a member has with the Sacco. Most respondents responded that the risk diversification model is good as it enabled them to borrow what they can comfortably pay and thus prevented a bulk of members form getting too much credit that would make them cripple under the weight of debt.

Recommendation

The main objective of this study was to analyse the impact the role played by Saccos in financial intermediation in the improvement of the welfare of the members at Fundilima Sacco Ltd. From the study it is quite evident that Saccos are good financial intermediaries that focus on the holistic growth of a person as it is inclusive of social intermediation and financial intermediation. The study also found out members greatly benefit from the membership of the Sacco as it is a common ground for financial growth and inclusivity due to the intra-guarantees when accessing cheaper loans.
The study recommends that the management of the Sacco management to recruit more ladies to increase the inclusivity of all the genders as compared to the current gender setup of the membership. The study should come up with more mixed saving/loans solutions as the respondents felt that the saving products that existed were limited i.e. for the members who wanted to buy houses it took them close to fifteen years to be able to raise part of the required funds to purchase/build a home.

Areas of further research

The study recommends further research to be conducted to find out the key determinants of financial inclusivity of the members in the financial processes of the Sacco. There was also a need to establish the effectiveness of the training programs done by the Sacco in regards to financial literacy.

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