



KENYAN SACCO SOCIETIES IN LIQUIDITY CRUNCH; EVIDENCE FROM CORONAVIRUS PANDEMIC SHOCK

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Abstract:

The coronavirus pandemic shock has attenuated economic activity decline in various sectors of the economy across the globe. Financial service providers such as; banks, insurance firms and Sacco societies among others have been impacted by the pandemic shock as livelihoods of the people have been disrupted by the first spreading virus leading to job losses as well as weak demand and supply forces in the market. The unique model of Sacco societies' business puts them in an even more complex situation which threatens their going concern concept. The uniqueness of the Sacco societies is that they depend on their members' cumulated savings deposits and shares for financing rather than external borrowings from other financial institutions to conduct their business. Therefore, the study investigated the impact of the coronavirus pandemic shock on the liquidity of Sacco societies in Kenya and specifically, the study examined the covid-19 pandemic shock causal factors, institutional organizations' gaps, exclusion of Sacco societies by the national government in its mitigation measures against covid-19 pandemic shock as well as determining the response strategic interventions by the Sacco societies to stay afloat. The study found out that the majority of the Sacco societies are facing liquidity challenges more especially community, farmer and private-based Sacco societies. The loan demand has declined with long-term loans significantly impacted on by the pandemic shock. In addition, loan default has increased and non-remittance of Sacco deductions as well as withdrawal notices have also spiked up in some Sacco societies. The study discovered that the government has categorically excluded Sacco

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societies in its mitigation strategies to protect businesses across different sectors and in particular exclusion of Sacco societies from the credit guarantee scheme and non-classification of Sacco societies as essential service providers were cited as some of the evidence towards the exclusion concern. Besides, the Tax Laws (Amendment) Act, 2020 and Finance Bill, 2020 had very little if any touching on the plight of the Sacco societies in the wake of covid-19 pandemic shock. The response strategies instituted by Sacco societies are restructuring of loans, loan rationing, developing of new Sacco packages and recapitalization of returns as well as restricted external borrowings. An exploratory study covering four months from March to June 2020 was conducted among 120 Sacco societies from 11 counties across the country with interview schedules guiding the collection of primary data via telephone calls to the Chief Executive Officers of the targeted Sacco societies. Secondary data was obtained through document analysis of the financial reports of those societies. Judgmental techniques were employed in picking on the Sacco societies which constituted a sample size of 120 Sacco societies although only 75 responded. Data was analysed descriptively with the study findings being presented by the use of tables, graphs and pie charts. The paper recommends that the vulnerability of the Sacco societies in the wake of covid-19 pandemic shock requires immediate external interventions such as the credit guarantee schemes to cushion Sacco societies from the risk of loan default and at the same time improve their liquidity position. The perennial non-remittance of Sacco deductions by institutional organizations needs to be addressed urgently by developing new regulations to deter government organizations and private employers from unnecessarily holding members' savings and other dues. The community, private and farmer-based Sacco societies seemed to be adversely affected by the covid-19 pandemic shock compared to the teacher and government clusters of Sacco societies. This may be due to the differential livelihoods sectoral impact of covid-19 and the weak financial framework of those Sacco societies to withstand any shock hence consolidation of Sacco societies should be seriously discussed to form entities which are strong enough to withstand shocks.

JEL: G21; G22; G32

Keywords: Kenyan Sacco societies, Coronavirus pandemic shock

1. Introduction

Macro-performance of economies across the globe is being determined by the coronavirus pandemic shock in the last five months since the fast-spreading virus was reported in China. The pandemic shock has mutated into a global economic crisis occasioned by a sudden standstill of economic activity as a result of global lockdowns. The macro-economic outcomes are output, real Gross Domestic Product (GDP), savings, jobs, prices of goods and services as well as international balances.

Statistically, the International Labour Organisation (ILO) estimates that 305 million full-time jobs and the livelihoods of 1.6 billion workers in the informal sector will

be lost globally. Kenya projects the loss of at least 500,000 in the informal sectors while the Ministry of Labour and Social Protection survey report indicates that jobs in excess of 200,000 have been lost in the formal sector. In addition, a joint study by Save the Children (SC) and UNICEF shows that the economic consequences of the covid-19 could push as many as 86 million more children into poverty by end of 2020. This would bring the total number of children affected by poverty worldwide to 672 million, an increase of 15 percent over last year with nearly two-thirds of those children overall living in Sub-Saharan Africa and South Asia.

The pandemic shock is both a demand and supply-driven phenomenon since the purchasing power of consumers has been eroded due to the loss of jobs. Similarly, the supply wing has been affected by industrial shutdowns as countries impose restrictions to contain the 2019-nCoV such as lockdowns. The manufacturing sector, horticulture, aviation and hospitality industries as well as the financial sector are some of the sectors which have bore the brand of the pandemic shock. For example, at the Jomo Kenyatta International Airport (JKIA), the official travel figures reveal a grim picture that began to show in March with the number of visitors through JKIA declining by 47 percent, while passengers from Dubai in March 2019 numbered 25,473 whose numbers dropped to 11,820 this year. This led to massive unemployment in the travel and hospitality industries as airlines and hotels shut down their businesses.

The situation is not different even with the banks and non-bank financial institutions such as the Sacco societies. Profit warnings have been issued by banks as loan defaults spike and savings dwindle prompting the restructuring of loans from various sectors such as manufacturing, trade and agriculture. The Central Bank of Kenya (CBK) data shows that Kenyan commercial banks restructured more than 85,000 loans worth Ksh. 273 billion in the first month (April) after the covid-19 pandemic struck the country. The regulator data shows that as at end of April, 39,725 personal and household loans worth Ksh. 102.5 billion had their tenure extended. This is a tenfold increase from Ksh. 9.9 billion that was restructured in March which represents 13.1 percent in April compared to 12.5 percent in March. In terms of the sectors, the restructured loans in the trade sector had the most action with 36,854 loans or 80.9 percent of total loans restructured. The CBK data further shows that this accounted for 13.9 percent of the total loan accounts (264,636) in the sector as at April. However, in value terms, the sectors that recorded the highest restructuring in April are trade at 26.3 percent, real estate 18.6 percent, tourism, restaurants and hotels at 13.6 percent and manufacturing at 13.6 percent too.

Performance warnings by commercial banks are also being witnessed with Equity and Stanchart banks becoming the first top lenders to announce a drop in earnings for the first quarter of trading ending March by 14 percent and 16.6 percent respectively. Equity bank's first-quarter net profit fell to Ksh. 5.2 billion compared to Ksh. 6.1 billion it reported in a similar period last year due to a rise in defaulted loans (Mwangi, 2020). He associated this drop in earnings with the coronavirus pandemic that has reduced business activity and shed jobs leading to a spike in loan defaults. Stanchart bank

reported Ksh. 2 billion in the review period compared to Ksh. 2.4 billion a year earlier on a reduced income and higher operating expenses.

The Sacco societies which perennially have been reeling under liquidity crunch conditions have been exacerbated by the coronavirus pandemic shock. Many employees laid off or on unpaid leave have resorted to making withdrawals off their Sacco savings to meet basic needs. The Co-operative Alliance of Kenya warns that Sacco societies face the risk of sinking in the face of the pandemic should they fail to immediately start making prudent financial decisions.

In addition, the Sacco societies' umbrella organization KUSCCO wants the public institutions compelled to release withheld Sacco deductions now standing at Ksh. 3 billion to enable societies to survive perils fuelled by the covid-19 pandemic. This has forced the World Council of Credit Unions (WOCCU) to call upon the government to designate Sacco societies as "essential" service providers during the 2019-nCoV crisis since it will enable state agencies to prioritize the release of all withheld Sacco dues.

These thrift non-bank financial institutions are on the ropes as the coronavirus pandemic shock has struck the core of their business model which is members' saving deposits. Remember, Sacco societies pool their members' saving deposits and shares to finance their own loan portfolios rather than rely on outside capital. When sources of income from which Sacco members' savings are harnessed get disrupted by the pandemic shock as evidenced in the loss of livelihoods (jobs and business shutdowns), this poses a real threat to the going concern concept of these member-owned not-for-profit financial co-operatives meant to provide savings, credit and other financial services to their members.

The future is black and bleak for the Sacco societies as a number of factors associated with covid-19 pandemic shock aggravated their financial situation. For example, the Micro, Small and Medium Enterprises (MSEs) which the Sacco members depend on more especially the private, farmer and community-based Sacco societies are quickly dyeing because these enterprises do not have a lot of buffers as CBK warns. Also, the Sacco societies have been excluded from the Credit Guarantee Scheme as part of the Ksh. 53.7 billion economic stimulus programme by the national government. Having a credit guarantee scheme will ensure that banks lend to risky borrowers, including MSMEs without fear of default.

The Tax Laws (Amendment) Bill, 2020 as well as the Finance Bill, 2020 did not specifically outline clauses that would mitigate Sacco societies from the coronavirus pandemic shock apart from commission and fee charged to tax (corporation tax) adjusted from 30-25 percent. As Sacco societies witness reduced savings, increased loan defaults and intermittent remittance of monthly Sacco deductions, restructuring loan repayment plans for members with the idea of offering grace periods are some of the options at the disposal of Sacco societies' management. Moratoriums will also be established to create reasonable repayment arrangements as the livelihoods of the Sacco members have been impacted by Covid-19 pandemic.

While the commercial banks are putting aside billions as insurance against possible defaults, Sacco societies with low uptake of insurance packages are highly

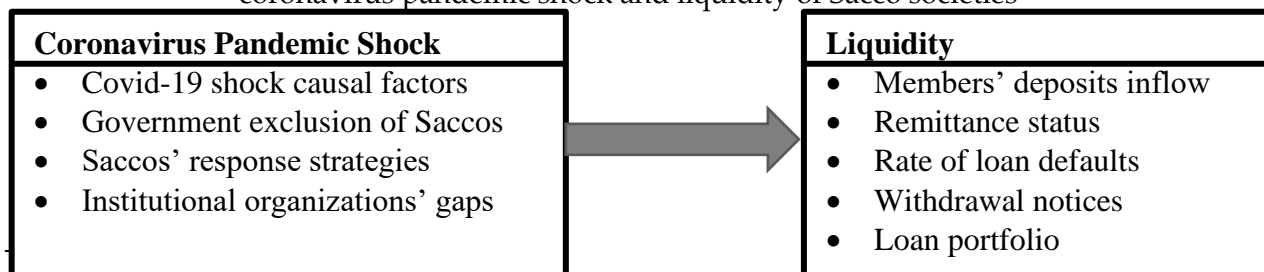
vulnerable to the default risk since they may not significantly transfer the risk of loan defaults to the insurance firms or entities like Co-operatives Insurance Company (CIC). For example, Kenya Commercial Bank (KCB) has set aside Ksh. 2.9 billion from Ksh. 1.1 billion loan loss provision last year in the same period and Co-operative Bank's loan provision shot up to ksh. 900 million from ksh. 501 million the lender set aside same time last year. Thus, this begs the question; what is happening in the Sacco societies? What response strategies are the Sacco societies instituting to alleviate their financial situation? Therefore, the purpose of this study was to investigate coronavirus pandemic shock factors impacting the Sacco societies in Kenya. Specifically, the study sought;

- 1) To analyse coronavirus pandemic shock causal factors affecting the liquidity of Sacco societies.
- 2) To examine how institutional organisations' gaps exacerbated by the coronavirus pandemic shock impact the liquidity of Sacco societies.
- 3) To evaluate how the exclusion of Sacco societies from government economic mitigation measures affects Sacco societies' liquidity.
- 4) To establish measures Sacco societies are adopting to cushion themselves from the 2019-nCoV pandemic shock.

1.1 Conceptualizing the study issues

The paper has been conceptualized along the key variables of the coronavirus pandemic shock and liquidity of Sacco societies. The independent variable is the coronavirus pandemic shock while the dependent variable is the liquidity of Sacco societies. The constructs of the covid-19 pandemic shock are the pandemic shock causal factors, non-inclusion of Sacco societies by the government, institutional organizations' gaps and response strategies of Sacco societies towards mitigating the impact of the coronavirus pandemic on the Sacco business. While the dependent variable is measured in terms of the rate of loan defaults, Sacco remittance dues, withdrawal notices, loan portfolio and members' deposits inflow. The conceptual framework in figure 1a presents a conceptualized view of the study issues.

Figure 1a: Conceptualizing the relationship between coronavirus pandemic shock and liquidity of Sacco societies



Source: Author (2020)

1.2 Specifics of covid-19 pandemic shock

The paper presents the coronavirus pandemic shock in terms of the pandemic shock causal factors impacting the liquidity of the Sacco societies such as attenuating job losses,

shut down of businesses and necessitating low propensity to save by the Sacco members. Also, the government has categorically excluded the Sacco societies from its credit guarantee scheme being implemented by the commercial banks. Other covid-19 intervention measures the government has excluded the Sacco societies from are non-recognition of Sacco societies as “essential” service providers to enable the agencies which are holding Sacco deductions to prioritise payment of Sacco dues.

In addition, the Tax Laws (Amendment) Bill 2020 as well as Finance Bill, 2020 have not specifically addressed the plight of Sacco societies in the wake of 2019-nCoV pandemic. The response strategies the Sacco societies are instituting to stay afloat include loan rationing, restructuring of loans, recapitalization of returns, external borrowing renegotiation by Sacco societies and KUSCCO advisory services to the Sacco societies touching on cyber security measures, loans, withdrawals, virtual operations and health precautionary measures.

1.2.1 Pandemic shock causal factors

According to the Co-operative Alliance of Kenya, the savings and credit co-operatives (Saccos) have been dealt a huge blow by the covid-19 disease following a sharp rise in withdrawal of savings by members in sectors most hit by the pandemic. The Co-operative Alliance of Kenya warns that the Sacco societies are now likely to experience liquidity problems that could hinder their lending and investment operations.

The chief Executive Office of the umbrella alliance of co-operatives Marube (2020) reveals that Sacco members in sectors including horticulture, hospitality and aviation had started withdrawing their cash to cater for basic needs. This trend if not checked, is likely to affect the liquidity levels of the Sacco societies and equally discourage the savings culture in the country.

Workers in the affected sub-sectors were being paid half salaries while scores had been laid off (Marube, 2020). This has heavily affected their purchasing power hence the decision to remove their investments which they have saved for many years. The alliance reports that geographically, Sacco members drawn from flower firms in Naivasha and Nyandarua, and airlines as well as hotels and hospitality facilities mostly in the coast region were most affected. For example, Concorde Sacco chairperson confirmed that every week they register not less than 20 applicants seeking their savings immediately. Withdrawing members are ready to forego 2.5 percent of the savings, which is mandatory for anyone in need of the proceeds immediately, the chairlady explains (Ateka, 2020). The Concord Sacco society draws membership from various international airlines operating in Kenya, travel agencies and other related organizations.

Reduction in members’ deposits has seen cash inflow decline since a significant number of members have either been put on pay cuts or sent on unpaid leave. This could lead to increased delinquency on loans. The Kenya National Bureau of Statistics (KNBS, 2020) survey estimates that 50 percent of workers stay home because of the lockdown and 91.2 percent of workers who are not sure when they will return to jobs. These paint a grim picture of the job market where Sacco societies’ members draw their livelihood and improve them economically to make savings. When the livelihoods are threatened

by the coronavirus pandemic, it directly affects the cash inflow in terms of the members' deposits. The Sacco societies model of business is unique because they do depend on the members' savings in capitalizing these thrift entities without necessarily depending on borrowed funds from other financial service providers. Therefore, a phenomenon which disrupts the sources of income for the Sacco members is directly affecting their liquidity.

Loan delinquency may spike as covid-19 pandemic shock takes a toll on the livelihoods of many Sacco members. Marube (2020) explains that cooperative societies will have to restructure loan repayment plans for members with the idea of offering grace periods. Moratoriums will also be established to create reasonable repayment arrangements. These responses are basically angling along the threat of loan delinquency.

1.2.2 Government exclusion of Sacco societies

Value Added Tax (VAT) refunds and outstanding bill payments were the first covid-19 stimulus packages. Iraki (2020) points out that paying debts significantly improves liquidity in the economy and has lately been our economy's soft underbelly. In February 2020, the treasury cabinet secretary Ukur Yatani gave state agencies and other public entities up to June 30 to clear all statutory dues and verified supplier bills. In giving these directives, the Sacco societies were excluded from the definition of "essential" service providers during the covid-19 crisis. If classified as "essential", the Sacco societies' dues withheld by state agencies will be prioritized (WOCCU, 2020)

When state entities withhold Ksh. 3 billion of Sacco dues and failure to classify Sacco societies as "essential" by the government make these debtors not prioritize payment of the societies' dues. This as Iraki (2020) points out significantly affects the liquidity of these member-patronized financial institutions. Exclusion of Sacco societies from the definition of "essential" prohibits them from providing these necessary and often life-saving services. Credit unions should not be arbitrarily left to die because they were omitted from the definition of bank or financial institutions (Price, 2020).

KUSSCO managing director insists that Ministries, Departments and Government Agencies as well as private organization employers must remit the withheld funds deducted from the Sacco members to improve Sacco societies' cash flow to enable them to respond to demands from their members. He warns that Sacco societies are reeling from a raft of loan demands they cannot meet and this has forced many Sacco members to file quite notices so as to access their savings for use in meeting their daily expenses.

Ototo (2020) equips that if the government entities were to clear arrears, all Sacco societies would be financially empowered to meet the demands of their members throughout the crisis. The second evidence where Sacco societies have been excluded by the government is a credit guarantee scheme for Small and Micro Enterprises (SMEs). The Ksh. 3 billion as part of Ksh. 53.7 billion eight-point economic stimulus programme unveiled by the government will be injected into the SMEs as seed capital for these enterprises through a credit guarantee scheme. The funds will be disbursed to the owners of the SMEs through the commercial banks' system of lending and not including Sacco societies. Njoroge (2020) outlines that under the credit guarantee scheme, the government

will pay part of the loans taken by SMEs, thus enabling commercial banks to extend more loans to small businesses at lower rates.

If the government could have given a portion of the Ksh. 3 billion to specific Sacco societies more especially the trade-oriented Sacco societies which would consequently advance to their members who own small business enterprises it would help cushion the Sacco societies from a liquidity crunch exacerbated by covid-19 pandemic shock. Njoroge (2020) posits that having a credit guarantee scheme in place will ensure that banks lend to risky borrowers, including SMEs without fearing default leverage that exclusion of Sacco societies from exposing them to the risks of loan defaults and liquidity crunch.

The Tax Laws (Amendment) Bill, 2020 and Finance Bill 2020 had very little if any to cushion the Sacco societies from the covid-19 pandemic shock. Even though the commission and fee tax (corporation tax) were reduced from 30 to 25 percent, the two bills gave Sacco societies a wide-birth. The 5 percent reduction from the commission and fee charged tax is immaterial since it is charged on income from other operations such as loan forms fee and also, it's charged to only 50 percent of income from other operations.

The withholding tax and excise duty ought to have been downscaled because they directly affect Sacco societies' income and members' income. Withholding tax on Sacco income from investments from KUSCCO, CIC and Co-operative Bank are taxed at 5 percent. Also, members' interest on deposits and dividends on shares are taxed at 5 percent each which directly affects the disposable income of the Sacco members. The 5 percent tax on dividends from KUSCCO and the like investments affect the liquidity of Sacco societies. In addition, the excise duty of 20 percent on commission and other fee charged such as withdrawal transactions ought to have been reduced to improve the liquidity of Sacco societies.

1.2.3 Response strategies of Sacco societies

Oigara (2020) cited out that the salient challenges of the banking industry caused by covid-19 pandemic shock are reduced lending, lower transaction volumes, higher provisioning of bad debts and thinner margins on existing loans. The disease and measures taken to contain its spread, including travel restrictions and closing schools and bars, have made it difficult for borrowers to repay loans.

The Sacco societies as players in the banking industry have not been spared either by the impact of the viral disease. This has seen the management of these entities take measures meant to make them afloat. Among the response strategies they took are restructuring of loans, loan rationing and recapitalization of surplus. Other measures for some Sacco societies involve early disbursement of surplus to cushion the members and KUSCCO has been instrumental in offering advisory services specifically associated with the challenges of covid-19 such as a spike in the cyber-crime.

Marube (2020) predicts that many Sacco societies will have to restructure loan repayment plans for members, with the idea of offering grace periods. Moratoriums will also be established to create reasonable repayment arrangements. This may be seen in the sectors which have been adversely affected by the covid-19 pandemic shock such as

aviation. Sacco societies in the airline industry have experienced sharp downturns in member contributions after their employers temporarily closed shop.

A competitor of Sacco societies the KCB has seen its restructured loans increase from Ksh. 80 to Ksh. 120 billion in the month of May. KCB Groups tally of loans restructured due to covid-19 pandemic shock has risen to exceed Ksh. 120 billion as the commercial banks and CBK are implementing a plan to reduce or deter interest and principal repayments for customers whose income has been impacted by the pandemic (Oigare 2020).

Loan rationing has been employed by some Sacco societies by temporarily suspending long-term loans and only advancing short-term loans. This is meant to check on their liquidity position not to drain the available funds since long-term loans take substantial sums of money and recovery takes a longer period of time amid high default risk.

Capital rationing decisions are among the capital budgeting decisions management of entities contend with. A larger number of investment proposals compete for the limited funds thus firms must therefore ration them. The firms allocate funds to projects in a manner that maximize long-run returns. The objective of capital rationing is to maximize value subject to budget constraints (Saleemi, 2008). The short term-loans bring quicker returns because they are repaid within a shorter period of time and also the risk of default is very low as compared to long-term loans. The covid-19 pandemic shock has constrained the liquidity of Sacco societies hence calling for the adoption of loan rationing which applies the principle of capital rationing of value maximization.

Recapitalization of surplus has as well been used by the Sacco societies to share up capital in mitigating against the coronavirus pandemic shock aggravating cash crunch in these thrift non-bank financial institutions. As commercial banks such as Equity Group and NCBA Group rescind their earlier dividend announcements, some Sacco societies have suspended dividend payments due to liquidity reel associated with the 2019-nCoV pandemic shock. The commercial banks that have cancelled their earlier proposed payouts have said the decision was made after a fresh assessment of the impact of the pandemic on their earnings and capital position.

External borrowings by the Sacco societies from commercial banks and other lenders such as KUSCCO are being renegotiated with the aim of restructuring them as a number of Sacco societies are unable to honour their original loan covenants. It is rather similar to the moratoriums they are extending to the Sacco members. This will give the Sacco societies some grace periods as they reorganize their finances amid the covid-19 pandemic scourge.

The creation of new products to cater for members' needs is some of the tactics employed to protect savings and guarantee future earnings. For example, the Kirinyaga based Bingwa Sacco has restructured loans and mooted new loan products to support members hit by the covid-19 effects. Mugo (2020) announced that society has developed new products and financial solutions to enable all groups of people, regardless of their economic status to be able to save a percentage of their earnings that can be used in future investments once the covid-19 pandemic is over. In addition, the provision for bad debts

increase in compliance with the accounting prudence concept erodes the profit margins and also the cost of insuring loans will shoot up hence spurring operational costs of the Sacco societies.

2. Methodology

An exploratory study was conducted among 120 Sacco societies from 11 counties across the country to examine the impact of covid-19 pandemic shock on the operations and consequently liquidity of the Sacco societies. The study covered four months duration of the months of March, April, May and June 2020. Interview schedules guided the collection of primary data via telephone calls to the Chief Executive Officers of the targeted Sacco societies. Secondary data was obtained through document analysis on regular internal reports such as monthly credit committee reports, and minutes of board meetings since March, 2020 when the covid-19 was reported in Kenya. Judgmental techniques were employed in picking on the Sacco societies which constituted the sample size. Data was analysed descriptively with the study findings being presented by use of tables, graphs and pie charts.

Table 1a demonstrates the sampled Sacco societies and the cluster distribution of the societies.

Table 1a: Sampled Sacco societies

| County Cluster | Nairobi | Mombasa | Nakuru | Kiambu | Machakos | Nandi | Uasin Gishu | Kilifi | Kajiado | Mandera | Migori | Total |
|--------------------|-----------|-----------|-----------|-----------|-----------|----------|-------------|----------|----------|----------|----------|------------|
| Teacher | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 16 |
| Government | 6 | 4 | 3 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 26 |
| Farmer | 6 | 4 | 3 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 26 |
| Private | 6 | 4 | 3 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 26 |
| Community | 6 | 4 | 3 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 26 |
| Grand Total | 26 | 18 | 14 | 10 | 10 | 9 | 9 | 9 | 5 | 5 | 5 | 120 |

Source: Research data (2020).

Table 1a presents the sampled Sacco societies according to the counties covered by the study and the cluster of each Sacco society. The study covered eleven counties with a sample size of 120 Sacco societies which were both deposit and non-deposit taking Sacco societies. The study was guided in picking on the counties by the prevalence of covid-19 as documented by the Ministry of Health and also the economic activities taking place in certain regions which have been impacted by the coronavirus pandemic shock. From the sampled Sacco societies, only 75 responded to the interviews and also availed their financial documents for secondary data which gave a response Rate of 62.50 percent.

3. Findings

In order to ascertain the impact of coronavirus pandemic shock on the Sacco societies, the paper investigated specific operational parameters of the societies which were presented into empirical sub-themes.

3.1 Empirical sub-themes (ESTs)

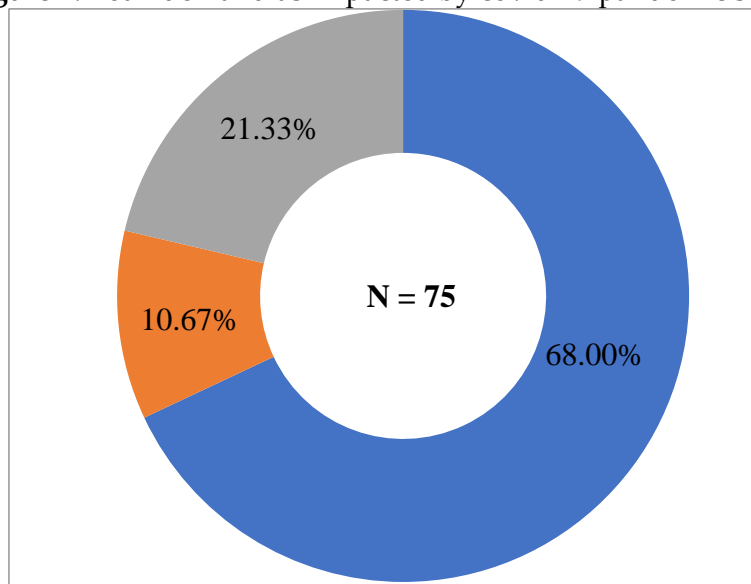
The following ESTs were examined by the paper in establishing the impact of 2019-nCoV pandemic shock on the Kenyan Sacco societies;

EST₁: Loan demand

The paper sought to find out how covid-19 pandemic shock has impacted the loan demand in the Sacco societies. It was discovered that in aggregate the pandemic had negatively impacted the loans by attenuating a decline in the loan demand. However, mixed results were witnessed when analyzing clusters of Sacco societies with others having marginal decline while others significant drop in the loans demanded. Also, a few cases had loan demand shooting up more especially the FOSA loans.

Figure 1 shows that out of the 75 studied Sacco societies, 68 percent registered a decline in their loan demands while 21.33 percent had an increase as 10.67 percent recorded no change in their loan demands.

Figure 1: Loan demand as impacted by covid-19 pandemic shock



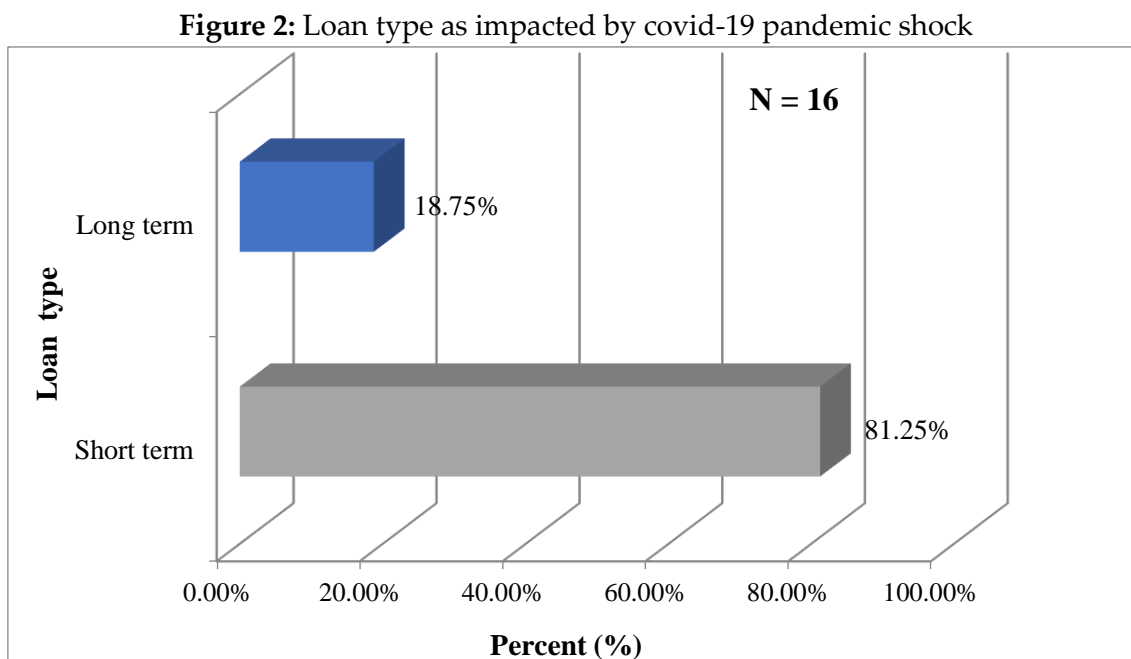
Source: Research data (2020)

Low uptake of technology among many Sacco societies might have aggravated the decline in loan demand during the pandemic period due to lockdowns and restricted movement of Sacco members to access services (Kabukuru, 2020). He further argues that most Sacco services have for over five decades been paper-based which means Sacco members had to either travel miles or snail mail their loan application forms for them to get services, a tradition that was disrupted by a raft of government measures to control

the spread of coronavirus. The Sacco societies need to transform paper-based loan forms and all the security features to electronic-based format to guarantee quality service to the Sacco members even during a tumultuous time like the covid-19 pandemic period.

In addition, the non-classification of Sacco societies as an “essential” service by the government so that the societies could continue serving members during lockdowns might have contributed to the decline in loan demand among the Sacco societies. Njoroge (2020) points out that as governments start to move towards restrictions on operations, move to lockdowns, telling people to stay at home, and ordering businesses to close, Sacco societies communicate to the government that they should be identified as essential businesses. Further analysis of the 16 Sacco societies which registered an increase in loan demand, indicated that 81.25 percent were short-term loans as shown in Figure 2.

In Figure 2, it is evidenced that the demand for short-term loans was quite high as compared to long-term loans. This may be explained perhaps due to the need to meet the basic needs of the Sacco members as most of their income sources might have been affected by the pandemic.



Source: Research data (2020).

Ototo (2020) notes that KUSCCO advises Sacco societies to go slow on short-term external borrowing during this pandemic period, reduce long-term lending, retain interest on loans as agreed by respective Sacco boards and restructure loans where need be on a case-by-case basis. This advise may explain why there was a significant reduction in long-term advances as compared to short-term loans as the study revealed.

Table 1 demonstrates the cluster of Sacco societies which realized increased demand for their services. The clustering of the societies was guided by the regulator’s justification in terms of the common bond concept. SASRA (2015) outlines that common bond structures of DT – Saccos remain a basis for classifying the Sacco societies; the government-based Sacco societies mainly derive their original membership from

government ministries and departments, state corporations, public universities and colleges which control the highest number of asset base, deposits and net loans as well as membership at 38.9, 40.2, 40.8 and 14.8 percent respectively.

The teacher-based Sacco societies are those that derive their original membership from the teaching fraternity in the country. Even though the teaching fraternity is part of the mainstream government, the notoriety of these Sacco societies whose original membership was defined by the common bond of the teaching profession makes them different to warrant a unique and separate clustering (SASRA, 2015).

In terms of Sacco societies' clusters, the societies which registered an increase in the loans demanded majority came from the teachers' cluster of Sacco societies followed by government-based societies as shown in Table 1.

Table 1: Sacco clusters with increased loan demand as a result of covid-19 (N = 16)

| Sacco cluster | Frequency | Percent | Comm. percent |
|------------------|-----------|---------------|---------------|
| Teacher Saccos | 6 | 37.50 | 37.50 |
| Private-based | 2 | 12.50 | 50.00 |
| Government-based | 4 | 25.00 | 75.00 |
| Farmer Saccos | 2 | 12.50 | 87.50 |
| Community Saccos | 2 | 12.50 | 100.00 |
| Total | 16 | 100.00 | |

Source: Research data (2020).

The loan demand increase in teacher and government-based Sacco societies may be associated to the tax relief of those earning a minimum of Ksh. 24000 per month which some of the members of these societies fall in.

Table 2 shows the extent to which the declined loan demand per Sacco cluster impacted on each category of the societies. The reduction in Sacco loan demand due to covid-19 pandemic shock may have been caused by the impact of the pandemic on trade and education which are among the commonly loaned sectors. SASRA (2019) in a study conducted on sectoral financing by Sacco societies in Kenya found out that 36 percent of credit facilities granted by Sacco societies go towards funding the land and housing sectors of the economy while 20.5 and 12 percent respectively go towards the funding of the trade and education sectors respectively.

However, to the Sacco societies which had a decline in their loan demand, the paper further analysed the extent to which covid-19 impacted them and it was noticed that 50.98 percent had less than 10 percent decline compared to the previous year during the months of March, April, May and June. Twenty-three point five three (23.53) percent had a decline range between 10-30 percent as those with a decline of 50 percent and above accounted for 9.80 percent as shown in Table 2.

Restrictions on the exportation of horticulture, flight suspensions and closed down of businesses to contain the spread of covid-19 disease may explain why the farmer, private and community Sacco clusters were worst hit in loan demand as Table 2 shows.

Table 2: Sacco clusters with decreased loan demand as a result of covid-19 (N = 51)

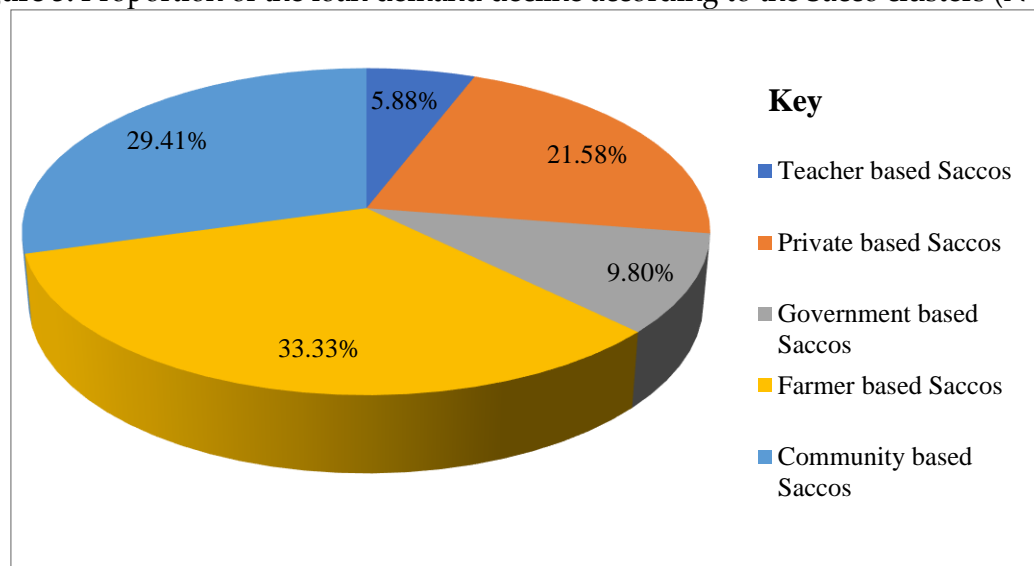
| Percentage decline | Frequency | Percent | Comm. percent |
|--------------------|-----------|---------------|---------------|
| > 10% | 26 | 50.98 | 50.98 |
| 10 - 30% | 12 | 23.53 | 74.51 |
| 30 - 50% | 8 | 15.69 | 90.02 |
| < 50% | 5 | 90.02 | 100.00 |
| Total | 51 | 100.00 | |

Source: Research data (2020).

Farmer-based Sacco societies are those which were founded upon the foundations of the agricultural activities of the members, such as coffee, tea or sugarcane farming or dairy production. It is not surprising that this cluster accounts for the majority of the total membership in DT-Saccos at 52.7 percent given that Kenya is by large an agro-based economy, although they control a paltry 13.6 and 12.4 percent of total assets and deposits respectively which is highly disproportionate to the total membership (SASRA 2016).

On cluster-wise, of the 51 Sacco societies which recorded a decline in loan demand, the worst hit societies by the covid-19 pandemic shock came from community-based Sacco societies, farmer and private clusters as shown in Figure 3.

Figure 3: Proportion of the loan demand decline according to the Sacco clusters (N = 51)



Source: Research data (2020).

Besides the covid-19 pandemic-associated causes of the decline in loan demand of some Sacco societies such as travel restrictions and business close-down, competition may be a cause as well. SASRA (2017) warned that the Sacco sector, especially the deposit-taking segment must brace itself for stiff competition from other financial service providers; particularly with the growth in popularity of the digital credit services that principally specializes in unsecured micro-credit loans a forte hitherto associated with Sacco societies.

EST₂: Membership withdrawal notices

The paper ascertained the state of membership withdrawal notices served to the management of the studied Sacco societies during the coronavirus pandemic period spanning four months from the month of March to June 2020 comparatively during a similar period last year. The study discovered that there was an immaterial difference between the two periods. Although in farmer-based, private and community cluster Sacco societies, there was a slight increase in the number of withdrawal notices as Figure 4 and Table 3 outlines.

The private-based Sacco societies draw membership from privately owned companies, institutions or entities. The common bond would be that the members are employed by one private entity or group of similar private entities. It accounts for 6.5 percent of the membership and they control 11.3 and 12.1 percent of total assets and deposits respectively.

The community-based Sacco societies draw membership on the basis of some social association or membership of the potential members within the community such as churches and similar community initiatives grouping. The cluster contributes the least to the total assets, total deposits and net loans at 2.4, 2.6 and 2.7 percent respectively (SASRA, 2015).

Table 3: Cluster analysis of withdrawal notices (N = 11)

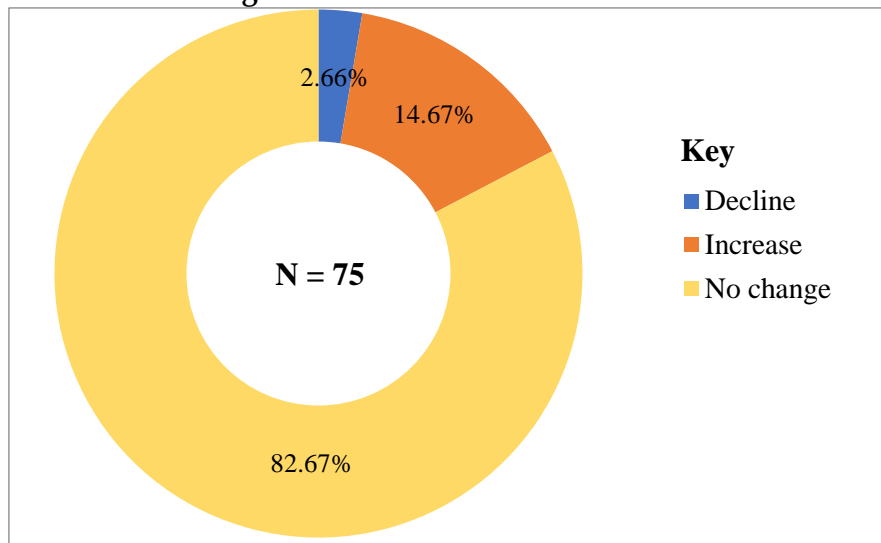
| Sacco cluster | Frequency | Percent | Comm. Percent |
|----------------|-----------|---------------|---------------|
| Teacher Saccos | 1 | 9.09 | 9.09 |
| Private Saccos | 3 | 27.27 | 36.36 |
| Government | 1 | 9.09 | 45.45 |
| Farmer Saccos | 4 | 36.36 | 81.81 |
| Community | 2 | 18.19 | 100.00 |
| Total | 11 | 100.00 | |

Source: Research data (2020).

Theuri (2020) reported that Sacco members in the worst-hit sectors such as manufacturing, aviation, horticulture and the hospitality industry are opting to withdraw their savings to finance daily needs mainly food.

Figure 4 shows that 14.67 percent of the studied Sacco societies registered an increase in membership withdrawal notices while 82.67 percent had no variation in the withdrawal notices served. This means that covid-19 pandemic had very little if any to explain to the members requesting to access their savings in order to meet their economic and domestic needs. Farmer-based Sacco societies had the highest number of withdrawal notices at 36.96 percent which was followed closely by private-based Sacco societies. Teacher and government-based Sacco societies had the least number of withdrawal notices, compared to a similar period last year.

Figure 4: State of withdrawal notices



Source: Research data (2020).

The withdrawal of membership in the Sacco societies whose members are constrained by covid-19 pandemic negates the implementation of the third medium-term plan (2018-2022) of the Vision 2030 economic blueprint which places emphasis on the need to leverage Sacco societies to mobilize savings for economic development (SASRA 2018).

EST₃: Monthly remittance status

The coronavirus pandemic has affected lives and livelihoods which consequently would impact income, savings, investments and productivity. It was therefore prudent for the study to find out the position of the monthly remittance from the institutional organizations of the studied Sacco societies. The study found out that a significant number of the societies had their remittance reduced during the covid-19 period as compared to the last four months before covid-19 pandemic struck (November, December, January and February).

Figure 5 shows that 53.33 percent of 75 studied Sacco societies recorded a decline in their monthly remittances while 42.67 percent never register any changes. When the extent of reduction of the monthly remittance was analysed, the study established that a majority of the Sacco societies which had a reduction in their monthly remittance reduced by 10-30 percent at 37.50 percent followed by those which had a dip of less than 10 percent at 32.50 percent as illustrated in Table 4.

When sectoral analysis of the monthly remittance was done, the study found out that private and farmer-based Sacco societies as well as community cluster societies were the most impacted as Table 5 shows.

Table 4: Extent of monthly remittance changes (N = 40)

| Percentage decline | Frequency | Percent | Comm. percent |
|--------------------|-----------|---------------|---------------|
| > 10% | 13 | 32.50 | 32.50 |
| 10 - 30% | 15 | 37.50 | 70.00 |
| 30 - 50% | 7 | 17.50 | 87.50 |
| < 50% | 5 | 12.50 | 100.00 |
| Total | 40 | 100.00 | |

Source: Research data (2020).

The decline may be explained by the non-remittance of Sacco deductions by the institutional organizations constrained by reduced business activities attenuated by the covid-19 pandemic. Also, members of the societies that had been sent on unpaid leave and others who lost jobs could not continue saving as income sources were cut off by the pandemic shock. SASRA (2018) warned that the compounded effect of the delayed or defaulted remittances is the perennial failure by the DT-Saccos to meet obligations to members arising from the resultant liquidity constraints which in turn leads to members' apathy and loss of confidence as well as a high level of defaulted loans.

Table 5: Sectoral reduction in monthly remittance (N = 40)

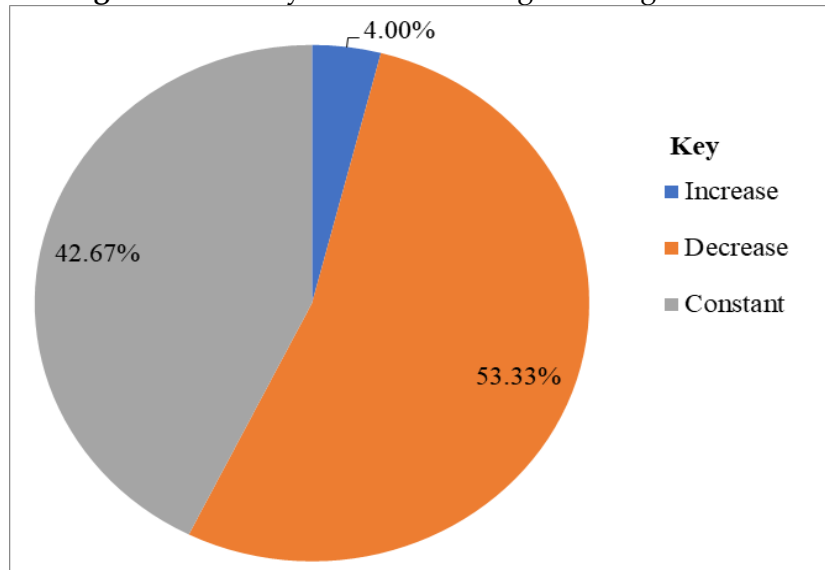
| Sacco cluster | Frequency | Percent | Comm. Percent |
|----------------|-----------|---------------|---------------|
| Teacher Saccos | 2 | 5.00 | 5.00 |
| Private Saccos | 13 | 32.50 | 37.50 |
| Government | 2 | 5.00 | 42.50 |
| Farmer Saccos | 12 | 30.00 | 72.50 |
| Community | 11 | 27.50 | 100.00 |
| Total | 40 | 100.00 | |

Source: Research data (2020).

SASRA (2018) reported that out of the total unremitted deductions amounting to Ksh. 2.81 billion; the government and its various agencies or associated institution (as employer institutions) owed 66.9 percent thereof; and the national universities and tertiary colleges alone owed the highest proportion of unremitted funds amounting to 38.8 percent of the unremitted funds owned to just 50 deposit taking Sacco societies (DT-SACCOS) is itself a cause for serious alarm on the long-term financial viability and sustainability of the associated Sacco societies.

Kariuki (2020) reported that state entities have not remitted withheld Sacco deductions worth Ksh. 3 billion which impacts the liquidity of the Sacco societies. The worrying trend caught the attention of the umbrella union of the Sacco societies in Kenya where Kuscco's Chief Executive Officer, Ototo (2020) also argued that if the government entities were to clear their arrears, all Sacco societies would be financially empowered to meet the demands of their members throughout the coronavirus pandemic crisis.

Figure 5: Monthly remittance changes during covid-19



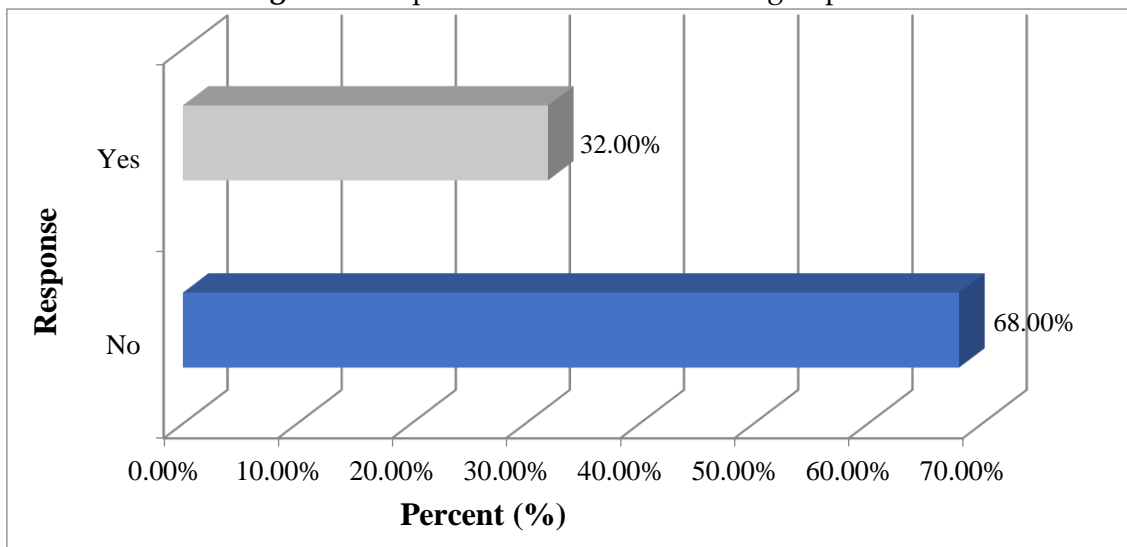
Source: Research data (2020).

Besides, SASRA (2018) observes that the covid-19 pandemic may worsen the non-remittances situation of the financial sustainability and existence as a going concern of some Sacco societies which is greatly being impaired by the perennial delay or total defaults by some employer-institutions in remitting the deductions.

EST4: Request for loan restructuring

The study sought to find out whether members were requesting loan restructuring because they were unable to obey the original loan covenants due to the shock of the covid-19 pandemic. The study found out that 24 out of 75 studied Sacco societies had realized that some members make such requests. Although most of the societies had no such cases accounting for 68.00 percent of the respondents as Figure 6 shows.

Figure 6: Proportion of loan restructuring requests

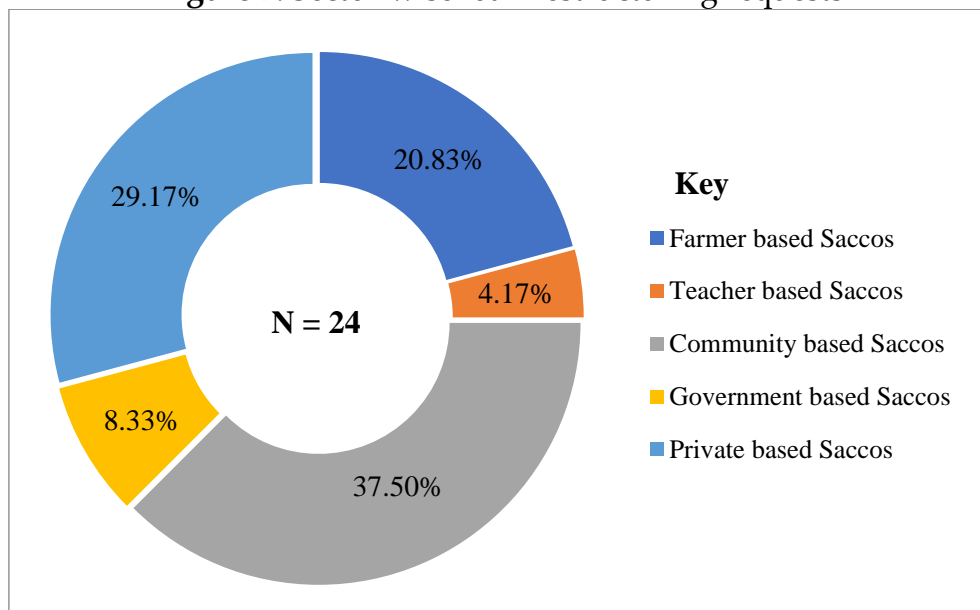


Source: Research data (2020).

Njoroge (2020) argues that covid-19 disease has caused a major financial crisis, forcing lenders to offer borrowers various repayment options. This means that with the rush to restructure loans gives a peek into the severity of borrowers' cash flow crisis and the burden of debts that companies and individuals bear.

In terms of the cluster of Sacco societies analysis, community and private-based societies were the ones which registered the highest number of such requests. The government and teacher-based Sacco societies recorded the list number of loan restructuring requests as compared to a similar period last year as Figure 7 indicates.

Figure 7: Sector-wise loan restructuring requests



Source: Research data (2020).

The minimum requests from government and teacher-based Sacco societies may be due to continued payment of salaries and wages by the institutional organizations of such Sacco societies. These findings mirror closely the CBK survey report on restructured bank loans in April with the trade sector recording the highest number of restructured loans accounting for 36854 loans or 80.9 percent of the total loans restructured. In value terms the, report further shows that the sectors which recorded the highest restructuring in April are trade, real estate and manufacturing at 26.3, 18.6 and 13.6 percent respectively. In the tourism sector, restaurants and hotels also had 13.6 percent of their loans restructured in the month of April.

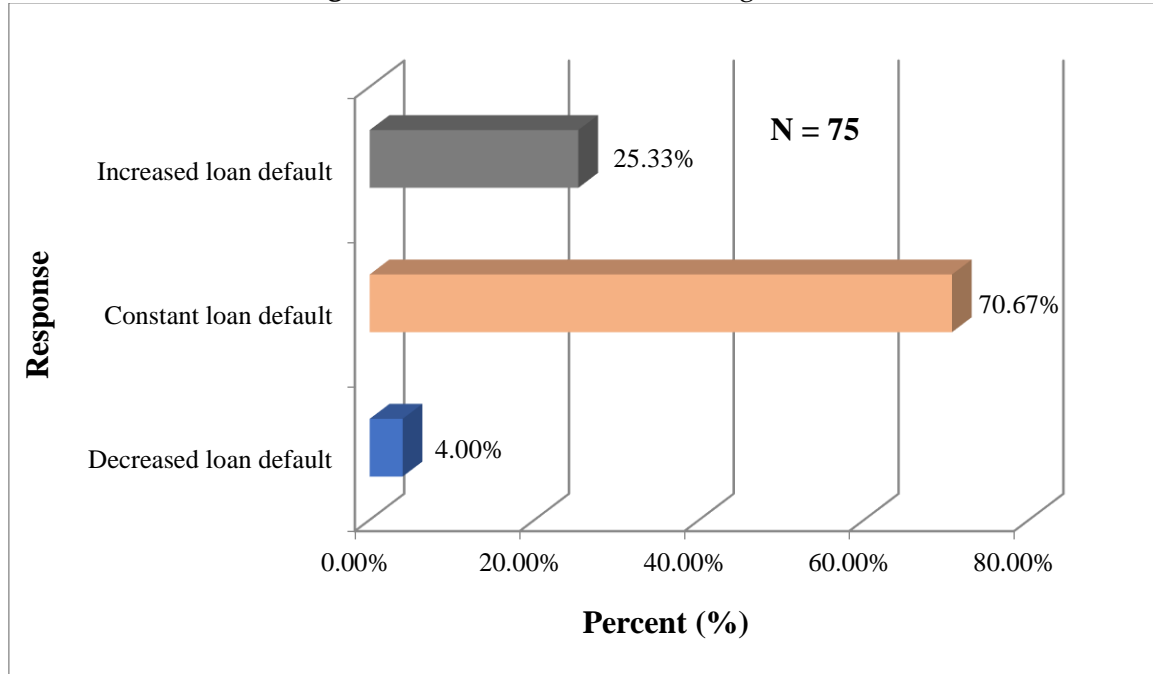
Theuri (2020) points out those cooperative societies will have to restructure loan repayment plans for members with the idea of offering grace periods. This directly affects the liquidity level of the societies and equally discourages the savings culture in the country.

EST₅: Loan defaults

It was in the interest of the study to examine loan defaults among the studied Sacco societies as might have been aggravated by the covid-19 pandemic shock. On average,

there was a slight increase in loan defaults compared to the same period last year. It is only 25.33 percent of studied societies recorded an increase in defaulted loans during the covid-19 pandemic shock while 70.67 percent had no changes in the default rate compared to a similar period last year as indicated in Figure 8.

Figure 8: Loan defaults rate during covid-19



Source: Research data (2020).

Mwangi (2020) observed that the coronavirus pandemic has led to a spike in loan defaults across Kenya’s banking industry due to increased costs linked to defaults, reduced business activity and shed jobs. For example, the total operating cost of Equity Bank during the first quarter rose by nearly 50 percent to Ksh. 12.8 billion with increased provisioning of Ksh. 3.1 billion on fears of more defaults in the wake of covid-19 cutting the lender’s first-quarter earnings by 14 percent to Ksh. 5.3 billion.

The study further analysed the extent to which the default rate had impacted on the non-performing loans. It was realized that most of the societies which experienced an increase in loan defaults had a dip of less than 10 percent accounting for 52.63 percent of the 19 Sacco societies which noticed an increase in loan defaults as shown in Table 6.

Table 6: Extent of loan defaults during covid-19 (N = 19)

| Response | Frequency | Percent | Comm. percent |
|--------------|-----------|---------------|---------------|
| > 10% | 10 | 52.63 | 52.63 |
| 10 - 30% | 4 | 21.05 | 73.68 |
| 30 - 50% | 3 | 15.79 | 87.47 |
| < 50% | 2 | 10.53 | 100.00 |
| Total | 19 | 100.00 | |

Source: Research data (2020).

These findings are in agreement with the SASRA report of 2017 which reported deterioration of the asset quality, measured by loan quality with the non-performing loan (NIL) ratio increasing to 6.14 percent in 2017 from 5.23 percent in 2016. That increase is reported to have been attributed to the spike in the NPLs among the community-based; private sector based and government-based Sacco societies which experience a relatively tough year. SASRA (2017) further reported that the increase in the NPLs with respect to the government-based DT-Saccos was directly associated with the ripple effects of delayed remittances of loan repayment deductions by the national and county governments as well as certain government institutions.

On the Sacco clusters, the Sacco societies which had recorded an increase in defaulted loans came from private-based Sacco societies followed by community-oriented societies and then farmer-based clusters in the proportions of 42.11, 26.31 and 15.79 percent respectively. There was a minimal impact of increased loan defaults in the teacher and government-based Sacco societies as Table 7 shows.

Table 7: Clustering increased loan default among the Saccos (N = 19)

| Sacco cluster | Frequency | Percent | Comm. Percent |
|----------------|-----------|---------------|---------------|
| Teacher Saccos | 1 | 5.26 | 5.26 |
| Private Saccos | 8 | 42.11 | 47.37 |
| Government | 2 | 10.53 | 57.90 |
| Farmer Saccos | 3 | 15.79 | 73.69 |
| Community | 5 | 26.31 | 100.00 |
| Total | 19 | 100.00 | |

Source: Research data (2020).

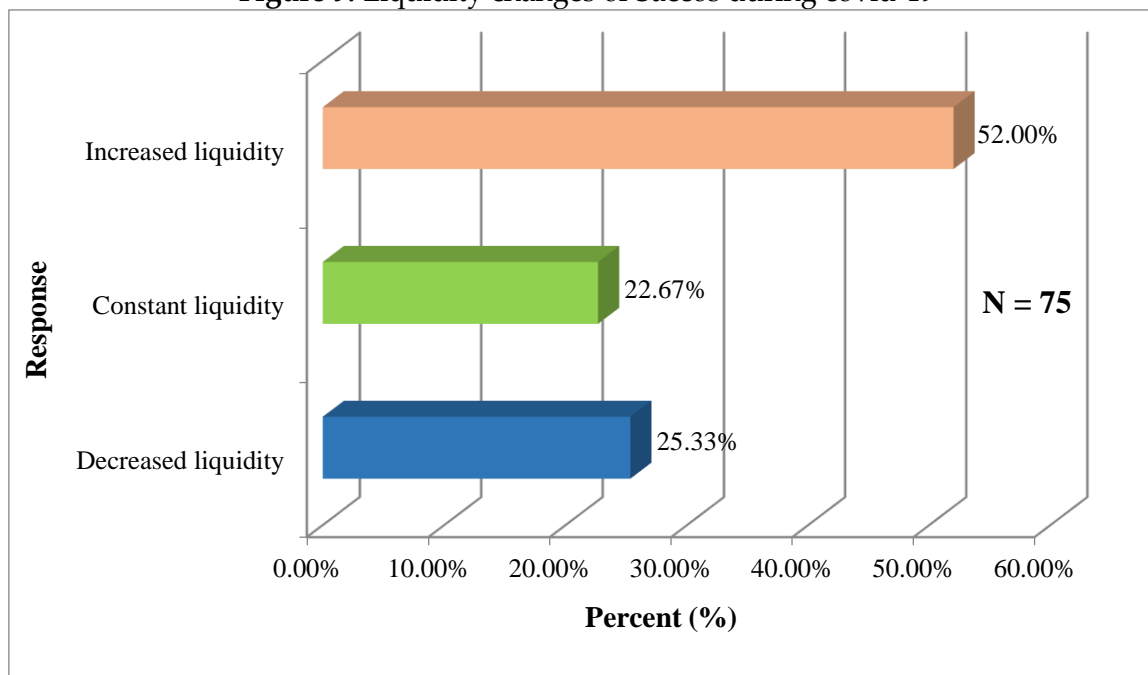
Branch (2020) posits that evidence of 2019-nCoV pandemic shock will start manifesting itself in the Sacco societies by liquidity starting to fall as people become delinquent and begins to default on loans and as people increase their withdrawals in order to access their savings to get them through the crisis. These warnings were confirmed by the study results which showed loan default and withdrawal notices increases in some Sacco societies.

EST6: Liquidity of Sacco Societies

The loan demand during covid-19 on average had declined in most of the Sacco societies as the study showed. Since loan demand is associated with liquidity, it was prudent to determine how covid-19 pandemic has impacted the liquidity of Sacco societies. The study discovered mixed results with some societies having high liquidity while others were experiencing a liquidity crunch during the pandemic period compared to their status last year at the same period.

Figure 9 shows that 52.00 percent of the 75 studied Sacco societies had increased liquidity while 25.33 percent had decreased liquidity as 17 Sacco societies out of 75 studied societies never experienced changes in their liquidity status during the coronavirus pandemic period as compared to a similar period last year.

Figure 9: Liquidity changes of Saccos during covid-19



Source: Research data (2020).

The study further examined the Sacco clusters for these societies which had an increase and decline in their liquidity during the covid-19 pandemic. The study found out that teacher-based Sacco societies had the highest increase in liquidity at 38.46 percent followed by government-based Sacco societies at 28.21. Consequently, the teacher-based societies had the least decline in liquidity together with government-based Sacco societies at 10.53 percent each. The societies which had the highest liquidity decline were private and community-based Sacco societies at 31.58 and 26.31 percent respectively. Also, farmer-based societies had a big dip in liquidity status during covid-19 pandemic compared to a similar period of time last year as Table 8 shows.

Table 8: Liquidity increase – decrease per Sacco cluster

| Sacco cluster | Increased liquidity | | | Decreased liquidity | | |
|---------------|---------------------|---------------|---------------|---------------------|---------------|---------------|
| | Frequency | Percent | Comm. Percent | Frequency | Percent | Comm. Percent |
| Teacher based | 15 | 38.46 | 38.46 | 2 | 10.53 | 10.53 |
| Private based | 4 | 10.26 | 48.72 | 6 | 31.58 | 42.11 |
| Government | 11 | 28.21 | 76.93 | 2 | 10.53 | 52.64 |
| Farmer based | 6 | 15.38 | 92.31 | 4 | 21.05 | 73.69 |
| Community | 3 | 7.69 | 100.00 | 5 | 26.31 | 100.00 |
| Total | 39 | 100.00 | | 19 | 100.00 | |

Source: Research data (2020).

The liquidity decline in the Sacco societies might have been exacerbated by poor loan repayments and reduced savings from the members during the covid-19 pandemic shock period (Ototo, 2020). This was perhaps because of the disruption of the livelihoods of the

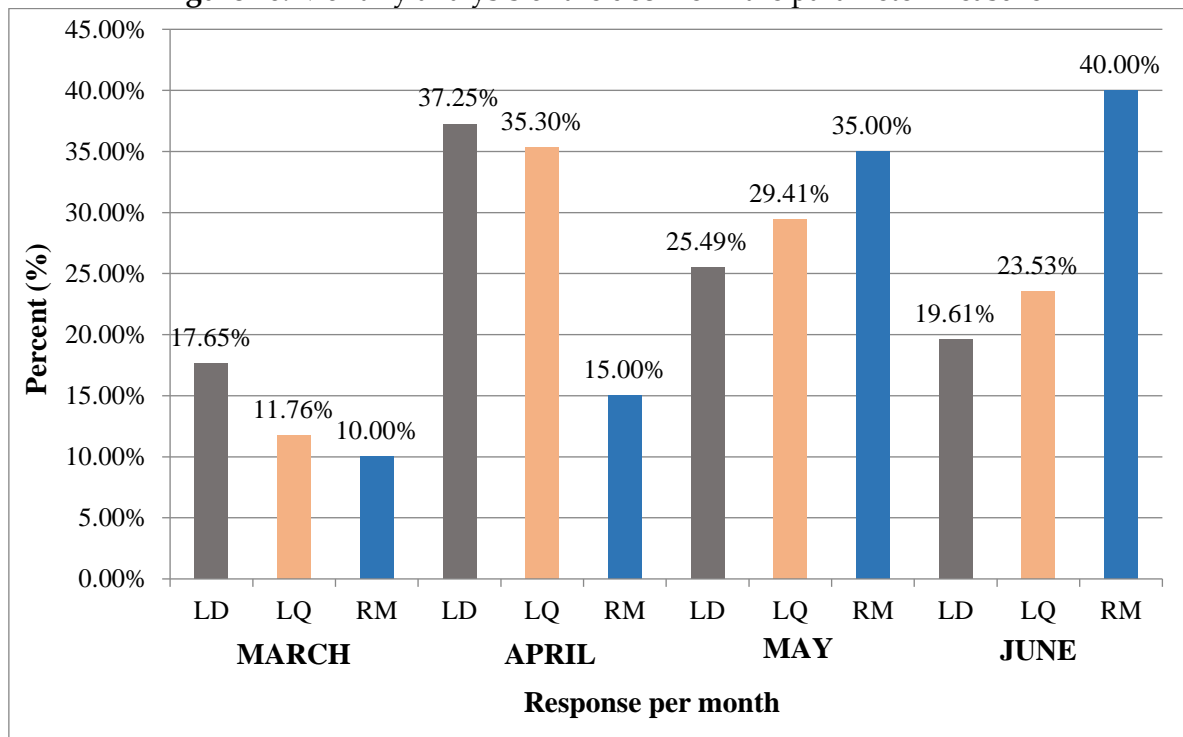
Sacco members which enable them to earn a living as covid-19 pandemic shock took a toll on their economic activities.

Branch (2020) also shares the same sentiments on the pandemic’s impact on Sacco societies in terms of increased provisions cost, decreased liquidity as loan default and savings withdrawals increase as well as decreased income on the loan portfolio. Branch (2020) posits that evidence of 2019-nCoV pandemic shock will start manifesting itself in the Sacco societies by liquidity starting to fall as people become delinquent and begins to default on loans and as people increase their withdrawals in order to access their savings to get them through the crisis. These warnings were confirmed by the study results which showed loan default and withdrawal notices increased in some Sacco societies.

EST7: Monthly proportion of the decline in loan demand, liquidity and remittance

The study examined the proportion of the decline in loan demand, liquidity reduction as well as Sacco deduction remittance dip in the four months period of March, April, May and June during which the Covid-19 pandemic shock impacted the Sacco societies. The study found out that the months of April and May had the highest percentage of decline in loans demanded and reduced liquidity while remittance was on a declining trend with a spike in the months of May and June as Figure 10 shows.

Figure 10: Monthly analysis of the decline in the parameter measure



Key: LD – Loan demand, LQ – Liquidity, RM – Remittance

Source: Research data (2020).

Figure 1 showed that 51 Sacco societies out of the 75 studied experienced a decline in loans demanded while figure 9 illustrated the liquidity dip witnessed in 17 Sacco societies out of the 75 studied and figure 5 demonstrated that 40 Sacco societies had a reduction in

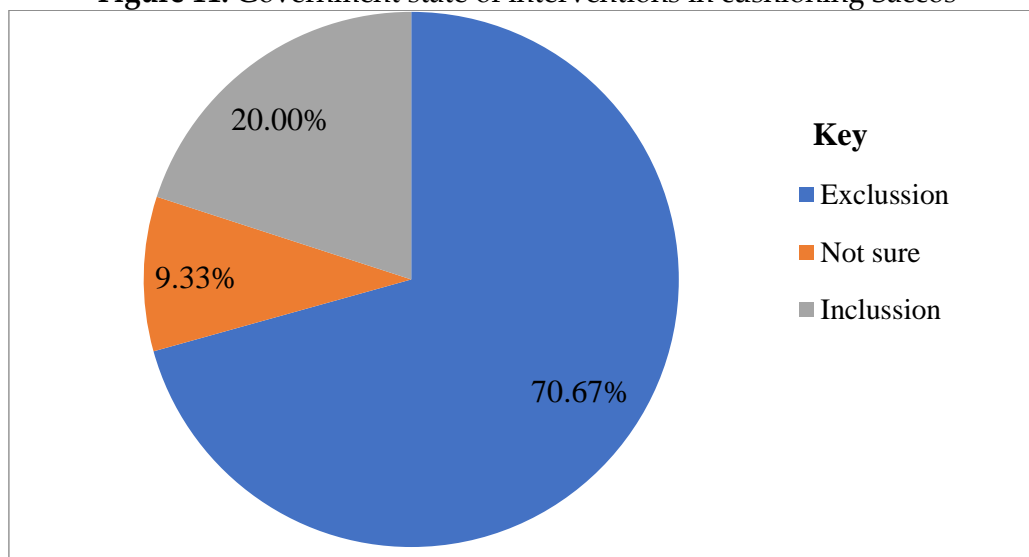
their remittance during the covid-19 periods of the months of March, April, May and June. A computation was then done to determine the percentage changes in each of the four covid-19 pandemic months as shown in Figure 10.

Loan demand took the highest dip of 37.25 percent in the month of April before gradually picking up in the month of May with a reduction of 25.49 percent which was actually a significant change in loan uptake of 11.76 percent. Liquidity of the Sacco societies was also lowest in the months of April with a reduction rate of 35.30 percent recording their lowest liquidity although an improvement in the liquidity status of most Sacco societies started picking up in the months of May and June at 29.41 and 23.53 percent respectively. Monthly remittances took a falling trend right from the month of March to June. However, the months of May and June registered the highest number of Sacco societies with declining monthly remittances as shown in figure 10.

EST₈: Government intervention status for Saccos

The study investigated whether the national government initiatives to cushion organizations against the impact of covid-19 Pandemic shock had roped in the Sacco societies. In the opinion of the majority of the respondents, they believed that there was very little if any that the government is doing to cushion the Sacco societies. Out of the 75 Sacco societies studied, 70.67 percent observed that the national government has excluded Sacco societies from a number of measures initiated to cushion businesses. However, 20.00 percent acknowledged efforts to support the Sacco Societies during the pandemic while 9.33 percent were not sure as shown in Figure 11.

Figure 11: Government state of interventions in cushioning Saccos



Source: Research data (2020).

The specifics that were mentioned by the respondents who felt that the government had excluded the Sacco societies were; non-classification of the societies as essential service providers, the national treasury ignoring including Sacco deductions as part of the pending bills on its directive for their clearance and the non-inclusion of Sacco

societies in the credit guarantee scheme system. Also cited by the respondents as evidence of the exclusion of Sacco societies by the government were Tax Laws (Amended) Bill 2020 and Finance Bill 2020 which had very little if any to cushion the societies from the covid-19 pandemic shock.

When state entities withhold Ksh. 3 billion of Sacco dues and failure to classify Sacco societies as “essential” by the government make these debtors not to prioritize payment of the societies dues. This as Iraki (2020) points out significantly affects the liquidity of these member-patronized financial institutions. Exclusion of Sacco societies from the definition of “essential” prohibits them from providing these necessary and often life-saving services. Credit unions should not be arbitrarily left to die because they were omitted from the definition of bank or financial institutions (Price, 2020).

Ototo (2020) equips that if the government entities were to clear arrears, all Sacco societies would be financially empowered to meet the demands of their members throughout the crisis. The second evidence where Sacco societies have been excluded by the government is a credit guarantee scheme for Small and Micro Enterprises (SMEs). The Ksh. 3 billion as part of Ksh. 53.7 billion eight-point economic stimulus programme unveiled by the government will be injected into the SMEs as seed capital for these enterprises through a credit guarantee scheme. The funds will be disbursed to the owners of the SMEs through the commercial banks’ system of lending and not including Sacco societies. Njoroge (2020) outlines that under the credit guarantee scheme, the government will pay part of the loans taken by SMEs, thus enabling commercial banks to extend more loans to small businesses at lower rates.

If the government could have given a portion of the Ksh. 3 billion to specific Sacco societies more especially the trade-oriented Sacco societies which would consequently advance to their members who own small business enterprises it would help cushion the Sacco societies from a liquidity crunch exacerbated by covid-19 pandemic shock. Njoroge (2020) posits that having a credit guarantee scheme in place will ensure that banks lend to risky borrowers, including SMEs without fearing default leverage that exclusion of Sacco societies from exposing them to the risks of loan defaults and liquidity crunch.

The Tax Laws (Amendment) Bill, 2020 and Finance Bill 2020 had very little if any to cushion the Sacco societies from the covid-19 pandemic shock. Even though the commission and fee tax (corporation tax) were reduced from 30 to 25 percent, the two bills gave Sacco societies a wide-birth. The 5 percent reduction from the commission and fee charged tax is immaterial since it is charged on income from other operations such as loan forms fee and also, it’s charged to only 50 percent of income from other operations.

EST₉: Response strategies on covid -19 shock by Saccos

The study established a number of response strategies executed by the Sacco societies in response to the covid-19 pandemic shock. The strategies included; restructuring loans to their members, restricting long-term borrowings, developing of new products, loan rationing and negotiating with their lenders such as Kuscco and even the commercial banks to restructure loans that had been given to some Sacco societies. Risk transfer mechanisms are also some of the tools societies are using by provisioning more money

for doubtful debts. The societies have also reduced access to more external loans from banks and other agencies as some societies file withdrawal notices of their investments from bodies such as Kuscco, a cooperative bank among others.

Recapitalization of surplus has as well been used by the Sacco societies to share up capital in mitigating against the coronavirus pandemic shock aggravating cash crunch in these thrift non-bank financial institutions. As commercial banks such as Equity Group and NCBA Group rescind their earlier dividend announcements, some Sacco societies have suspended dividend payments due to liquidity reel associated with the 2019-nCoV pandemic shock. The commercial banks that have cancelled their earlier proposed payouts have said the decision was made after a fresh assessment of the impact of the pandemic on their earnings and capital position.

4. Conclusion

Following the revelations of the study findings, it's evidenced that most of the Sacco societies are facing a dire liquidity crunch with depressed savings, low appetite for Sacco loans, ballooning non-remittance dues by institutional organizations and spiking withdrawal by Sacco members. The government is less sensitive to the plight of Sacco societies by not establishing interventions geared towards protecting the societies in the wake of covid-19 pandemic and yet these thrift entities have very good grass-root networks touching some of the most valuable groups being impacted on by covid-19 pandemic shock.

5. Recommendations

The paper wishes to make the following recommendations based on the study findings;

- The vulnerability of the Sacco societies in the wake of covid-19 pandemic shock requires immediate external interventions such as the credit guarantee schemes to cushion Sacco societies from the risk of loan default and at the same time improve their liquidity position.
- The perennial non-remittance of Sacco deductions by institutional organizations needs to be addressed urgently by developing new regulations to deter government organizations and private employers from unnecessarily holding members' savings and other dues.
- The community, private and farmer-based Sacco societies seemed to be adversely affected by the covid-19 Pandemic shock compared to the teacher and government clusters of Sacco societies. This may be due to the differential sectoral impact of covid-19 and the weak financial framework of those Sacco societies to withstand any shock hence consolidation of Sacco societies should be seriously discussed to form entities which are strong enough to withstand shocks.

Conflict of Interest Statement

We as the authors declare no conflict of interest.

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