EFFECTS OF UNSECURED COMMERCIAL BANK LOANS ON SERVICES OFFERED BY SACCOs WITH FOSAs IN KENYA

PRESENTED BY:

GLADYS WANJIKU MWANGI

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ……………………………………..Date:…………………………………

GLADYS WANJIKU MWANGI

REG NO: D61/63050/2011

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

Signature……………………………………….….Date…………………………………..

DR. ADUDA

SENIOR LECTURER AND CHAIRMAN DEPARTMENT OF FINANCE AND ACCOUNTING: UNIVERSITY OF NAIROBI

DEDICATION

The research project is dedicated to my loving Son Dan Kariuki and My niece Millicent Njeri. This work should serve as role model to motivate them to work hard and heighten the education standards within the family. I love you all and may God Almighty continue showering you with his blessings.

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Last but not least, I will earnestly thank my colleagues and work mates for their understanding, encouragement and support during my study period. My God bless you all and expand your boundaries to untold limits.

ABSTRACT

Competition in the financial sector in Kenya is growing more intense and fierce. Saccos have operated a closed-shop type of business enjoying almost monopoly power on its market niche of teachers without any competition from other financial institutions. This has made the Sacco to relax and forget to continuously advertise its product, diversify its services and improve their quality as well as innovate new products. Today, Saccos have been caught unaware by commercial banks that have aggressively penetrated into its business circles by introducing the unsecured loans targeting members of public including members of Saccos. The study is motivated by rivalry and competition in the Sacco sector which is causing ripples in the Sacco business that the electronic press and print media had described and put as, "Banks battle it out for potential customers with Saccos. There has been contradictory opinion among researchers on the effects of unsecured commercial bank loans on Saccos.

The purpose of this study was to establish the effects of unsecured commercial bank loans on services offered by Saccos with Front office saving account (FOSAs) in Kenya. This study was conducted through the use of a descriptive design. The study used purposeful sampling to pick thirty eight (38) Saccos that have been licensed by SASRA in Nairobi County and census approach for all the 43 commercial banks in Kenya. Secondary data for the period (2008-2012) was exposed to sensitivity analysis using OLS regression.

The study found that there were several factors influencing the Sacco lending, which are unsecured commercial banks loans, interest rate and inflation. They either influenced it positively or negatively. The study concludes that unsecured commercial banks loans have a strong negative but significant influence on the Sacco lending in Kenya. The study recommends that the Saccos management should also come up with structured solutions and strategies such as international diversification to mitigate the effect of unsecured commercial banks loans. Saccos to come up with strategies and products to assist them cope with these challenges such as extending to alternative markets from what they had predominantly served and diversifying their product range. Saccos should develop credit procedures, policies and analytical capabilities and these efforts should be expanded into full credit management including origination, approval, monitoring and problem management tailored to the needs of each Sacco.

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LIST OF ABBREVIATIONS

ALP	-	Action Learning Project
BOSA	-	Back Office Saving account
CBK	-	Central Bank of Kenya
WSF	-	Withdraw able Saving Account
COPAC	-	Co-operative and Policy Alternative Center
FOSA	-	Front Office Savings Account
Ip	-	Investment Portfolio
Ir	-	Interest Rate
Lr	-	Liquidity Ratio
PWC	-	Price Waterhouse Coopers
Rr	-	Requirements Ratio
SACCO	-	Savings and Credit Co-operative
SASRA	-	Sacco Societies Regulatory Authority
SPSS	-	Statistical Package for Social Scientists
UK	-	United Kingdom
USA	-	United States of America
Vd	-	Volume of Deposits

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The increase in the demand for financial services has brought changes to cooperative societies as a factor in financial, economic and social science disciplines to the extent that over the years, local and international organizations have continued to explore the best modalities in the application of cooperative concept to almost every area of the economic needs of individuals at urban and rural areas (Munyiri, 2006). This may have necessitated the declaration of the year 2005 as the international year of microcredit and the year 2012 as the international year of cooperatives by the United Nations General Assembly (Co-operative and Policy Alternative Center (COPAC). 2012).

760 million people around the world are members of Saccos. Sacco members make up 29% of the population of Argentina, 33% of Norway and 40% of the USA. Saccos provide 100 million jobs worldwide. Sacco businesses are among the largest and most successful in the world. Co-operatives play a major role in resources mobilization, agro-processing and marketing of agricultural produce. The movement plays an important role in wealth creation, food security and generation of employment and therefore alleviating poverty (Ofei, 2001). From the foregoing it is evident that the cooperative movement is of strategic importance in encouraging national savings and development of the country. Changes that occur in the co-operative sector therefore affect the development of the country and the general welfare of the members (Muruana, 2007).

1.1.1 Services offered by SACCOs

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community. COPAC (2005) defines a co-operative as an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly-owned and democratically-controlled enterprise organized and operated on co-operative principles.

A Savings and Credit Co-operatives membership is open to all who belong to the group, regardless of race, religion, color, creed, and gender or job status. These members agree to save their money together in the Sacco and to extend credit to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other (Hartungi, 2007).

All Saccos operate Back Office Service Account and have been able to mobilize over Kshs 180 billion, which is about 31 percent of the national saving and granted loans to the tune of Kshs 120 billion. Saccos have registered tremendous growth since mid 70s and have currently achieved an average growth rate of 25 percent per year in deposits and assets. Saccos have also created employment for Kenyans thus contributing to the government's efforts of achieving the goals of vision 2030. Saccos have grown tremendously and currently have 3.7million members. The 200 Saccos with FOSAs have diversified into specialized bank like activities which include deposit taking, saving facilities, debit card business (ATM) and money transfers both local and international. According to Kenya Union of Saving and Credit Cooperative society (KUSCO, 2012), the shift of the most bank lending behaviour in the recent past to include unsecured loans has affected the operation of Saccos. These services offered by the Saccos compete with those offered by commercial banks which are: savings accounts, credit cards, ATM networks, Safe Deposits boxes, night safes, debit cards, deposit accounts, personal loans, business loans and custodial and trustee services (Kinuthia, 2007).

Credit services offered by Saccos are Normal loans, Emergency loans, Top up and School fees loans. Saving services include Back Office Saving account (B.O.S.A), Front Office Saving Account (F.O.S.A) and Withdraw able Saving Account (WSF). The study is intends to investigate the effects of unsecured loans provided by commercial banks on credit and saving services of Saccos in Kenya.

1.1.2 Unsecured Commercial Banks Loans

In recent years, retail banking has increasingly gained popularity in Kenya due to various changes in the market especially the inclusion of unsecured loans that were previously a preserve of the Saccos (PWC, 2007). Unsecured lending, specifically personal loans were mostly marketed to the low income earners in the 1990s. The profile of customers taking up personal loans has changed over time. Unsecured credit has been growing at a far higher rate than secured credit, more so since the implosion in the mortgage market in 2008 (World Bank Survey, 2012). Various commentators and government representatives recently expressed concern about the rapid growth of this portfolio over the last few years especially the personal loans and commercial papers. Commercial paper is a money-market security issued (sold) by large corporations to get money to meet short term debt obligations (for example, payroll), and is only backed by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized rating agency will be able to sell their commercial paper at a reasonable price (Stepek, 2009).

Lending which may be on short, medium or long-term basis is one of the services that commercial banks do render to their customers. In other words, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them embark on investment and development activities as a mean of aiding their growth in particular or contributing toward the economic development of a country in general. The banks and financial institutions require collateral to secure the advanced loan or credit. According to the Banking and Financial Institution Act [Act No. 12/91: Sec 37(3) and (5)], the banks are prohibited from granting or permitting unsecured advances unless such advances have been unanimously approved by all of its directors and have been notified in advance to the Central Bank of Kenya. However, this clause was changed with the CBK allowing the banks to issue unsecured loans to customers with good credit history. Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved) (Krige, 2012). There are small businesss unsecured loans such as credit cards and credit lines to large corporate credit lines. These may be available from financial institutions under many different guises or marketing packages: bank overdrafts, corporate bonds, credit card debt, credit facilities or lines of credit and personal loans.

Financial publications in Africa have put unsecured lending in the spotlight (Whitfield, 2011) as the Credit Regulator (Credit Regulator, 2012) question the unsecured lending growth that has taken place in the recent past. The Federal Trade Commission defines unsecured lending as a debt that is not tied to any asset. In this project, unsecured credit is considered to be credit that is not collaterized by any assets to which the creditor can have recourse in case of failure by the debtor to meet the credit obligations. The CBK views the following products as forms of unsecured lending: credit card; overdrafts; commercial papers, personal loans; and financing provided to small to medium enterprises (CBK, 2012).

1.1.3 Unsecured Commercial Bank Loans and Services offered by SACCOs

The major function of a Saving and Credit Cooperative Society is to receive contributions from members and give loans to members at competitive rates of interest. Saccos in Kenya are gradually responding to the fast changes in the financial environment and adopting new approaches to the Sacco model. Sacco membership is based on common bonds and knowledge about the borrower. These mechanisms, Saccos argue, have proven their ability to manage risk, enforce lending contracts and reduce the transaction costs of delivering credit (Ombado, 2010).

Until recently, Saccos have been able to retain their membership and attract new members through natural affiliation, stemming from the common bond among members. With increased competition from other financial service providers and other factors such as retrenchment, Sacco membership was on the decline prompting the Saccos to come up with strategies and products to assist them cope with these challenges. Some of these strategies include extending to alternative markets from what they had predominantly served and diversifying their product range (Evans, 2001). There is also a challenge of strong competition from the mainstream commercial banks which have increased their product range to both their clients and non-clients and their marketing techniques that ensures wide coverage and also lack of institutional capacity development (Gijselinckx & Devetere, 2007).

1.1.4 Unsecured Commercial Bank Loans and SACCOs in Kenya

The Sacco subsector is part of the massive Kenyan Co-operative movement comprising of both financial and non financial cooperatives (Ochoki, 2007). Saccos are the financial cooperatives while non financial cooperatives include Dairy, livestock, coffee, fishermen, housing, multipurpose and many others which have made their indelible mark to the lives of Kenyans. Being the largest in Africa, Saccos control 67% of the total assets and 62% of the total deposits for the entire continent (SASRA, 2012).

The uniqueness of the Sacco movement is its geographical distribution across Kenya. In all the 47 counties there are numerous Saccos providing financial access to hitherto financially excluded Kenyans. As envisioned in Kenya’s development blueprint, Vision 2030, Saccos are already playing their critical role of savings mobilization for investments. Many rural and urban Kenyans now own homes and other business enterprises courtesy of funds through their Saccos (Ombado, 2010).

Savings and Credit Co-operatives (Saccos) are associations of people who have come together with common goals geared at improving their livelihood economically. They are an important part of the financial sector in Kenya, providing savings, credit and insurance services to a large portion of the population. The Kenya Sacco sub-sector comprises both deposit taking and non deposit taking Saccos (Ndung’u, 2010). There were 5,544 registered Saccos in Kenya as at December 31st 2010. Out of the 3,983 active Saccos in Kenya 218 or 6% operate FOSAs that is they are deposit taking. The rest or 84% do not have FOSAs.

The successes and rapid growth of Saccos has begun to reveal a number of basic flaws in the products they offer. In particular, the inherent liquidity problems of many Saccos (they commonly offer loans equal to three times the savings balances of members) has led a small subset of them (179 at the last count) beginning to raise additional voluntary but more liquid savings deposits from members and even some non-members through the so-called Front Office Savings Activity (FOSAs). However, at the same time the high levels of NPLs and the poorly regulated use of the large deposit balances constitutes a serious risk to financial stability that could easily become systemic (Ng'ombe & Mikwamba, 2004). A number of the larger deposit taking Saccos are already of a size that ranks them alongside mid-sized commercial banks and they warrant the same international-standard regulation that already applies in the case of banks (Ademba2010). According to the Kenya economic report 2009, of the 20 million Kenyan adult population 22.5% are served by commercial banks and MFIs while 17.6% are served by Saccos. Due to this large coverage and focus on small income class it made it imperative for Saccos to be regulated (Gardeklint, 2009).

1.2 Statement of Problem

Competition in the financial sector in Kenya is growing more intense and fierce (Ndung'u, 2010). For a long period Saccos have operated a closed-shop type of business enjoying almost monopoly power on its market niche of teachers without any competition from other financial institutions. This has made the Sacco to relax and forget to continuously advertise its product, diversify its services and improve their quality as well as innovate new products. Today, Saccos have been caught unaware by commercial banks that have aggressively penetrated into its business circles by introducing the unsecured loans targeting members of public including members of Saccos.

Many studies in this area had concentrated on efforts on the shortcomings of the cooperative laws in general and the lending policies in particular in the promotion, development and operations of the Saccos and their negative effect, on the Sacco role and impact in the mobilization of savings (Sharma, 2006; Muruana, 2007). They have ignored the aspect of liberalization and globalization which has brought new changes which has made the financial sector more competitive. The study is motivated by rivalry and competition in the Sacco sector which is causing ripples in the Sacco business that the electronic press and print media had described and put as, "Banks battle it out for potential customers with Sacco”. There has been contradictory opinion among researchers on the effects of unsecured commercial bank loans on Saccos. While Muruana (2007) indicated that the Saccos have shown a constant level of increased performance in both the profitability and membership, Okundi (2011) observed that Sacco suffered challenges as Members of the Saccos preferred loans from the bank to the ones from the Saccos because the amount of loan awarded is not pegged on saving as is the case in Saccos.

Locally, Okundi (2011) did a study on the financial challenges facing savings and credit co-operative societies in Kenya the case of Saccos in Nairobi, Lwanga (2011) did a study on the strategic responses of Saccos to changing competitive business environment: a study of Kussco affiliated Saccos in Nairobi County while Njoroge (2012) did an analysis of factors influencing adoption of innovation strategy among Saccos registered in Nairobi with the sacco societies regulatory authority. None of these studies focused on the effects of unsecured commercial bank loans on services offered by savings and credit cooperative societies in Kenya. The main objective was to establish whether the unsecured loans have effects on the financial services provided by Saccos with a view of coming up with recommendations that could help the Saccos to develop strategies and policies to enable it compete effectively with commercial banks.

1.3 Objectives of the Study

1.3.1 General objective

The aim of the study was to establish the effects of unsecured commercial bank loans on services offered by Saccos with FOSAs in Kenya

1.3.2 Specific objective

i. To determine the types of unsecured loans offered by commercial bank in Kenya
ii. To assess the effect of unsecured commercial bank loans on services offered by SACCOs with FOSAs in Kenya

1.4 Significance of Study

The new constitutional dispensation also places responsibility on the citizens through a devolved government system will also indirectly addresses the challenges facing the Sacco subsector. The county system will also require financial provider's including Saccos to be competitive enough in order to attract resources at the county level. This study was important to the Saccos management as they are able to know for certain unsecured commercial bank loans offered and how they have affected their loan services which will help in shaping their operations and how they affect performance.

The study has also enlightened the Sacco members on the services offered by the banks and how they affect their Saccos performance. This helps them give suggestions to the Saccos management on what they can do to enhance their competence and give the Saccos an upper hand to the unsecured commercial bank loans.

The study provided an avenue for researchers to conduct future studies on a subject related to this. The study will also highlight other important relationships that require further research; this would be in the areas of relationships between firms' product innovations and their impact on performance. Other researchers interested in the problem under this study will also benefit, as the research will lay a platform on which further research on the topic can be undertaken.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this second chapter, relevant literature information that is related and consistent with the objectives of the study is reviewed. Important issues and practical problems are brought out and critically examined so as to determine the current facts. This section is vital as it determines the information that link the current study with past studies and what future studies will still need to explore so as to improve knowledge. The literature is mainly on the effects of unsecured commercial bank loans on services offered by Savings and Credit Cooperative Societies. The specific areas covered include theoretical review, empirical review, general review and finally conclusion or chapter summary.

2.2 Review of Theories

This section focused on the various theories guiding the study by specifically discussing the Loan Pricing Theory, Hold-up and Soft-Budget-Constraint Theories, The Signalling Arguments and finally the Credit Market Theory.

2.2.1 Loan Pricing Theory

This theory explains why it is not prudent for banks to set very high interest rates to optimize profit from loan sales. If banks set up very high interest rates, they could induce the problem of adverse selection and moral hazard by attracting borrowers with very risky projects into their portfolio. The high interest rates would later act as an incentive for the risky borrowers to consider adding more risk to their investment portfolio due to high affinity for high returns (Chodechai, 2004).

Banks cannot always set high interest rates, e.g. trying to earn maximum interest income. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz, 1981). If banks set interest rates too high, they may induce adverse selection problems because high-risk borrowers are willing to accept these high rates. Once these borrowers receive the loans, they may develop moral hazard behaviour or so called borrower moral hazard since they are likely to take on highly risky projects or investments (Chodecai, 2004). From the reasoning of Stiglitz, it is usual that in some cases we may not find that the interest rate set by banks is commensurate with the risk of the borrowers.

2.2.2 Hold-up and Soft-Budget-Constraint Theories

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget-constraint problems. According to the hold-up literature, sharing lending avoids the expropriation of informational rents. This improves firms' incentives to make proper investment choices and in turn it increases banks' profits (Von Thadden, 2004).

As for the soft-budget-constraint problem, multiple-bank lending enables banks not to extend further inefficient credit, thus reducing firms' strategic defaults. Both of these theories consider multiple-bank lending as a way for banks to commit towards entrepreneurs and improve their incentives. None of them, however, addresses how multiple-bank lending affects banks' incentives to monitor, and thus can explain the apparent discrepancy between the widespread use of multiple-bank lending and the importance of bank monitoring.

But according to Carletti et al (2006), when one considers explicitly banks' incentives to monitor, multiple-bank lending may become an optimal way for banks with limited lending capacities to commit to higher monitoring levels. Despite involving free-riding and duplication of efforts, sharing lending allows banks to expand the number of loans and achieve greater diversification. This mitigates the agency problem between banks and depositors, and it improves banks' monitoring incentives. Thus, differently from the classical theory of banks as delegated monitors, their paper suggested that multiple-bank lending may positively affect overall monitoring and increase firms' future profitability.

2.2.3 The Signalling Arguments

The signalling argument states that good companies should provide more collateral so that they can signal to the banks that they are less risky type borrowers and then they are charged lower interest rates. Meanwhile, the reverse signalling argument states that banks only require collateral and or covenants for relatively risky firms that also pay higher interest rates (Chodechai, 2004).

2.2.4 Credit Market Theory

A model of the neoclassical credit market postulates that the terms of credits clear the market. If collateral and other restrictions (covenants) remain constant, the interest rate is the only price mechanism. With an increasing demand for credit and a given customer supply, the interest rate rises, and vice versa. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium (Ewert et al, 2000).

2.3 Empirical Studies

A lot has been reviewed in terms of lending activities of various commercial banks. Some opinions deliberated on the factor responsible for banks willingness to extend much credit to some sector of the economy without security, while some discussed effect of such extension of such credits on productivity and output.

Finscope (2009) observed that the credit landscape in South Africa has changed such that commercial credit providers, including banks, are able to charge higher interest rates on short-term unsecured loans to poor citizens. As a result they can make money from extending lots of loans to lower income groups through unsecured 'high-risk' loans, as opposed to just extending less risky and thus less profitable loans to the propertied classes. Furthermore the banks have realized, as Graeber (2011) has argued for the USA, that it is working people and students who typically comply with the ideology of repaying one's debts; one lesson from the continuing crisis has been that the rich in New York or London do not have to repay their debts if unsecured.

Ezirim (2005) further stressed that bank lending decisions without security generally are fraught with a great deal of risks, which calls for a great deal of caution and tact in this aspect of banking operations. The success of every lending activity to a great extent therefore, hinges on the part of the credit analysts to carry out good credit analysis, presentation, structuring and reporting.

Olokoyo (2011) investigated the determinants of commercial banks' lending behaviour in the Nigerian context. The study aimed to test and confirm the effectiveness of the common determinants of commercial banks lending behaviour and how it affects the lending behaviour of commercial banks in Nigeria. The model used is estimated using Nigerian commercial banks loan advance (LOA) and other determinants or variables such as their volume of deposits (Vd), their investment portfolio (Ip), interest (lending) rate (Ir), stipulated cash reserve requirements ratio (Rr) and their liquidity ratio (Lr) for the period; 1980 – 2005. The model hypothesizes that there is functional relationship between the dependent variable and the specified independent variables. From the regression analysis, the model was found to be significant and its estimators turned out as expected and it was discovered that commercial banks deposits have the greatest impacts on their lending behaviour. The study then suggests that commercial banks should focus on mobilizing more deposits as this will enhance their lending performance and should formulate critical, realistic and comprehensive strategic and financial plans.

Chernykh and Theodossiou (2011) investigated the determinants of long-term lending by banks to firms in an emerging market using bank-level information from 881 banks in Russia. The variables of concern include bank size, capitalization, liability structure, risk taking, ownership type, managerial expertise and location of individual banks. The findings reveal that the size of the bank (measured by assets) and the bank capitalization are the only determinants of not only loans expended to businesses but also long-term loans. This is attributed to the fact that bigger and well capitalized banks can withstand the risks emanating from long-term lending. The study thus demonstrates that there are supply-side constraints to credit expansion, although it did not consider the role of collateral on bank lending levels.

Ewert et al. (2000) study the determinants of bank lending performance in Germany using credit file information of 260 medium-sized firm borrowers for the period 1992-1998. The study aims at testing the several theories relating collateral to interest rate premiums and therefore lending performance, using a random effects model on panel data analysis to eliminate the borrower and time-specific effects. Two models were estimated with interest rate premiums and probability of distress as the two predicted variables .Interest rate premium was set to be predicted in a random effects model by among other variables: collateral; bank relationships; bank firm rating; firm characteristic and firm size. The highlight of this study's finding was that interest rate premium increased with rise in the collateral pledged. This was contrary to the signaling and firm characteristics theories above, where we would expect higher interest rate premium for firms pledging little or no collateral. However, estimation of distress probabilities of the same firms revealed that more collateral and covenant in credit contracts lead to lower distress probabilities. Combining the above results, the study gives controversial finding that riskier credit contracts are assigned lower interest rate premiums by banks.

Panagopoulos and Spiliotis (1998) study the determinants of commercial banks lending behaviour to commercial firms in Greece by inferring on the Post-Keynesian notion that banks lend money for purposes of execution of production activities by firms. The study uses firm expenses as well as general macroeconomic monetary indicators to predict the level of loan advances to industrial, hand craft and trade companies in Greece. The loan predictor variables are last period loan amount, employment costs or wage bill, corporate tax expenses, deposits

Nwankwo (2000) observed that the Ugandan social and economic context is quite distinguishable from the South African one. It is therefore not surprising that the financial sectors in these two countries differ significantly. Specifically with regard to unsecured lending, the view of this ALP is that in Uganda, though lending to households and individuals grew by 40.4% in 2011 (Bank of Uganda), reversing the decline of 11.8% in 2010, there remains a much greater focus on unsecured loans to small businesses, as opposed to individuals. Unlike in South Africa where individuals have a huge appetite for unsecured credit to fund life style costs, in Uganda, unsecured credit is sought and advanced for small to medium enterprise needs such as start-up and working capital, cash flow, production costs. This may be because of the high unemployment rate and poverty levels as a result of which many people, including employed people, run small businesses as a source of primary or secondary income.

According to the latest quarterly UK Family Finances report from Aviva (Family Finances, 2012), there has been an increase in unsecured debt and mortgage debt, while savings levels have continued to stall. The average amount that families in the UK borrow through credit cards, personal loans and overdrafts has shot up between May and July 2012, rising from £9,314 to £10,563. At the same time the typical family's savings fell to £1,131 from £1,228 over the same period. Whilst statistical evidence indicates that the growth in unsecured lending was driven by middle to high income earners; there is a persistent negative public perception that the industry has been reckless and exploitative in lending to the lower segment. The industry needs to communicate the correct position in a far better way and re-affirm the fact that they have extended funding to the lower income groups in an ethical and fair manner. The industry needs to also emphasize the fact that more people have migrated from the informal banking sector to a regulated and safe environment than in the past

Okundi (2011) did a study on the financial challenges facing savings and credit co-operative societies in Kenya the case of Saccos in Nairobi. The objective of the study is to establish if there is any threat to the business of Sacco’s by the banks with the competitive products that the commercial banks offer to members of co-operative Societies and how it affects the profitability of Savings and credit co-operative Societies. This study adopted a descriptive research design. The population of the study comprised of all Saccos in Nairobi, registered in the role of co-operatives. The data was collected through the use of Questionnaires which were circulated to the treasurers or managers of the Saccos sampled. Data was collated, coded summarized and then analyzed using the Statistical Package for Social Sciences (SPSS Version 17).

The study concluded that Sacco suffered challenges in meeting loan requests by the members partly due to the Long term investments they engage in. Members of the Saccos preferred loans from the bank to the ones from the Saccos due to the speed within which the loans are disbursed and also due to the fact that amount of loan awarded is not pegged on saving as is the case in Saccos. The study recommends that Saccos should change their mode of recovery of loans so that an equal amount is deducted every month until the loan is cleared besides introducing more products to its members such as vehicle Insurance premium financing so as to increase their profitability.

Lwanga (2011) did a study on the strategic responses of Saccos to changing competitive business environment: a study of Kussco affiliated Saccos in Nairobi County. The study objectives were to establish the strategic responses adopted by Saccos in response to changing competitive business environment to establish the challenges facing Saccos in the implementation of the strategies and a supplementary aim of determining if Saccos have control and feedback system to assess the effectiveness of the implementation of response strategies in competitive business environment of business. This study adopted a descriptive survey design. The target population comprised of all the 1,000 registered Saccos in Nairobi County Kenya a sample size of 100 of registered Saccos was used for this study. The study collected both primary and secondary data. A semi-structured questionnaire was used to collect data. The Statistical Package for Social Sciences (SPSS) was used for analysis of data and for descriptive analysis, percentages and frequency distributions were used.

The findings indicate that the majority of the Saccos were well established in Kenya and evaluated various strategies that were applied by the Saccos. The findings indicated that communication strategies have a role to play in enhancing the competitive strategy implementation in the Saccos. From the findings competition was rated the most serious challenge facing Saccos in Kenya followed by challenges from the legal and regulatory environment. The study concluded that response strategies used in the Sacco industry are important in helping an organisation improve their performance and competitive edge. This study recommended that Saccos should develop and improve on strategy support systems that are crucial and are the many routine activities that are performed in a company to keep it running smoothly.

Njoroge (2012) did an analysis of factors influencing adoption of innovation strategy among Saccos registered in Nairobi with the sacco societies regulatory authority. He observed that in Kenya, the Sacco industry faces a number of challenges in adoption of innovation strategies, among them; over capacity and price wars, poor corporate governance, inadequate legislative and strict regulatory framework, financially weak banking organizations and lack of awareness of banking knowledge, high cost of interest rate, corruption and fraud among the stakeholders and overdependence on traditional products. Njoroge indicated that the Saccos banks can drive innovation by taking a holistic approach geared toward enterprise-wide improvements, including refocusing on their distribution networks, developing and delivering products geared toward the burgeoning market, and understanding and realigning their business through analytics but can’t hit off without augmenting them with innovation strategies.

According to a study conducted by Moyo and Rohan (2006), borrowers deemed incapable of repayment of unsecured debt are considered uncollectible and of such little value that their continuance as active assets of the bank is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. As such, the interest rate is higher which push customers away from accessing it. No wonder commercial banks in low-income countries, whose own staff are often fervent Sacco participants, are concerned about the growing popularity of the financial self-help groups, and are now looking for ways to act in concert with the competition rather than ignoring it. Many savings collectors in Ghana, operating daily in markets and cities, now deposit their funds in banks (Steel, 1992).

Oloyede (1999) claimed that it is generally acknowledged that commercial banking by its nature is highly prone to volatility and fragility – whether arising from exogenous shocks or endogenous policy measures – and therefore, amenable to regulations and supervision". The forms of regulation vary, but in general, they embrace statutory regulations or rules of behaviour that may be administratively imposed or that can be guided through a market-oriented approach. One of such guidelines is Section 20 of Bank and Other Financial Institution Act (BOFIA) as amended which restricted the terms and amount of loans that can be given to banks insider. For instance, a bank is not allowed to grant unsecured credit facilities in excess of one year to any of his officers and employees.

According to Omara (2007), in his study of the credit assessment process and repayment of bank loans in Barclays Bank Uganda, the unsecured loans attract more interest than the secured ones. All loans above UGX20 million are secured by mortgage property. In this regard, credit was given up to 50-60% of the value of security offered by customer. Secured loans also attracted lower interest rates unlike the unsecured that costs between 24 - 38%. Unsecured loan was limited to a value of UGX 20 million and below.

While Korean banks have established their own Kyes (Kennedy, 1977) and Indian banks operate Chit Funds (Nayar, 1973), banks in Nepal, impressed by the performance of Dhikutis, have shown an interest in a linkage program (Seibel and Shrestha, 1988); the same is true for Indonesia (Seibel and Parhusip, 1992). In Bolivia, banks experiment with Pasanakus in housing mortgages (Adams and Canavesi de Sahonero, 1989) and in South Africa formal financial institutions are competing for Stokvel accounts (Lukhele, 1990). Bishis in Sangli, India, have accounts with banks (Bouman, 1989) and so do Kafo groups in The Gambia (Shipton, 1992).

According to Karimi (2012), the commercial paper market began a rapid growth in the 1970's and was followed by the growth of the bond market in the 1980's and 1990's.It was however seen as having reduced the role of banks in providing credit to large businesses. Commercial Paper made its debut in the Kenyan market back in 1994. The research design used in this study was the descriptive method. This method is preferred because it allows for the prudent comparison of the research findings. The study found that most investors in the commercial paper market purchase the paper at issuance and hold it until maturity. Hence, there is little trading of commercial paper in secondary markets. As a result, issuers usually finance the repayment of maturing commercial paper with newly issued commercial paper. However, the need to roll over maturing commercial paper generates the risk that investors may not be willing to finance maturing commercial paper.

2.4 Conclusion

Banks choice of multiple-bank lending is in terms of two inefficiencies affecting exclusive bank-firm relationships, namely the hold-up and the soft-budget-constraint problems. Credit landscape in South Africa has changed such that commercial credit providers, including banks, are able to charge higher interest rates on short-term unsecured loans to poor citizens. As a result they can make money from extending lots of loans to lower income groups through unsecured 'high-risk' loans, as opposed to just extending less risky and thus less profitable loans to the propertied classes.

There has been an increase in unsecured debt and mortgage debt, while savings levels have continued to stall. Whilst statistical evidence indicates that the growth in unsecured lending was driven by middle to high income earners; there is a persistent negative public perception that the industry has been reckless and exploitative in lending to the lower segment.

Sacco suffered challenges in meeting loan requests by the members partly due to the Long term investments they engage in. Members of the Saccos preferred loans from the bank to the ones from the Saccos due to the speed within which the loans are disbursed and also due to the fact that amount of loan awarded is not pegged on saving as is the case in Saccos. Communication strategies have a role to play in enhancing the competitive strategy implementation in the Saccos. From the findings competition was rated the most serious challenge facing Saccos in Kenya followed by challenges from the legal and regulatory environment.

Lending which may be on short, medium or long-term basis is one of the services that commercial banks do render to their customers. Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved). The forms of regulation vary, but in general, they embrace statutory regulations or rules of behaviour that may be administratively imposed or that can be guided through a market-oriented approach. The credit assessment process and repayment of bank loans in Barclays Bank Uganda, the unsecured loans attract more interest than the secured ones.

Most of the reviewed literature is from the developed countries whose strategic approach and financial footing is different from that of Kenya. Thus, there is a literature gap on the subject matter in the Kenyan situation. This study therefore will seek to fill this gap by establishing the effects of unsecured commercial bank loans on services offered by Saccos with FOSAs in Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology was presented in the following order, research design, data collection methods and finally the data analysis.

3.2 Research Design

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2007). Research designs are also known as research strategies (Bryman and Bell, 2003). This study will use descriptive survey. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2007).

3.3 Study Population

A population can be defined as the entire group of individuals having a common characteristic (Mugenda & Mugenda, 2003). The target populations of this study were the Saccos with FOSAs in Kenya and since there are 219 Saccos with FOSAs but only 66 have been licensed by SASRA to operate FOSAs. The target population also comprised of the 43 commercial banks in Kenya.

3.4 Sample Design and Procedure

From the 66 Saccos that have been licensed by SASRA to operate FOSAs, the study focused on thirty eight (38) Saccos that have been licensed by SASRA in Nairobi County using convenient sampling. Convenience sampling is a non probability sampling method used to maximize the time and effort placed on identifying the exact number of targeted population (Merriam, 2008). The convenience sample helped to gathering useful data and information that would not have been possible using probability sampling techniques, which required more formal access to lists of populations (Kombo, and Tromp, 2006). Nairobi has been selected as it is the center of Sacco activity as about 40% of all registered Saccos in the country are found here. Thus a sample study carried out here was a representative of all Saccos in the country. A census approach was used to pick all the 43 commercial banks in Kenya.

3.5 Data Collection

In this study emphasis was given to secondary data which was obtained from the financial results filled at the ministry of cooperative and development and on bank financial reports. The study used a five year period. The data included the actual financial statements data over five year period of 2008 - 2012.

3.6 Data Analysis

Statistical Package for sciences (SPSS version 21) was used as an aid in the analysis. It was preferred because SPSS has an ability to cover a wide range of the most common statistical and graphical data analysis and is very systematic. The data collected was run through various models so as to clearly bring out the effects of change in unsecured commercial banks loans on Sacco lending. The results obtained from the models were presented in tables to aid in the analysis and ease with which the inferential statistics was drawn. The under-mentioned model was used as was employed by Gijselinckx and Devetere (2007) who found that there is also a challenge of strong competition from the mainstream commercial banks which have increased their product range to both their clients and non-clients and their marketing techniques that ensures wide coverage and also lack of institutional capacity development. The model was:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where: Y = Sacco lending

β_0 = Constant Term;

$\beta_{1,}$ $\beta_{2,}$ β_3 = Beta coefficients;

X_1= unsecured commercial banks loans

X_2= Interest rate;

X_3= Inflation

ε = Error term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the information processed from the data collected during the study on effects of unsecured commercial bank loans on services offered by Saccos with FOSAs in Kenya. The sample composed of thirty eight (38) Saccos that have been licensed by SASRA in Nairobi County and 43 commercial banks in Kenya for the period (2008-2012).

4.2 Regression Results

The study conducted a multiple regression on the selected independent variables over the period 2008–2012 and loans offered by Saccos with FOSAs.

4.3.1 Year 2008 Analysis and Interpretations

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Sacco lending) that is explained by the three independent variables (Unsecured commercial banks loans, interest rate and inflation).

Table 4.1: ANOVA Statistics for 2008 Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.8483	0.7196	0.6352	3.71505

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.142E19	3	7.139E18	4.517	.0482[a]
	Residual	1.104E20	8	1.380E19		
	Total	1.318E20	11			

Table 4.2: Coefficients of 2008 Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.816E10	2.125E10		-.854	.418
	Unsecured commercial banks loans	-44.735	64.964	-.234	-.689	.511
	Interest rate	5.815E8	6.619E8	.371	.878	.405
	Inflation	-7.822E8	7.973E8	-.416	-.981	.355

The data findings from 2008 market statistics were analyzed and the SPSS output presented in table 1 and 2 above. From the ANOVA statistics in table 1, the processed data, which are the population parameters, had a significance level of .0482 which shows that the data is ideal for making a conclusion on the population's parameter. The coefficient table in table 2 above was used in coming up with the model below:

SL = -1.816E10 - 44.735Unsc + 5.815E8 IR - 7.822E8 INF

According to the model, only interest rate were positively correlated with Sacco lending while unsecured commercial banks loans and inflation was negatively correlated with Sacco lending. From the model, taking all factors (unsecured commercial banks loans, interest rate and inflation) constant at zero, Sacco lending will be -1.816E10. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in unsecured commercial banks loans will lead to a - 44.735 decrease in Sacco lending. A unit increase in interest rate will lead to a 5.815E8 increase in Sacco lending while a unit increase in unsecured commercial banks loans will lead to a - 7.822E8 decrease in Sacco lending. This infers that unsecured commercial banks loans had a negative effect on Sacco lending.

4.3.2 Year 2009 Analysis and Interpretations

Table 4.3: ANOVA Statistics for 2009 Data

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.9258[a]	0.8571	.7283	5.39044

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.658E19	3	5.527E18	5.190	.0394[a]
	Residual	2.325E20	8	2.906E19		
	Total	2.490E20	11			

Table 4.4: Coefficients for 2009 Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-5.188E9	1.342E10		-.387	.709
	Unsecured commercial banks loans	19.383	95.098	.076	.204	.844
	Interest rate	1.075E8	4.075E8	.100	.264	.799
	Inflation	6.697E8	8.870E8	.278	.755	.472

The data findings for 2009 statistics were processed using SPSS and the output presented in table

3 and 4 above. According to the ANOVA table 3 above, the parameters predicted in the table above had a significance level of 0.0394 which is inadequate to be used as a population parameter in predicting the effect of unsecured commercial banks loans on Sacco lending. The regression model drawn from table 4 above is presented below:

SL = -5.188E9 + 19.383Unsc + 1.075E8 IR + 6.697E8 INF

According to the table, the Sacco lending had an autonomous value of -5.188E9 that is when the value of all the independent variables is zero. A unit increase in unsecured commercial banks loans increases the Sacco lending by 19.383 when the inflation and interest rate variables are held constant. A unit increase in interest rate, holding other variables constant, increased the Sacco lending by 1.075E8. A unit increase in inflation, holding other variables constant, increased the Sacco lending by 6.697E8. This shows that all the three variables had a positive relationship with the Sacco lending with inflation having the greatest effect on Sacco lending.

4.3.3 Year 2010 Analysis and Interpretations

Table 4.5: ANOVA for 2010 Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.825[a]	.681	.562	2.72586E9

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.270E20	3	4.234E19	5.698	.022[a]
	Residual	5.944E19	8	7.430E18		
	Total	1.865E20	11			

Table 4.6: 2010 Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-6.109E8	3.145E9		-.194	.851
	Unsecured commercial banks loans	-34.567	45.285	-.174	-.763	.467
	Interest rate	-1.434E8	1.797E8	-.170	-.798	.448
	Inflation	1.887E9	4.689E8	.872	4.025	.004

From the finding of the study on the 2010 market statistics as analyzed and presented in the above table, the following regression equation was established by the study for the year 2010:

SL = -6.109E8 + -34.567 Unsc -1.434E8 IR + 1.887E9INF

From the findings of the data it can be concluded that when the value of unsecured commercial banks loans, inflation and interest rate were zero, Sacco lending was -6.109E8. The table also shows that holding inflation and interest rate constant, an increase by one unit of unsecured commercial banks loans decreases Sacco lending by -34.567, when other factors are held constant an increase in interest rate by one unit decreases Sacco lending by -1.434E8. If one unit of inflation was increased while holding other factors constant, the Sacco lending would increase by 1.887E9. This shows that the inflation has a positive relationship with Sacco lending while unsecured commercial banks loans and interest rate inversely affect Sacco lending, although the interest rate influences Sacco lending negatively most. Moreover, the model was arrived at a significance level of 0.022 which means that the model is adequate in drawing a conclusion on the population parameters.

4. 3.4 Year 2011 Analysis and Interpretations

Table 4.7: ANOVA statistics for 2011 Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.521	.511	4.06808

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.439E20	3	4.797E19	4.899	.0102[a]
	Residual	1.324E20	8	1.655E19		
	Total	2.763E20	11			

Table 4.8: Coefficients of model 2011

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.669E10	6.816E9		2.448	.040
	Unsecured commercial banks loans	-41.160	43.878	-.242	-.938	.376
	Interest rate	-3.098E8	3.718E8	-.229	-.833	.429
	Inflation	-5.559E8	2.005E8	-.725	-2.773	.024

The market data for 2011 was regressed on SPSS and the output presented in table 7 and 8 above. From the data analyzed and presented in the table above, the model for the year 2011 is presented below:

SL = 1.669E10 – 41.160 Unsc -3.098E8 IR -5.559E8 INF

According to the model above, holding unsecured commercial banks loans, interest rate and inflation constant at zero, Sacco lending will be 1.669E10. When the inflation and interest rate are held constant, a unit increase in unsecured commercial banks loans will decrease the Sacco lending by -41.160. When other factors are held constant, a unit increase in interest rate will decrease the Sacco lending by -3.098E8. The model also shows that inflation had a negative relationship with Sacco lending such that a unit increases in inflation holding other factors constant will lead to a decrease in Sacco lending of -5.559E8. From the above model it can be concluded that unsecured commercial banks loans, interest rate and inflation negatively influenced Sacco lending. From the ANOVA statistics table 7 above, it shows that the parameters in the model have a 0.0102 level of significance which shows that it is significant in predicting the effect of unsecured commercial banks loans on Sacco lending.

4.3.5 Year 2012 Analysis and Interpretations

Table 4.9: ANOVA Statistics for 2012

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.893[a]	.797	.720	2.36365E9

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.750E20	3	5.834E19	10.442	.004[a]
	Residual	4.469E19	8	5.587E18		
	Total	2.197E20	11			

Table 4.10: Coefficients of model 2012

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.870E9	2.268E9		-.825	.433
	Unsecured commercial banks loans	-1.959	22.645	-.014	-.087	.933
	Interest rate	4.609E7	1.357E8	.058	.340	.743
	Inflation	6.903E8	1.350E8	.870	5.113	.001

The data findings for 2012 were computed, analyzed and presented in table 9 and 10 above. According to the ANOVA statistics in table 9 above, the model had a significance level of 0.004 which means that the model is appropriate to be used as a population parameter. From table 10, the regression model is presented below:

SL =-1.870E9 - 1.959 Unsc + 4.609E7 IR + 6.903E8 INF

According to the regression model, when the values of unsecured commercial banks loans, interest rate and inflation are zero, Sacco lending will be -1.870E9. When unsecured commercial banks loans is increased by one unit, the Sacco lending will decrease by -1.959 while when interest rate is increased by one unit, the Sacco lending will increase by 4.609E7. The Sacco lending will also increase by 6.903E8 when the inflation is increased by one unit holding other factors constant. This shows that in this year, interest rate and inflation had a positive correlation with Sacco lending while unsecured commercial banks loans had a negative effect on the same.

4.4 Summary and Interpretation of Findings

From the above regression models for the five years, the study found out that there were several factors influencing the Sacco lending in kenya, which are unsecured commercial banks loans, interest rate and inflation. They either influenced it positively or negatively. The study found out that the intercept varied. The highest value was 1.67E+10 and the lowest was -1.82E+10 with an average of -1.83E+09 for all years. The study also found out that the coefficient of unsecured commercial banks loans varied from positive to negative. The highest regression value was negative with an average coefficient of -2.06E+01. This means that inflation negatively influenced the Sacco lending.

The study found out that the interest rate varied in value although it was positive in most cases except for 2011. This means that interest rate positively influenced the Sacco lending. The study further found out that the coefficients of the inflation to be negative in three out of the five regression models. This depicts that, according to findings, inflation positively influences the Sacco lending.

The three independent variables that were studied (Unsecured commercial banks loans, interest rate and inflation) explain only 71.5% of Sacco lending as represented by the average R^2 (0.715). This therefore means the three independent variables only contribute about 71.5% of Sacco lending decision while other factors not studied in this research contributes 28.5% of the Sacco lending decision.

There have been several studies carried out on the effect of unsecured commercial banks loans on Saccos but findings have to a large extent corroborated the findings on the effect of unsecured commercial banks loans on Sacco lending in Kenya. The study concludes that unsecured commercial banks loans have a strong negative influence on the Sacco lending in Kenya. My results are consistent with prior research by Ndung'u (2010) who observed that competition in the financial sector in Kenya is growing more intense and fierce and Saccos have been caught unaware by commercial banks that have aggressively penetrated into its business circles by introducing the unsecured loans targeting members of public including members of Saccos. According to the latest quarterly UK Family Finances report from Aviva (Family Finances, 2012), there has been an increase in unsecured debt and mortgage debt, while savings levels have continued to stall. The average amount that families in the UK borrow through credit cards, personal loans and overdrafts has shot up between May and July 2012, rising from £9,314 to

£10,563. At the same time the typical family's savings fell to £1,131 from £1,228 over the same period.

The findings are also consistent with Okundi (2011) who did a study on the financial challenges facing savings and credit co-operative societies in Kenya the case of Saccos in Nairobi and found that members of the Saccos preferred loans from the bank to the ones from the Saccos due to the speed within which the loans are disbursed and also due to the fact that amount of loan awarded is not pegged on saving as is the case in Saccos.

The study deduced that although the overall relationship between unsecured commercial banks loans and Sacco lending is negative, there are some cases showing positive relationship. Thus, the relationship between unsecured commercial banks loans and Sacco lending remains a controversial. This is in line with earlier studies that showed mixed results about the relationship between inflation and Sacco lending. While Muruana (2007) indicated that the Saccos have shown a constant level of increased performance in both the profitability and membership, Okundi (2011) observed that Sacco suffered challenges as Members of the Saccos preferred loans from the bank to the ones from the Saccos because the amount of loan awarded is not pegged on saving as is the case in Saccos.

From the findings, it can be observed that unsecured commercial banks loans affect Sacco lending negatively. Any time unsecured commercial banks loans raises borrowing from the Saccos reduce. However, the study deduced that the dummy variables, interest rate and inflation positively influence Sacco lending hence the conclusion of this study is that unsecured commercial banks loans have strong negative correlation with Sacco lending while interest rate and inflation have strong and positive correlation with Sacco lending. Therefore it will be important for a Saccos management to understand the relationship that exists between unsecured commercial banks loans, interest rate, inflation and Sacco lending and the direction that they affect the level of Sacco lending for effective decision making.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The secondary data in this analysis covered a period of 5 years from 2008 to 2012. The population of study comprised of 66 Saccos that have been licensed by SASRA to operate FOSAs and 43 commercial banks in Kenya. The purpose of the study is to investigate the effect of unsecured commercial banks loans on Sacco lending in Kenya.

This study was conducted through the use of a descriptive design. The study used purposeful sampling to pick thirty eight (38) Saccos that have been licensed by SASRA in Nairobi County and census approach for all the 43 commercial banks in Kenya for the period (2008-2012) which was exposed to sensitivity analysis using OLS regression.

The study found that the regression equations for the period 2008 to 2012 related Sacco lending of the companies to their unsecured commercial banks loans, interest rate and inflation. From the above regression models for the five years, the study found out that there were several factors influencing the Sacco lending, which are unsecured commercial banks loans, interest rate and inflation. They either influenced it positively or negatively. The three independent variables that were studied (Unsecured commercial banks loans, interest rate and inflation) explain only 71.5% of Sacco lending as represented by the average R^2. The study concludes that unsecured commercial banks loans have a strong negative but significant influence on the Sacco lending in Kenya. The study recommends that central bank should come up with policies which keep the level of unsecured loans offered by commercial banks under control so as to ensure continued existence of Saccos. Low inflation should also be encouraged as it is helpful for minimizing the uncertainties in the financial market which in turn boost the Sacco lending in the country. The management should also come up with structured solutions and strategies to mitigate the effect of unsecured commercial banks loans. These include international diversification, extending to alternative markets from what they had predominantly served, diversifying their product range and improve their quality.

5.2 Conclusions

This paper examines the effect of unsecured commercial banks loans on Sacco lending in Kenya. The study concludes that unsecured commercial banks loans have a strong negative influence on the Sacco lending in Kenya. The mainstream banking sector has changed its focus and now the target is, small savers who have been induced with personal loans hitherto the domain of Saccos. At a time when Kenyans, especially retail customers are being literally begged for business by commercial banks, the once powerful savings and credit co-operative society movement could easily lose its ground.

There is also a challenge of strong competition from the mainstream commercial banks which have increased their product range to both their clients and non-clients and their marketing techniques that ensures wide coverage. Competition in the financial sector in Kenya including banks, microfinance institutions, insurance companies and Saccos has grown more intense and fierce and Saccos have been caught unaware by commercial banks that have aggressively penetrated into its business circles by introducing the unsecured loans targeting members of public including members of Saccos. This therefore affects the performance of the Saccos negatively due to stalled savings and switching of their customers to commercial banks. Members of the Saccos may therefore prefer loans from the bank to the ones from the Saccos due to the speed of disbursement and also the loan awarded is not pegged on saving as is the case in Saccos.

The study deduced that although the overall relationship between unsecured commercial banks loans and Sacco lending is strong and negative, there are some cases showing positive relationship. Thus, the relationship between unsecured commercial banks loans and Sacco lending remains a controversial. This is shows there are mixed results about the relationship between unsecured commercial banks loans and Sacco lending with both a negative relationship and a positive relationship between unsecured commercial banks loans and Sacco lending. This also point on the existence of a non linear relationship between these two variables and supports the hypothesis that low amounts of unsecured commercial banks loans promotes Sacco lending while higher unsecured commercial banks loans have significantly negative effect on Sacco lending.

5.3 Recommendations for Policy and Practice

Since the study established that unsecured commercial banks loans has a significant influence on the Sacco lending, central bank should come up with policies which keep the level of unsecured loans offered by commercial banks under control so as to ensure continued existence of Saccos. Low inflation should also be encouraged as it is helpful for minimizing the uncertainties in the financial market which in turn boost the Sacco lending in the country. Better coordination between monetary and fiscal policies is required to achieve both objectives i.e. high and sustainable Sacco lending with low inflation.

The management should also come up with structured solutions and strategies to mitigate the effect of unsecured commercial banks loans. These include international diversification, extending to alternative markets from what they had predominantly served, diversifying their product range and improve their quality. The Saccos should also come up with a clear marketing strategy, and stop following the traditional methods which is easily outshined by banks aggressive and door-to-door campaigns. Saccos have to react to changes in financial sector by competitively advertising its products to retain its market share.

The Saccos management should ensure that good corporate policies are implemented to offset the effect of this macro-economic factor. This study recommended that Saccos should develop and improve on strategy support systems that are crucial and are the many routine activities that are performed in a company to keep it running smoothly.

Saccos to come up with strategies and products to assist them cope with these challenges. Some of these strategies include extending to alternative markets from what they had predominantly served and diversifying their product range. They should formulate critical, realistic and comprehensive strategic and financial plans. This will help them be better positioned to enjoy the positive effects of macroeconomic factors such as change in gross domestic product and foreign exchange in a volatile environment such as Kenyan economy.

Saccos should try as much as possible to strike a balance in their loan pricing decisions. This will help them to be able to cover cost associated with lending and at the same time, maintain good relationship with their borrowers. The study recommends that Saccos should change their mode of recovery of loans so that an equal amount is deducted every month until the loan is cleared besides introducing more products to its members such as vehicle Insurance premium financing so as to increase their profitability.

Sacco should continuously review credit policies. This would enhance the evaluation of loan applications and ensure that loan applications are appraised and ranked according to merit. Saccos should ensure timely loan disbursement to facilitate loan recovery and minimize administrative costs is would lead to growth of Sacco’s wealth. Saccos should develop credit procedures, policies and analytical capabilities and these efforts should be expanded into full credit management including origination, approval, monitoring and problem management tailored to the needs of each Sacco.

5.4 Limitations of the Study

There were challenges which were encountered during the study. Some officers from Saccos that participated in the study were initially reluctant to release information related to and Annual reports making arguments that it was confidential. That reluctance delayed the completion of data collection.

Further, the Sacco lending computations may be incomplete. For example, the extent of Saccos extraneous operations and ownership structure might impact on their Sacco lending. Researcher excluded these variables due to data and cost constraints.

Further, the model may not be reliable due to some shortcoming of the regression models. Due to the shortcomings of regression models, other models can be used to explain the various relationships between the variables.

Further, the data was tedious to collect and compute as it was in very raw form. Due to lack of standardized financial statements from various Saccos which made the data computation even harder.

5.5 Suggestions for Further Research

This paper examines the effect of unsecured commercial banks loans on Sacco lending in Kenya. Because of data unavailability, it was not possible to include all the Saccos in our sample. Therefore researcher suggests further research on the effect of unsecured commercial banks loans on Sacco lending among all the Saccos in Kenya.

The study also recommends that a similar study to be done on other firms in the financial sector such as the MFIs to allow for generalization of the effect of unsecured commercial banks loans on lending by other firms in the Kenya financial sector. This is because different companies have different strategic and lending approaches.

The study also recommends that further studies should be done on the effect of other factors in the external environment such as money supply and interest rate on Sacco lending decision. A similar study should also be done whereby the data collection relies on primary data i.e. in-depth questionnaires and interview guide so as to complement this study.

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APPENDICES

Appendix I: Loan Advanced by Saccos

Name of the Sacco	**2008**	**2009**	**2010**	**2011**	**2012**
MWALIMU NATIONAL	11814207843	15854217843	14814217843	17606221180	17507374216
HARAMBEE	6877601210	9833609810	10877609810	13020437982	10388968889
STIMA	2315843087	3095843087	5395843087	6293487243	8109155198
AFYA	4442367118	1498302110	5498367118	7086414255	7829270710
KENYA POLICE	1909841529	5919841500	4909841529	4093488281	7564811427
UNITED NATIONS	2995870008	3395830208	3995860008	4832582691	5843108623
UKULIMA	1480957206	2842877077	1703756207	4093488281	5308059416
KENYA BANKERS	1036982255	21444610	6877601210	4832582691	3608422007
UNAITAS	248257910	1206286721	6877601210	1213767162	2341767162
METROPOLITAN	7021441506	221442509	2021442576	2630833381	3322655339
MAGEREZA	685472366	740615810	1170010093	2539144663	1993725707
BORESHA SACCO	1223104726	217119654	1124038301	1093565	1980165681
HAZINA	126118560	108460518	524943721	1660203086	2651689311
NACICO	685472366	885412316	685472366	1374105251	1380999230
SOLUTION SACCO	117213190	219411401	1013158425	2254876245	1517636488
SHERIA	613597200	1448555264	1248585274	1410002269	1775427141
BINGWA	877367214	3580274299	524943721	769109053	938472169
COSMOPOLITAN	129544016	219411401	1154421764	129167043	1725715941
JAMII	821407511	340477551	870477551	1065769946	1404850099
TAIFA	503193193	921658209	811658219	687245068	353633465
ASILI COOPERATIVE	896134407	5569005092	796134407	979568725	1011638269
CHAI(KTDA)	3414328533	799010187	899040187	1026902806	1102378396
MAISHA BORA	408670487	524943721	307804410	2842877077	1154518499
TELEPOSTA	3246000	1110090103	401261545	1089144625	934961029
SAFARICOM	2118608422	669853767	669853767	858769159	918289388
ARDHI	107104299	315812581	415888030	884883879	848930195
WANANCHI	140934910	361314840	261324040	462916024	414144623
NATION STAFF	285898901	461421418	431451458	556474023	626188715

TAI	145510106	82256995	524943721	353085576	416218687
JITEGEMEE	124860086	160401101	134483000	430232901	542787939
UFUNDI	2711469510	1110090103	524943721	330409846	266458716
RELI	124243179	1909841529	251181099	193778259	161641722
ELIMU	1121544903	98458268	27601004	457089571	405239639
UKRISTO NA UFANISI	281589251	719583526	258494729	235446278	441321599
DAIMA	185764124	308505143	449647644	487909070	168109257
UNIVERSAL TRADERS	109257159	139267019	169257119	283310659	299921101
BIASHARA	311187141	254099125	454125557	221348000	266487901
AIRPORTS	791441303	819626640	401261545	242350720	235539491

Appendix II: Unsecured Commercial bank loans

	2012	2011	2010	2009	2008
ABC Bank	3,550	3,342	2,841	2,613	2,065
Bank of Africa	6,856	4,579	3,774	3,003	3,057
Bank of Baroda	8,938	6,958	4,373	3,559	2,692
Bank of India	4,448	3,564	3,232	2,300	1,522
Barclays Bank of Kenya	108,086	105,346	73,907	65,562	63,032
CFC Stanbic Bank	44,205	19,663	11,348	8,498	6,991
Chase bank	5,139	3,251	2,016	1,691	1,280
Citibank	18,154	12,624	12,327	10,611	9,604
City Finance Bank	193	155	230	279	308
Commercial Bank of Africa	28,604	17,177	14,223	11,520	5,312
Consolidated Bank	2,751	2,245	1,642	1,289	1,115
Co-operative Bank of Kenya	53,293	38,429	28,421	29,089	27,009
Credit Bank	1,810	1,632	1,422	1,699	1,352
Development Bank of Kenya	3,439	2,478	1,577	1,073	647
Diamond Trust Bank	34,063	23,182	13,833	10,318	7,137
Dubai Bank	957	748	742	784	550
Ecobank	5,126	4,959	4,462	3,906	2,307
Equitorial Commercial Bank	2,307	2,305	2,413	1,846	1,750
Equity Bank	44,194	21,836	10,930	5,524	2,874
Family Bank	5,890	4,102			
Fidelity Bank	2,787	2,017	1,430	1,055	1,066

Fina Bank	9,058	6,384	4,825	3,928	3,429
First community Bank	868				
Giro Commercial Bank	3,411	3,070	3,020	3,306	3,027
Gaurdian Bank	3,553	3,290	2,960	2,945	2,875
Gulf Africa Bank	1,832	0			
Habib A.G.Zurich	2,182	1,647	1,300	1,123	1,039
Habib Bank Ltd	988	933	791	714	872
HFCK	10,419	7,746	6,345	6,444	6,583
I&M Bank	25,887	19,215	14,702	11,087	8,198
Imperial Bank	8,276	7,001	5,420	4,261	3,870
Kenya Commercial Bank	93,522	64,278	45,270	36,312	36,225
K-Rep Bank	5,935	5,112	3,755	2,454	2,044
Middle East Bank	1,651	1,887	1,982	1,526	1,608
National Bank of Kenya	8,950	7,844	26,491	24,213	22,302
NIC Bank	29,955	22,209	16,570	14,259	11,541
Oriental Commercial Bank	958	626	414	308	544
Paramount Universal Bank	1,268	1,052	927	897	758
Prime Bank	9,426	6,298	4,880	3,400	2,612
Southern Credit Bank	2,655	2,490	2,295	1,957	1,972
Standard chartered Bank	43,299	39,469	35,762	34,042	26,557
Trsans-National Bank	1,441	1,208	1,304	1,218	876
Victoria Commercial Bank	2,778	2,388	2,168	1,912	1,877

Appendix III: Interest Rates

	2012	2011	2010	2009	2008
ABC Bank	15.92	19.33	13.87	12.63	18.19
Bank of Africa	18.96	19.63	19.22	19.22	12.62
Bank of Baroda	14.00	19.65	12.71	19.76	19.62
Bank of India	13.20	19.38	18.91	18.87	19.26
Barclays Bank of Kenya	13.30	19.46	19.41	19.45	19.18
CFC Stanbic Bank	18.35	17.80	19.98	19.65	19.25
Chase bank	15.02	19.23	15.82	12.89	19.08
Citibank	16.22	16.39	18.19	18.31	15.19
City Finance Bank	18.40	18.61	18.26	15.41	12.34
Commercial Bank of Africa	19.20	19.51	17.14	13.48	17.98
Consolidated Bank	15.27	14.12	16.02	15.67	16.68
Co-operative Bank of Kenya	18.01	19.91	19.85	18.53	18.02
Credit Bank	14.14	15.50	14.63	12.42	18.80
Development Bank of Kenya	19.93	19.94	12.18	12.21	17.93
Diamond Trust Bank	18.37	18.23	18.29	19.85	18.92
Dubai Bank	17.76	15.64	16.31	16.96	23.09
Ecobank	19.65	19.00	19.98	17.71	19.58
Equitorial Commercial Bank	17.08	19.84	18.23	12.51	18.09
Equity Bank	13.97	18.50	13.14	12.53	12.60
Family Bank	16.06	18.90	18.71	18.55	18.25
Fidelity Bank	13.67	13.73	13.78	15.55	19.32
Fina Bank	13.14	13.88	13.43	12.83	19.91
First community Bank	12.07	18.23	18.29	19.85	18.54
Giro Commercial Bank	13.22	19.15	13.18	19.80	19.94

Gaurdian Bank	14.13	19.85	12.91	18.38	19.63
Gulf Africa Bank	12.24	17.45	12.61	12.26	18.41
Habib A.G.Zurich	19.77	19.38	19.92	18.31	17.42
Habib Bank Ltd	18.54	19.29	19.99	13.17	18.82
HFCK	19.42	18.08	13.48	13.44	16.27
I&M Bank	18.54	18.50	18.71	18.55	18.25
Imperial Bank	27.48	25.98	27.60	27.55	22.95
Kenya Commercial Bank	19.93	19.20	19.53	19.88	17.60
K-Rep Bank	19.06	19.05	17.60	18.38	16.63
Middle East Bank	13.02	18.87	19.60	17.19	18.77
National Bank of Kenya	12.20	19.39	17.01	15.77	14.45
NIC Bank	18.42	17.45	12.61	12.26	18.41
Oriental Commercial Bank	19.23	19.90	18.84	13.96	17.72
Paramount Universal Bank	14.59	12.26	12.62	14.60	14.91
Prime Bank	13.96	12.53	18.66	17.32	19.26
Southern Credit Bank	18.76	18.80	18.47	19.72	18.00
Standard chartered Bank	18.09	17.67	19.68	19.73	17.81
Trsans-National Bank	18.88	17.72	14.49	12.56	12.21
Victoria Commercial Bank	18.70	19.59	19.70	18.62	17.99

Appendix IV: Inflation

	2012	2011	2010	2009	2008
Jan	16.90	12.10	9.10	4.70	18.90
Feb	16.30	11.90	5.90	4.10	18.30
March	16.70	10.50	5.30	3.60	16.70
April	17.20	7.80	4.10	4.20	15.60
May	18.20	9.90	2.70	3.90	13.10
Jun	17.30	6.20	3.20	4.70	12.20
Jul	18.10	12.80	4.30	4.50	10.10
Aug	15.90	12.10	3.30	14.49	7.70
Sept	11.70	10.50	2.60	16.60	6.10
Oct	13.90	9.90	3.10	15.50	5.40
Nov	16.40	12.40	2.90	17.30	4.14
Dec	15.20	9.90	2.70	19.70	3.30