
Mediating Effect of Positioning Co-operatives on Post Covid-19 Economic Resilience Dilemma: Evidence from Deposit Taking SACCOs in Kenya

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Abstract

In 2019 China reported an upper infectious respiratory viral disease, Covid 19, which spread worldwide posing a unprecedented threat in the history of mankind. Whereas the economic impact including fatalities was high, in the recent months most affected economies are beginning to debate on the best robust approach of economic recovery. Although United Nations advocates for Social Solidarity Economy (SSE), people have limited understanding about it. This paper contributes to debate about SSE by examining the mediating effect of Deposit Taking (DT) Savings and Credit Co-operative Societies (SACCOs) on the economic resilience dilemma. The commonwealth co-operative school of thought theory guided the study. The theory states that co-operatives are social-economic institutions started by people having a common bond so as to meet their social-economic problems. A sample of 175 DT SACCOs was purposively taken using descriptive research design. Secondary data was collected from SACCOs Societies Regulatory Authority (SASRA) database and reliability test ascertained by carrying out test retest of the instruments. Data were analyzed through binary logistic regression whereby independent variables were categorical while the dependent variable was binary. Findings indicated that SACCOs had a positive significant relationship on economic resilience. The p-values for the types of SACCOs Government, Teachers, Farmers, and Private and Community based and output on savings, income, employment, loans, deposits and assets tested were less than 0.05. It was concluded that the DT SACCOs had significant relationship with economic recovery. The study recommended economies to consider SACCOs form of SSE as vehicles for economic recovery.

Keywords: Positioning SACCOs on Economic Resilience.

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INTRODUCTION

In 2019, word went round that there was a viral disease that had started in Wuhan city in China, soon it spread globally creating one of the most serious threat in the history of mankind. All the economic activities were brought to standstill as a precaution against the impending phenomenon thus grounding the economic growth (Chi-Yi *et al*, 2020). However, in the most recent months, there has been relief as vaccines that were developed lower its effects. The biggest

dilemma affecting most countries now is coming up with a robust approach of accelerating the development of the affected economies. Indeed, this has led to debate with some economists hinting at Social and Solidarity Economy (SSE) but most people have limited understanding of SSE (Bateman, 2015). This study contributes to the debate by exploring the significance of SSE through an examination of Savings and Credit Co-operative Societies (SACCOs). The concept of SSE is increasingly used in reference to

exchange and production of broad range of goods and services which explicitly pursue social objectives. The principles of co-operation, ethics, and democratic self-management guides them. They are in form of co-operatives, self-help groups and community organizations (ICA, 2018).

Globally, the economic crisis and environmental challenges are enhancing the growth of this alternative production form (UNDP, 2014). In regard to this many economists have proved that SSE are more conventional to the private individuals in the global financial crisis wake. The Covid 19 economic crisis that has grounded most economies should provide a soft take off space. Right from the 2012 Rio+20 Summit, representatives of the SSE through United Nations (UN) has been calling upon nations to engage this type of economy that has led to establishing Un Inter-Agency Task Force on Social and Solidarty Economy (UNTFSSSE). In the recent years, the global instability economically served to highlight the limitations of the present system of development and further confirms the necessity for an alternate or complementary development paradigm. Many economists opine that SSE is a viable solution on balancing the social and economic challenges be folding mankind (Bateman, 2015).

SACCOs is one of the most essential financial form of co-operatives that falls under the category of SSE. They are vibrant institutions established due to desire to meet fundamental member financial needs through encouraging savings and thrift so as to offer loans in a manner that do not put members at risk by handing too much control to money lender (Ezekiel, 2014). Co-operative movement came into birth due to efforts many—Robert Owen and Dr. William King among others—who aimed at improving the

welfare of the factory workers in 18th Century. SACCOs popularly termed as Credit Unions were started by Fredrich Reifeisen and Herman Schultze-Delitsche in Germany in 1846 because of agricultural crisis and bad weather that had brought famine in Europe. These two are fathers of the Credit Unions in Germany. Luigi Luzzati followed suit in Italy by applying the principles of the predecessors. The Co-operative Movement in form of Credit Unions spread rapidly in Europe, Latin America and North America, Asia and later to Africa and in particular Ghana.

At present, SACCOs play a significant role on empowering members socially and economically worldwide (Rutabanzibwa, 2021; Ampah *et al.*, 2015). Developed countries such as Britain and America have positioned Credit Unions as power hubs of economic development. The worldwide recommendation No. 193 of 2002 gave impetus on acceleration of the growth of the co-operative movement. SACCOs were established guided by the values of co-operative philosophy of self-help and mutual help, thus they don't expect to get any support from outside. From this note, it's clear that the history of the SACCOs formed in Europe, America and India critically aimed at alleviating poverty hence economic growth. According to Franken (2015), Credit Unions history indicates that co-operatives were formed to assist people come out of poverty. The co-operative movement in Africa was brought by colonialists and the African didn't benefit much until 1960s when most of the countries became independent. It should also be noted that after independence because of the excitement of the co-operators on the movement, many co-operatives started could not be sustained because there were no clear structures during their formation.

In Kenya, the first co-operative was Kipkelion Dairy Co-operative started in 1908 at Kericho by White Settlers (Kobia, 2017), its aim being to accelerate economic development. By 1920s, there were several co-operatives like Kenya Farmers' Co-operative Association, Kenya Co-operative Creameries and Kenya Grain Growers Co-operative Union. It was until 1945 when the Co-operative Ordinance Act was enacted to allow participation of Africans. Currently there are over an estimated 23,000 co-operatives and about 14,000 SACCOs (KNBS, 2020). However, although SACCOs started to stir and improve member social economic conditions, out of the 14000 SACCO established only 175 regulated implying positioned contributions to the economy can be ascertained.

SACCOs are critical on promoting investment on assets behavior that determines the financial performance of an economy, it gives members the capacity to gain ownership of property (Wambua *et al.*, 2021). Economic resilience is influenced by the investment on assets, affected by three factors risk, rate of profitability and satisfaction. SACCOs encourage thrift to give out loans. When an investor knows that the money at hand is to be repaid, it will prompt better decisions on investment. Risk arises on the decisions taken by a member. Investment making process is affected by a myriad of factors, one of them is availability of funds. It could be hard for a person to imagine investment when there is no source of money. The decision-making process becomes easier when all the factors are available such as the lending institutions. Some lending institutions hold hostage a borrower. SACCOs have an advantage because its management is vested democratically to the members who are the owners, business

customers, patrons and decision makers. Investors are prone to change their attitude towards investment particularly when they realize that they cannot access a loan. Investment is expenditure on capital goods—for example, new machines, offices, new technology. Investment is a component of Aggregate Demand (AD) and also influences the capital stock and productive capacity of the economy (Lotto, 2016).

The relationship between economic growth and savings has been the subject of research. Countries with faster economic growth have higher savings rate. Accumulating capital creates better opportunities for a country's productivity. In this regard, the UN emphasizes savings as one of the factors for increasing a countries purchasing power. Savings are crucial on economic development. Various studies have backed the relationship between savings and investment. Many African Countries rely on savings to make investment. The savings behavior of an individual improves when conditioned through organisations like SACCOs that encourage thrift. Scholars have argued that an individual's focus to save becomes more and more effective when control is removed. Many Countries that have developed Credit Unions as centers for collecting and saving the money. A member will be better placed to invest in capital assets when they save. Many people may be unable to make a daily account of their expenses unless they use a check off system to control whatever comes to the hand. Savings increase income to the individual households creating economic stability (Wambua *et al.*, 2021).

According to UN (2020) an estimated half a billion people work for wage employment on less hours than they could have wished. The number of unemployed people stands at 188 million, out of whom

120 million have completely given up or left completely searching for job. This trend shows that there is need to create openings so as to absorb the youth. SACCOs is an employment intervention in Kenya and other parts of the world since global statistics shows that it offers additional employment to about 12% of the population. The Kenya unemployment rate is about 67%, with a majority of the youth being underemployed (KNBS, 2020). The crisis of unemployment is heightened by the rapidly growing youth population. In order for Kenya to reverse this trend, investment on entrepreneurial activities that will open up the economy is crucial. One of the enterprises that has avenues in form of opportunities are SACCOs (WOCCU, 2017). Although SACCOs as form of SSE are potential sources of employment, they are under-utilized due to limited understanding of the people about them.

This study is anchored on the Commonwealth Co-operative School of Thought theory. The Theory states that co-operatives are forms of organizations formed by the people guided by the value of self-help and the ethical value of solidarity of people so as to solve the social- economic problems. Moreover, co-operatives are economic

institutions that try to remove the ills of capitalism (Ongunleye *et al.*,2015). Implicit in this is the definition of co-operatives as autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (TCDC, 2018). The theory means that co-operatives as forms of SSE have high chances of opening up the economy. The other factor that the theory brings out is the principles and other values and social values such as equality, equity, caring for others and openness. Co-operatives from the Commonwealth School of Thought theory are expected to transform the societies by bringing a paradigm shift hence eradicating poverty and acting as forms of empowerment through thrift (Onduko *et al.*, 2021).

Figure 1 shows how the two categorical independent variables were modeled so as to measure their effect on the economy. The types of the SACCOs (Government, Teachers, Farmer, Private and Community) and SACCOs output inform of savings, income, employment, loans, deposits and assets were predictor variables. The dependent variable was its effect on the economy.

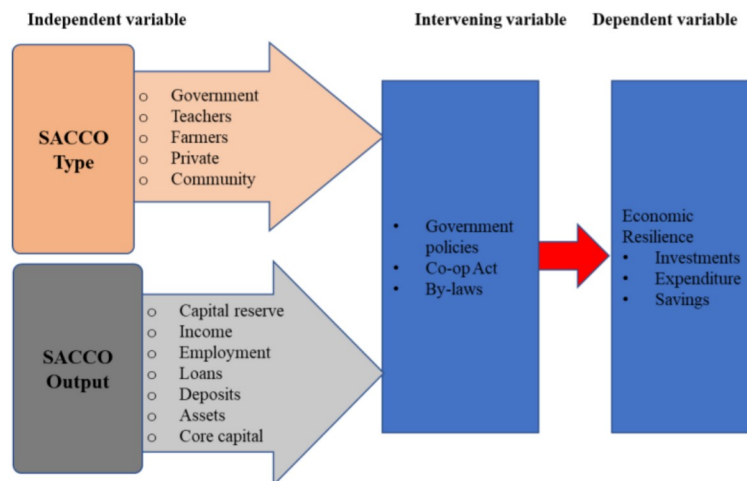


Figure 1: Conceptual Framework

METHODOLOGY

The study was carried out on Deposit Taking (DT) SACCOs in Kenya. A cross-sectional research design was used. Moreover, cross-sectional design was used because it facilitates collection of a lot of data at a point in time. Census sampling technique was used to pick all the 175 regulated SACCOs in Kenya. Census was used because it enabled the study to examine all the regulated SACCOs thus capturing a wide spectrum of the SACCOs which can act as a point of reference during planning. Furthermore, it increases the confidence level of the data. Secondary data was collected from SASRA database reports for the current period of three years using documentary analysis technique. The documents were in a variety of forms, and could be traced easily. Data collection tools were piloted and their reliability determined through a test re-test hence increasing the stability or consistency of the scores (Diedenhofen and Musch 2016). Co-efficient of the tool was over 80% hence concluded to be reliable. This was important because it explained the extent to which the results really measure what was supposed to measure. For validity, the state or quality of being valid was measured by checking whether the objectives, title and aimed of the study to ensure they measured what was supposed to measure. The study did tests on the data before they were analyzed. One of the tests was goodness of fit done with the aid of Deviance Goodness of fit, moreover Hosmer and Lemeshow and Pearson’s goodness of fit was not too small compared with significance level indicating that the model used was a good fit. Variables multicollinearity was tested by analyzing tolerance value and Variance Inflation Factor- (VIF); tolerance value was higher than 0.1. The VIF value was less than 5 implying that it was okay. Data was analyzed using Statistical Package for Social Sciences (SPSS) whereby logistic regression was used. The formula used and measurement levels were as follows:

$$C\pi(\tilde{x}) = \log \left[\frac{\pi(\tilde{x})}{1-\pi(\tilde{x})} \right] = \alpha + \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p + \dots + e \tag{1}$$

Therefore: $\log \left[\frac{\pi(\tilde{x})}{1-\pi(\tilde{x})} \right] = C,$

Where C was the effect on the economy of the DT SACCOs, while the mediating effect of DT was measured using the following independent variables.

X₁ = SACCOs’ type

X₂ = SACCOs’ output

C = Economic Resilience Dilemma

Error was shown by e, β₀ was the constant term coefficient while α was a model intercept and β₁- β_p indicated coefficient of regression. The null hypothesis that was being tested was-

H₀ There is no significant relationship on the mediating effect of positioning DT SACCOs on the post Covid 19 economic recovery.

FINDINGS AND DISCUSSION

The aim of the study was to examine the mediating effect of Deposit Taking (DT) SACCOs on the post Covid-19 economic recovery. The DT SACCOs that participated in the study were as follows, farmer-based SACCOs were 49 (28%), teachers SACCOs were 43 (24.5%), government 37 (21%), private 24 (12.5%) and community-based SACCOs were 22 (12.5%)—see Table 1.

Table 1. Types of SACCOs examined

SACCOs	No.	Percent
Farmers SACCOs	49	28
Teachers SACCOs	43	24.5
Government SACCOs	37	21
Private SACCOs	24	14
Community SACCOs	22	12.5
<i>Total</i>	<i>175</i>	<i>100</i>

In terms of membership, farmer-based SACCOs had the highest membership being 2,293,408 compared with teachers’ SACCOs that were 1,253,418. The membership of the community SACCOs was 977,489. Government based SACCOs were having a membership of 639,408 compared with the

private based DT SACCO that was the lowest being 306,469. This implies that most of the people in the SACCOs were farmers. It also indicates that they were likely to affect the economy because agriculture was the main factor contributing to food security. The finding is in line with ICA (2020) that views co-operatives as social-economic enterprises of people with a common bond. Findings are shown on Table 2.

Table 2: Membership in SACCOs in 2020

Type of SACCO	No.	%
Farmers	2,293,408	41.93
Teachers	1,253,418	22.91
Community Based	977,489	17.87
Government Based DT	639,408	11.69
Private Based DT	306,469	5.60
Total	5,470,192	100

Table 3 indicates that SACCOs had Assets worth 627.1 billion in 2020 and 473.74 billion loans. Furthermore, member's savings in form of deposits were 430.11 billion in 2020 compared with 341.91 in 2018. In addition, capital reserve was 115.28 billion, core capital was 97.74 billion and income was 86.04 billion. The findings are a strong indicator showing that co-operatives and specifically, DT SACCOs were contributing to the economy given that the Kenyan budget is about KSh. 3 trillion. The findings are in line with what Rutabanzibwa (2021) and Mamouni *et al.* (2014).

Table 3: Contributions of SACCOs to the economy (KSh, billions)

Variable	2018	2019	2020
Assets	495.25	556.71	627.1
Loans	374.28	419.55	473.74
Deposits	341.91	380.44	430.11
Capital Reserve	83.76	97.55	115.28
Core Capital	74.37	79.20	97.74
Income	64.64	79.88	86.04

SASRA Data Base

In order to have more understanding about the contribution of specific SACCOs on the economy, an analysis of individual SACCOs was done as shown on Table 4. From the table, it can be seen that farmers, teachers and government SACCOs had contributed 233.38 billion, 227.77 and 63.998 while private and community-based SACCOs had contributed 54.149 and 48.386 respectively. These results show that farmer SACCOs were contributing most, furthermore it implies that the specific SACCOs were also doing well in the economic development.

Lastly, Table 5, shows the trends on the SACCOs, the number of DT SACCOs rose from 174 in 2018 to 175. This is a dismal growth suggesting that out of an estimated over 14,000 SACCOs only 175 were meeting SASRA requirements. These finding indicates that there was need to put all the SACCOs into the regulatory body in order for them to contribute adequately to the economy and serve the interests of the members (SASRA, 2020). The number of branches in SACCOs also increased from 504 in 2018 to 537 in 2020, again SACCOs were creating employment as indicated by 9599 employees that had been absorbed by 2020.

Table 4: Contribution of SACCOs types on the economy

Type of SACCO	No. of DT SACCOs		Total Assets (Billions)		Total Assets in (%)		Total Deposits in Billions	
	2019	2020	2019	2020	2019	2020	2019	2020
Farmers	36	37	209.07	233.38	37.55	37.18	144.83	161.49
Teachers	43	43	204.25	227.77	36.69	36.29	136.27	153.99
Government	49	49	56.71	63.998	10.19	10.20	37.63	42.59
Private	24	24	50.61	54.149	9.09	8.6	37.63	40.40
Community	20	22	36.07	48.386	6.48	7.7	24.45	32.99
Total	172	175	556.71	627.685	100	100	380.44	431.46

SASRA Data Base

Table 5: Trends in SACCOs

Variable	2018	2019	2020
No. of SACCOs	174	172	175
No. of Branches	504	526	537
Employees	8654	9060	9599

SASRA Data Base

In order to confirm whether SACCO's types and SACCOs output were contributing to the economy, binary logistic regression was run. The results show that SACCO type and output affected the economy (p-values were all <0.05 at 95% level of significance). Moreover, SACCO type had less effect (p-value = 0.038) compared to 0.000 of the

SACCO output. The results confirm what Aliyu (2015) found out on the impact of Managerial Skills on Small Scale Business Performance in Nigeria. Wald was 0.422 for the SACCO type meaning that it predicted the outcome by almost half compared to three for the SACCO output. Nagelkerke was 0.754 while Cox and Snell was 0.615. These further proves that there was a relationship between the two variables. From these results, null hypothesis H_0 which stated that there were no significant relationship between SACCO's mediation effect and the economy was rejected and the alternative taken.

Table 6: Results of the Logistic Regression Model

Variable	B	Wald	df	P	Exp (B)
X ₁ -SACCOs Type	0.0049	0.422	2	0.038	0.0049
X ₂ -SACCOs output	0.0025	2.818	2	0.000	3.0025
X ₃ Constant	0.0070	3.093	2	0.000	3.0070

Key: Significant of variables was at $p < 0.05$, Nagelkerke $R^2 = 0.754$, Cox and Snell = 0.615, Hosmer and Lemeshow test (Chi-square = 181.3, sign = 0.586)

CONCLUSION AND RECOMMENDATIONS

The aim of this study was to examine the mediating effect of positioning Deposit Taking (DT) SACCOs on the post Covid 19 economic recovery. The study concludes that positioning DT SACCOs through a regulatory body positively affect the economic recovery. Farmers DT SACCOs have more impact on the economy. Other SACCOs such as teachers, government, community and all had an effect on the economy. SACCOs were contributing to the economy through savings in form of deposits, assets, core and reserved capital and employment creation. The study also concludes that SACCOs were better placed in the economic recovery. In order for them to contribute adequately in the economy, they should be regulated. Consequently, the study suggests regulation of SACCOs in the Country. This is because the regulated 175 DT SACCOs were doing well in building the economy compared with the estimated over 14,000 that were not. The study recommends to the government to prioritize SACCOs as

vehicles for economic development. The Ministry responsible for co-operatives should do prudent overseeing of the financial co-operatives given that they are sleeping economic hubs and policies supporting their growth be put in place. Regular audit of these co-operatives should be done to detect errors and frauds so as to safeguard member's funds. Policies on loan defaulters should be started so that members borrowed money do not get lost.

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