EFFECTS OF LENDING INTEREST RATES ON PROFITABILITY OF SAVINGS, CREDIT AND COOPERATIVE SOCIETIES IN KENYA

BY

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ABSTRACT

The study sought to investigate the relationship between the lending interest rate and profitability of Credit Savings and Cooperative Societies in Kenya. The study randomly sampled 20 Saccos whose net profits and lending interest rates formed a fundamental component of analysis.

The study set a singular objective of establishing the relationship between the lending interest rate and profitability of the Saccos.

In an attempt to meet the research objective, the researcher developed a negated hypothesis that, there is no significant relationship between lending interest rates and profitability. From data analysis procedures that involved correlation and regression analysis and especially the analysis of the variance (ANOVA), the negated hypothesis was rejected hence the alternate hypothesis was accepted by the researcher that there is a significant relationship between lending interest rates and profitability of Saccos. From this study, the lending interest rate Saccos is positively correlated with profitability. This implies that they move together. It is therefore imperative that lending interest rates of Saccos cannot conform to economic theory, such that they are left to be determined by forces of demand and supply of loanable funds.

From Keynes (1937) theories of preference and loanable funds, it postulates that interest rates depend on the demand and supply for money. This position is consistent with classical theory (Marshall 1990) that the equilibrium price of lending money should be determined by market forces of demand and supply.

It would be worthwhile for Sacco management in Kenya to slightly increase the lending rate as this will increase profitability without impacting negatively the demand side of the loanable funds. This is fundamental if the Saccos in Kenya will pursue profitability as a key variable in their overall objectives.

This study finding as a complete departure from conventional economic theory supporters like, Mwega et al (1990) and Macharia (1995), who argue for lowering lending interest rates as a means of positively impacting profitability, through increased investments hence increased present consumption.