FACTORS INFLUENCING FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES. ACASE OF CAPITAL SACCO, MERU COUNTY, KENYA

BY

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DECLARATION

This research report is my own original work and has not been presented for a ward of degree or diploma in any other university.

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This research report has been submitted for examination purpose with my approval as the university supervisor.

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DEDICATION

I dedicate this research report to my beloved wife Faith Nkirote, my son Mutugi and my daughter Kendi who give me moral and financial support for me to complete it.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

SASRA	SACCO Society Regulatory Authority
SACCO	Savings and credit cooperative society
KNFC	Kenya National Federation of Cooperatives
ACCOSCA	African confederation of cooperative savings and credit association
MCFCU	Meru central farmers cooperative union
MFIs	Microfinance institutions
KUSSCO	Kenya union of savings and credit societies
IJBMR	International journal of business and management research
FOSA	Front office SACCO activity
AGM	Annual general meeting
SME	Small and micro-enterprises

ABSTRACT

Savings and credit cooperative societies have been present in Kenya for decades but this sector has not been able to impact positively on the lives of people. Access to finance has been cited as one of the factors hampering economic growth and poverty alleviations. Savings and credit cooperative societies have lagged behind other financial institutions by performing below the members' expectations therefore causing dissatisfaction among the members. The purpose of this study was to establish the factors influencing financial performance of savings and credit cooperative societies. The study was guided by the following objectives, to establish how loan repayment influence financial performance of SACCOs, to determine how interest rates influence financial performance of SACCOS, to assess how membership enrolment influence financial performance of SACCOs, to establish how duration of loan processing influence financial performance of SACCOS, to identify how management of loan defaulters influence financial performance of SACCOS. Descriptive research design was used in this study where information was collected without changing the environment. The population was drawn from capital SACCO, meru branch staff, management committee and members. Capital SACCO meru branch has 25 staff, 7 directors and 4800 members. A sample of 298 respondents which consist of 5 staff,3 directors and 290 SACCO members was considered . Questionnaires were administered and collected later for data analysis and presentation through tables and summarized percentages and proportions.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Savings and credit cooperatives (SACCOs) are association 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 proving savings, credit and insurance services to a large portion of the population. Microfinance house, (2006). The first cooperative society in the world was formed in 1944 in a village in England known as Rochdale, by a group of people referred to as the Rochdale pioneers, when Britain was undergoing the industrial revolution (KNFC Website). SACCOs first appeared in South Germany in 1846 when there was Agricultural crisis and drought in Europe (Birchall, 2004).

The first modern SACCO was started in Germany around 1850. A quick review of developed world shows that not many big firms were born that big, most of them began as small medium enterprise. SACCOs in Africa have a role in transforming the continent considering that most entrepreneurs are in need of financial support. In Africa Ghana was the first county to start SACCO in 1952, ACCOSCA (2009). In Kenya cooperative movement dates back to 1931 when the first ordinance to regularize the operation of the cooperatives in the country was enacted. The following decade witnessed increased intervention in the sector with the eventual enactment of the Cooperative Ordinance Act of 1945, the predecessor of the current cooperative Societies Act Cap 490 of the law of Kenya as amended in 1977. SACCOs are registered and regulated under the Cooperative Societies Act. For registration the Act requires a primary society to consist of atleast ten persons. The vast number of SACCOs in Kenya have been formed over the years with some being created as early as 1968. These SACCOs target a specific segment of population with similar orientation. These are mainly low income earners and the society has the objective of uplifting their financial status. There are some SACCOs that target community members in general because of the virtue that they belong to that particular community whereas there are others who are more specific their members have to come from a certain group. The main requirement across all SACCOs is that their members have some source of income before qualifying to join the SACCO. The SACCOs mobilize funds from them and give them access to financial services like loans,

savings facility, front office services which is otherwise inaccessible to them through the main banks that are either unaffordable or physically inaccessible. Some SACCOs were directly started as SACCOs while others were changed into SACCOs later of which they were initially set out as other financial associations without being registered as SACCOs (Microfinance house ltd ,2006).

Capital SACCO originated from the Union Banking Section of the giant Meru Central Farmers Cooperative Union (MCFCU) In 1974 offering savings and credit services to its members. The MCFCU drew its members from farmers belonging to various primary marketing societies who were mostly from coffee and tea farmers. It was started on 3rd February 2005 following a split of the giant Meru Central Farmers Cooperative Union (MCFCU) into independent business units. The Union Banking Section was transformed into a rural SACCO and was dully registered under the Cooperative Societies Act as a legal entity. During registration it was called Meru Farmers SACCO but the name was later changed to Capital SACCO in the year 2012 after rebranding. As a result of rebranding Capital SACCO now draws its member from people of various sectors of the economy all over the country. As a result the SACCO has grown tremendously by building a share capital of over 285 million and 32100 fully registered shareholders and extending its roots to all parts of Kenya. It has over 140,000 savings account holders including members.

Capital SACCO is run by 7 directors elected directly by members at the grass root levels. The society uses delegate system whereby 50 delegates attend general meetings. There is a supervisory committee of three members elected from the three regions. Currently the SACCO has twelve branches all of them in Meru County (Capital SACCO Society Annual Report).

Savings and credit cooperative societies are established to help the marginalized poor access financial services, but they have not been able to meet their demands satisfactorily because of various challenges facing them. Among the challenges is the interest rate charged on their products. Interest rate is the amount of interest paid per unit of time expressed as a percentage of the amount borrowed. The cost of borrowing money measured in shillings per year per amount borrowed is the interest rate. Interest rates differ mainly in terms of maturity. When maturity and liquidity together with other factors are considered, many different financial instruments and so many different interest rates will emerge, Anyanwu (1997). Interest rates can either be nominal or real. Nominal interest rate can be measured on monetary terms not in terms of goods. The nominal

interest rate measures the yield in money per year per the amount invested while the real interest rate is calculated as the nominal interest rate minus the rate of inflations (Pandey, 1999).

1.2 Statement of the problem

Although SACCOs has been present in Kenya since 1970s, this sector has not been able to impact positively on the lives of people. In light of this, the existence and flourishing of SACCOS in Kenya have not been able to perform well as compared to the other mainstream financial institutions like commercial banks . SACCOS are formed to serve the special needs of its members, but this has not been possible because of the various challenges that impacts on their financial performance. One of the justification of the advancement of a financial institution is one that is profitable and has financial sustainability. Mvula (2013) presented a report on common issues affecting performance of SACCOs in Malawi and pointed out that the issues affecting performance of SACCOs are inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance. On the other hand Mudibo, (2005) discussed some of the factors affecting performance of SACCOs as weak regulation, limited product and services, low marketing and poor image. However the effect of interest rate charged and the rate of loan repayment on Sacco performance is yet to be established. Further the management of loan defaulters with the local SACCOs is very poor. This is because SACCOs finance people of low income and unreliable employments hence the chances of default are very high. Fredrick Wanyama (2008) pointed out that SACCOs are formed from mostly the producers of cash crops and basic products hence there are market risk in their marketing but in this research membership enrolment and the duration of loan processing that have affected the financial performance of SACCOs have not been identified. There has been no sufficient literature about how and to what extent the rate of loan repayment interest rates, membership enrolment and management of loan defaulters have affected the financial performance of savings and credit cooperative societies.

1.3 Purpose of the study

The purpose of this study was to establish the factors influencing financial performance of savings and credit cooperative societies.

1.4 Objectives of the study

The study was guided by the following objectives.

a) To establish how loan repayment influence financial performance of Capital SACCO in Meru County, Kenya.
b) To determine how interest rate charged influence financial performance of Capital SACCO in Meru County, Kenya.
c) To assess how membership enrollment influence financial performance of Capital SACCO in Meru County, Kenya.
d) To establish how duration of loan processing influence financial performance of Capital SACCO in Meru County, Kenya.
e) To identify how management of loan defaulters influence financial performance of Capital SACCO in Meru County, Kenya.

1.5 Research questions

The study answered the following research questions.

a) How do loan repayment influence financial performance of Capital SACCO in Meru county?
b) How does interest rate charged influence financial performance of Capital SACCO in Meru county?
c) How do membership enrollment influence financial performance of Capital SACCO in Meru county?
d) How do duration of loan processing influence financial performance of Capital SACCO in Meru county?
e) How does management of loan defaulters influence financial performance of Capital SACCO in Meru county?

1.6 Significance of the study

Kenya is among the developing countries and is characterized by slow economic growth, high levels of unemployment, disease pandemics and poverty. Kenya has not yet been industrialized, it relies on small scale farming practices and all this category of people relies on rural SACCOs and microfinance institution to finance their activities. The probabilities of SACCOs to succeed in transforming SME are quite high if they realize some of the challenges that affect their financial performance. SACCOs should engage with policy makers in identifying these challenges so that they can address Kenyan problems of poverty eradication and achieve vision 2030 objectives (ACCOSCA, 2009).

It is hopeful that this research has helped identify some critical factors that affect financial performance of savings and credit cooperative societies which will be helpful to this sector to assist in poverty alleviation. It is hoped that the findings of this study will help Capital SACCO and other SACCOS that will make use of it, to develop the management and control of SACCOs, and this is hoped to result in increased wealth for both the SACCO and its members. The general living standards of the people accessing financial services from SACCOS will hopefully improve because of the ability of the SACCOs to finance the economic activities of their members. It is also hoped that it will help SACCOs service providers, policy makers and regulators in formulating workable procedures to help SACCO have the capacity to assist its members who are otherwise not able to access financial services from the main stream banks. For this study Capital SACCO in Meru County, Kenya has been studied.

1.7 Basic assumption of the study

The assumptions of this study are that the information collected through the questionnaires is accurate and a representative of all SACCOs and the respondents has given the necessary cooperation by responding to all the questions in the questionnaire.

1.8 Limitation of the study

There were some limitations experienced in this study. Because of the sensitivity of banking information some respondents were expected to give biased information to conceal sensitive data. Also it was expected that some respondents will not allow giving information in fear to leak to their competitors. However the researcher assured the respondents that this study is only for

academic purpose and that the information will be treated with confidentiality and for no other purpose .

Also this study had time constrains because a lot of time was needed to meet all the respondents. But the researcher overcame this constrains by working overtime to be able to compile all the reports and get all information required.

1.9 Delimitation of the study

This study was aimed at establishing how and to what extent does loan repayment, interest rate and management of loan defaulters affect financial performance of savings and credit cooperative societies. Capital SACCO draws its members from people of various sectors of economy all over the country. Capital SACCO has been chosen for this study because of its outreach in Meru county. It is the only SACCO with branches in all the eight sub-counties in Meru County. Meru region is one of the leading County in agricultural activities and most farmer are members of a SACCO hence making the region a good place for microfinance business. This SACCO is a very good representative of the SACCOs in the country and hence the research findings is a representative of the other SACCOs in the country.

1.10 Definition of significant terms used in the study

SACCO –it is an acronym name for savings and credit cooperative and is an association of people who come together with common goals geared at improving their livelihood economically. They are owned and managed by its members who have the same common bond.

Management of Loan defaulters –a loan defaulter is a person or group of persons who have missed or have been late on payments on any of their loan obligation. Management of loan defaulters is the institutional policies on how to reduce loan default and how to deal with defaulters.

Interest rate –an interest rate is the rate at which interest is paid by the borrower (debtor) for the use of the money that they borrow from a lender (creditor).

Membership enrolment –membership is the state of being a member or the total number of members in a group. A member is a person who belongs to a social group or an entity such as a company or nation. Membership enrolment entails the number of enrolled and the deferent categories of these member ranging from the employment status, age and level of education.

SACCO financial performance –this is the SACCOs financial operation measured in monetary form.

Duration of Loan processing –this is the period taken by a financial institution to process a loan application and disbursement. A process by which a borrower applies for a loan from a lender and all the steps taken from taking the application form, appraising applicants up to disbursed of funds.

Loan repayment –this is to pay back a loan given by a lender. This includes the principle loan given and the interest charged on the loan.

1.11 Organization of the study

The study is organized into five chapters where Chapter one is the introduction of the study. The theoretical review and empirical review of related literature are covered in chapter two. Chapter three covers the research methodology while chapter four presents the analysis of data, presentation and interpretation. Chapter five presents the summary of findings, discussion, conclusion and recommendations.

The introduction covers , background of the study, statement of the problem, purpose of the study, objectives, research questions, significance of the study, basic assumptions, limitations of the study, delimitations of the study and definition of significant terms used in the study.

Chapter two presents a brief introduction of the chapter, the concept of financial performance of SACCOs, theoretical framework, conceptual framework, knowledge gap and a review of literature related to all the independent and dependent variable in the study. Chapter three entail an introduction of the chapter, research design, target population, sampling procedure, data collection methods and instruments, pilot study, operational definition of variables, data analysis and summary. Chapter four presents a brief introduction of the chapter, the profile of the respondents and a report on the findings on how the independent variable of the study affect

the dependent variable. Chapter five presents the summary of the study, summary of the findings, discussions, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter represents a review of literature that is related to loan repayments, interest rate charged, membership enrolment, duration of loan processing and management of loan defaulters in relation to financial performance of SACCOs. It also describes the conceptual framework highlighting the variables under consideration.

2.2. The concept of financial performance of savings and credit cooperative societies

The financial services sector is very significant sector in today's modern economies. SACCOs like other financial institutions play a great role in the economy by mobilizing savings and allocating credit for investment thereby helping to improve people's living standards.

Cooperatives can provide financial services to their members through existing products and the members also have the opportunity of saving with the cooperative but this is possible if the cooperatives are financially sustainable. The financial performance of a SACCO is measured through the ability of the institution to meet the financial demands of its members taking consideration of economic status of the members. SACCO is expected to give better and cheaper services to its members as compared to the main stream banks because SACCO understands the needs of the members because they are the owners of the SACCO (Wanyama 2008).

Through mobilization of funds the SACCOs in Kenya offer loan services, deposits, front office services and cheque clearance services. The most common product offered through the SACCO fraternity is the credit and loan services. Many of the institutions have no institutional capacity or capital base to offer other services. Depending on what kind of loan a member is applying for, the size of the loan and period of the payment of the loan, the loan interest of the most savings and credit cooperative societies varies from 10% to 18% p.a. Once a member applies for a loan, approval is ideally supposed to take between 14 to 30 days but this is not always the case because of cash liquidity problems that makes them take longer. The loans are screened and approved by credit committee. A SACCO is said to be performing well financially if it is able to process members loans timely and at appropriate rates, Microfinance House Ltd, (2006).

SACCO s experience a wide range of problems partly owing to the fact that they target low income earners and have to establish a balance between serving them adequately and also meeting their operation cost. Majority of the people in Kenya measure the financial performance of SACCOs by the rate of dividends that they pay to its members which is not true. Some SACCOs pay dividends even if institution did not make any profit which is against the law. All SACCOs should pay dividends out of profits. A SACCO is said to be performing well financially if it has the capacity to expand their products range, has sufficient funds to provide services and the client base is growing (Microfinance house ltd, 2006)

2.2.1 Evolution of SACCOs in Kenya

The cooperative movements in Kenya dates back to 1931 but the first SACCOs in Kenya were registered in 1964. Kenya Union of Savings and Credit Cooperatives (KUSCCO) were started in 1973 initially as an umbrella organization for urban savings and credit societies in Kenya, Akide (2005). SACCOs have faced several challenges over the years making it difficult for them to operate to their full capacity. Common challenges facing SACCOs include inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance (Mvula, 2013).

2.3. Loan repayment and financial performance of SACCOs.

The role of credit is to bridge the gap between enterprise owners' financial assets and the required financial assets of the enterprises. Due to persistence of this imbalance enterprises are forced to demand credit. With the growth of the number of SACCOs in Kenya, access to credit is not difficult but repayment is never 100% ,Besley and Coate(2005). Lenders of funds in the formal financial sector use the deposits of their clients while lenders operating in the informal financial sector use mainly their own funds to advance money to borrowers. The lender is expected to recoup the financial capital after the agreed period of time otherwise the borrowers will benefit at the expense of lenders. If loan repayment fails and this continues, then bankrupt will be ultimate result.

In Africa loan repayment performance has been poor. In his study, Bagachwa (1997) found that in Africa loan repayment has been poor. For example, 14% to 20% for commercial banks in Tanzania and about 45% for small agricultural loan in Ghana. Besley (2003) asserted that enforcement of loan repayment constitutes a major difference between rural credit markets in developing countries

and credit markets in developed countries. Most lending institutions do not have experienced personal capable of developing appraisal procedures for different category of borrowers. The repayment of loans by the poor and SMEs is recognized as one of the most troublesome problem facing rural SACCOs in Africa. Collateral, access to basic information and appropriate loan mechanism to enforce loan repayment are important tools.

2.4. Interest rate charged and financial performance of SACCOs

Interest rate is the amount of interest paid per unit of time expressed as a percentage of the amount borrowed. The cost of borrowing money measured in shillings per year per amount borrowed is the interest rate. Interest rates differ mainly in terms of maturity. When maturity and liquidity together with other factors are considered, many different financial instruments and so many different interest rates will emerge, Anyanwu (1997). Interest rates can either be nominal or real. Nominal interest rate can be measured on monetary terms not in terms of goods. The nominal interest rate measures the yield in money per year per the amount invested while the real interest rate is calculated as the nominal interest rate minus the rate of inflations (Pandey 1999).

A lot has been reviewed in terms of lending activities of various deposit money banks. Some opinions deliberated on the factors responsible for banks willingness to extend much credit to some sector of the economy, while some discussed effect of such extension of credit on productivity and output. Felicia (2011) used regression analysis to investigate the determinants of commercial banks lending behavior in Nigeria. The study discovered that interest rates charged has the greatest impact on the lending behavior. Individuals are motivated by low interest rate charged to take more loans. Rasheed (2010) used error correction model to investigate interest rates, determinants and the study found out that as the financial sector integrates more with global markets, returns on foreign assets will play a significant role in determination of domestic interest rate.

Financial institutions decisions to lend out money are influenced by a lot of factors such as the prevailing interest rate, the volume of deposit, the level of their domestic and foreign investment, liquidity ratio, prestige and public recognition. Lending practiced in the world can be traced to the period of industrial revolution which increased the pace of commercial and production activities thereby bringing about the need for large capital outlays for projects. Interest rates play a

significant role in enhancing economic activities and such monetary authorities should ensure appropriate determination of interest rate level that will break the double edge effect of interest rate on savers and local investors (IJBMR 2013).

Financial systems of the most of developing nations have come under stress as a result of the economic shocks of the 1980s. the economic shocks largely manifested through indiscriminate distortions of financial pricing which include interest has tended to reduce the real rate of growth and real size of financial systems relative to nonfinancial magnitudes. The preferential interest rates based on the assumptions that the market rate, if universally applied would exclude some of the priority sectors. Interest should therefore be adjusted periodically with visible hands to promote increase in the level of investment in the different sectors of the economy. For example agricultural and the manufacturing sector should be accorded priority and financial institutions to be directed by the Central Bank to charge a preferential interest rate on all loans and advances to small scale industries (Adebiyi and Babatope-obesa 2004).

Interest rate risk is the risk to earnings or capital arising from movement of interest rates. It arises from differences between the timing of rate changes and the timing of cash flows from changing rate relationship among yield curves that affect banks activities, from changing rate relationship across the spectrum of maturities and from interest rate related options embedded in bank products. The movement of interest rates affects the financial institutions reported earnings and book capital by changing net interest income, market value of trading accounts and other interest sensitive income and expenses. Changes in interest rate also affect banks underlying economic value. The value of banks assets, liabilities and interest related, off balance sheet contracts is affected by a change in interest rate because the present value of the future cash flow themselves is changed. In financial institutions that manage trading activities separately, exposure of earnings and capital to those activities because of changes in market factors is price risk. This risk arises from market, making dealing and position taking activities for interest rate, foreign exchange equity and commodity markets. Each financial transaction that a bank completes may affect its interest rate risk profile. Financial institutions however, differ in their level and degree of interest rate risk exposure by changing investment, lending, funding and pricing strategies and by managing the maturities and reprising of these portfolios to achieve a desired risk profile. A

bank should also consider how interest rate risk may act jointly with other risk facing the banks (Interest Rate Risk Comptrollers' Hand Book 2012).

The era of cheap loans that about two million Kenyan workers currently enjoy from SACCOs is gradually coming to an end as high businesses cost and new regulation exert pressure on the managing of cooperative societies. Several savings and credit cooperative societies have increased their lending rates for back-Office products, the loan offered on the strength of members savings from an average of one percent per month to between 1.5 and two percent per month.

Facilities offered through the banking wings of the SACCOs known as front office services activity (fosa) are now attracting interest at between 2% and 3% compared to between 1.25% and 1.5% previously. Generally the cost of borrowing has gone up for all financial institutions but the advantage with SACCOs is that they are allowed by law to lend up to three times their deposit and can borrow from other sources including commercial banks up to 25% of their capital base for onward lending. Although KUSCCO has a lending facility that SACCOs can use to bridge shortfalls, The rate at which members borrow is determined on a case by case basis while commercial banks loans have more than doubled in the last two years, increasing the waited cost of capital for SACCOs. Many SACCOs, especially in the public sector have revised interest rate upwards and this has affected the financial performance of SACCOs (Business Daily, 2004).

2.5. Membership enrollment on financial performance of savings and credit cooperatives.

A SACCO member is a person who belongs to that SACCO willingly by filling in the membership form and paying the required membership fees. Most SACCO members have a common bond either of occupational or production nature. This characteristic makes a SACCO to be an association of people who have come together with common goal geared at improving their livelihood economically (Sacco's operations report, 2006).

The apex is the Kenya National Federation of Cooperatives which was formed in 1964 to be the spokesman for the cooperative movement, custodian of cooperative principles, control of membership, promote development of the movement and promotes collaborations both locally and internationally, Wanyama(2009). The national cooperative organizations comprise secondary and primary cooperatives that offer specialized services to affiliates such as commercial and financial services and represents union and society at international levels.

Under the current law most of the SACCOs in Kenya may close their doors if they do not meet the minimum threshold. For a SACCO to be registered, it must have a minimum of 30 people. The members must also meet the ksh.10 million capital adequacy requirements. Investment of SACCO funds in non core business must not be more than 10% of its total assets. In addition some 15% of SACCO assets must be in cash form to adequately provide for its liquidity requirements. SACCOs will also be expected to make adequate provision for loan losses as is done by the commercial banks and other financial institutions (SASRA, 2012).

2.5.1. Major challenges leading to poor enrollment in SACCO societies

The major challenges inherent in the SACCOs in Kenya are the poor governance and limited transparency in the management of cooperatives. Most cooperative leaders are elected politically without the required qualification required to manage a financial institution. These leaders will only employ staff from their political line up disregarding the necessary skills for management of cooperatives. Because of this poor governance the membership will fall because the members will not gain confidence with management, International Monetary Fund(2007). There is also limited infrastructure, high deployment and maintenance cost, inadequate financing, lack of awareness in the rural areas (Okello, 2006).

According to JCC study (2006) it is possible to reach many of the economically active people but this requires adequate funding. Funding would generally be required to cover the cost of reaching the rural areas where poverty is prevalent. The aspect of funding however posses a challenge especially for SACCOs without strong capital base. In this case lack of adequate out reach exposes SACCOs to slow growth.

SACCOs were developed with the aim of enhancing social and economic conditions of the poor. Impact assessment_in line with intended outcome need to be conducted to ascertain the effectiveness of a SACCO.

In a survey carried out by KIPPRA (2006) it emerged that savings through SACCOs stood at ksh.29 million and outstanding loan amounted to ksh.22 million. The loan to deposit ratio were 74% which demonstrate the effectiveness of a SACCO as financial intermediary. SACCO operations report (2006) reported that there are different SACCO entry requirements. They consist of acquisition of minimum number of shares that varies from SACCO to SACCO. They are

between ksh.100 to ksh.6000. The membership is characterized by monthly contribution which is either through check off system for the employment based institution, percentage deduction from sale of goods or direct cash deposit. Membership in SACCO varies depending on outreach of the SACCOs. They range between about 158 to 3700 members. There is however a big variance between potential members and the actual members. This show poor outreach in the SACCO to its target membership. Few SACCOs have managed to minimize their outreach which gains strong financial performance. The capital in the SACCOs is raised through members' contribution. There is minimum share capital raised and maintained before loans can be disbursed to members. Share capital range from ksh.66000 to ksh.160 million (Microfinance house ltd, 2006).

2.5.2. SACCO Society Act

Savings and credit cooperative societies play a pivotal role in any country's economic growth. In the recent past the savings and credit cooperative societies have grown tremendously promoting the body overseeing their operation to come up with strict guidelines to regulate. The SACCO Societies Regulatory Authority (SASRA) is the national body overseeing the operations of savings and credit cooperatives and has given a report that they have registered and licensed 73 deposit taking SACCO as per the law which requires that such SACCOs offering front office services reapply to the authority to be allowed to continue with the business. According to the Act, those SACCOs that will fail to meet all the license requirements will be encouraged to merge their operations especially those operating within the same geographical areas. The authority can give financial sanctions to any SACCO that does not submit periodic reports to the authority (Standard Financial Report, 2011).

2.6. Duration of loan processing on financial performance of savings and credit cooperative societies.

Several reasons may cause delay in loan processing in a financial institution and this delays may cause impatience to the client because the loan has taken longer period than expected. If you submit your loan application two weeks ago and you have not heard back from your lender you may begin wondering, Blakley(2013). According to Blakley (2013), internal coordination is one of the causes of loan delay. During loan processing the application form passes through the hands of several professionals and for this reason it is easy for the processing to get backlogged. These

processes involve the checking of your files by the processing team. Another cause of delay in loan processing is the effect of influx of loan applications. When interest rates are almost to go down the lender may consider locking in some new loan terms. Several financial institutions in the industry have the same thought and hence when the rate drops, the volume of borrowers goes up. This will certainly equate to a longer processing time for your loan. Verification is also another big cause of loan processing delays. Lenders need to fully assess the borrowers risk before choosing to approve or deny a loan request. Among other things this means verifying employment with managers, obtaining credit history from credit bureaus and acquiring rental records from previous landlords. Confirming this information can take long time especially if your references are difficult to contact.

The performance of SACCOs depends on their operational efficiency, Nyanjwa(2008) and is greatly hampered by low capacity to operate and manage their activities. It is important to remove all the bottle necks that cause inefficiency hence affecting the overall performance of SACCOs. There is no standardized performance measurement tool to evaluate the status of a SACCO. According to Dan Green (2013) many loan factors are beyond the control of borrowers who want to close quickly. For example you cannot control how fast an appraisal is performed because the appraisal requires the cooperation of the seller nor can you control how quickly a title deed search is performed by a title company. Dan Green (2013) in his report, blogs on mortgage, market and other items of interest established that there are steps one can take to make sure that he/she gets loans approved as fast as humanly possible. The first step according to Dan Green (2013) is proper preparation of paper work including application forms and all relevant documents that the lender must require for loan approval. Then do not keep secrets from your lender for the reasons that withholding information can constitute loan fraud, which is far worse outcome than not getting a loan approved.

2.6.1. Factors influencing duration of loan processing

In some countries like Japan, obtaining loans from financial institutions is a very complicated process involving many necessary steps for which certain documentation required to submited. In obtaining for example a mortgage loans using the English version of the mortgage

loan document in Japan, all customers are required to complete the pre-application risk agreement form prior to processing. The financial institution reserves the right to discontinue the application process depending on your answers to the pre-application risks agreement form. It is very common for finance institutions to require loan borrowers to obtain mortgage guarantee offered by a mortgage guarantee company. All these processes makes the duration of loan processing complex and complicated (HSBC Mortgages, 2010).

SACCO design study for sunflower producers financial report (2006) established that, in order to create a superior performing SACCO, there are some critical elements that must exist, the time needed to offer services and create governance system can be relatively short, a good functional system of governance and a strong accounting and financial management system should be in place. There is mounting pressure from the market for SACCOs to reform. Competition and internal pressure from members demanding sophisticated products and services and delivered in time means SACCOs must be managed in a more professional manner in tandem with trends in the market (Hoffmann 2009). The performance of SACCOs depends on their operational efficiency, Nyanjwa(2006). Performance of SACCOs is greatly hampered by low capacity to operate and manage their activities. There is no standardized performance measure tool to evaluate the status of SACCO. Measurements using certain indicators such as profitability, assets, quality and rate of return can be found. High rate of these indicators are achievable if customer royalty is built. Today's customers are busy people because of the existing competation hence they require timely services and less complicated processes and procedures in receiving funding.

2.7. Management of loan defaulters and financial performance of savings and credit cooperative societies

Defaulting on payment is a serious offence and should be avoided at all cost. Most of the time defaulting on payments is temporary in nature caused by clients loss of jobs, a temporary extra expenditure that left no money to make the pay or prolonged illness which may cause the client financial distress or keep him in hospital for few months. In very rare cases people default because of permanent failure or sudden death of individual who wasn't insured or did not have enough resources left for his or her family. Temporary causes can be managed through close

supervision and monitoring and evaluating the projects financed by the loan. Proper training of loan applicant is necessary before loan disbursement. In developed countries like Germany loan default is not frequent because of the mechanism they use to control and manage loan default. They offer loan management tips to their clients who have multiple loans with multiple service provider. They offer training, advice and counseling to borrowers to ensure that they remain in the path of repayment. Managing default takes a solid game plan (TG'S Default a version consultants, 2011).

When the bank manager is evaluating your loan application, he wants to know whether by lending you money he can get his money back and earn some profit on it from you. Before institution approves a loan application they need to evaluate if the business can repay the loan with interest for the period in question to avoid loan default. Debt collection is an expensive operation and is an expense to the finance institution. The banks not only assess the clients ability to pay but also would want to know how risk your business might be, and these shows the bank its chances of losing money, Rukunga(2000). Loan defaults have caused a lot of nonperforming assets (NPAs) in SACCOs and other financial institutions in India. Banks especially those in public sector are in a mess owing to the mounting nonperforming assets. Public sector banks hold 95% of these defaulting loan accounts. The net nonperforming assets of the 26 public sector banks in India rose to 2.02 percent during the year 2012-2013 from the 1.53 in the previous year. That means loan worth big amounts of money are at the risk of default. Even borrowers who are in a position to pay back the loan are not doing it. This shows a weakness in the governance of the public sector banks in India. The willful defaulters are not treated the same way with the genuine defaulters. There are adequate provisions to deal with willful defaulters although the public sector banks have not been aggressive in implementing (India Weekly Journal, 2014). In his report Yashwant(2014) he was particularly concerned about the mounting non-performing assets in the corporate lending segment as compared to other sectors. A number of finance institutions have been attributed to have managerial failures because of their inability to arrest the rising non-performing assets. A number of business entities have been lining up for restructuring their debt to escape bank action on non-payment. In restructuring, the terms of the loan are eased up and borrowers get more time to get his house in order. As at September 2013 there were 431 cases of debt restructuring in the corporate debt restructuring cell. The majority of the restructuring requests are from the infrastructure sectors.

2.8. Theoretical frame work

The first SACCO society in Africa was introduced in Ghana in 1959. The SACCO was intended to assist villagers improve their economic conditions, Ng'ombe&M'Kwamba(2004). In Kenya the first cooperative society was Lumbwa Cooperative Society formed in 1908 by the European farmers with the main objective of supporting Agriculture activities and products to take advantage of economies of scale, KUSCCO(2006). After independence the government of Kenya recognized cooperatives as suitable vehicles to achieve the aspiration and participate in the economic development of the nation. The SACCO movement is today considered by the government as one of the economic pillar of the nation. By the year 2010 Kenya had over 5000 registered SACCOs with a membership of about 7million and they had mobilized savings of over ksh.200 billion (Ndungu, 2010).

2.8.1 The theory of human motivation.

Abraham Maslow presented this theory in 1943 in his paper inform of a pyramid with the more basic needs like food, sleep and breathing at the bottom. These are the physiological need which are the physical requirements for human survival and are thought to be the most important and should be met first. SACCOs were first formed because of the rising shortage of basic human needs for the poor. There was need to empower the people to be able to meet their basic desires through small and medium enterprise. Empowerment is a transformative process within human existence from the state of powerlessness to the state of relative control over ones overall existence by taking control over his destiny and making use of his immediate environment for sustainable improvement in their livelihood and better standards of living. SACCO emerging as a tool of community empowerment and poverty alleviation surrounds the discussion of empowerment theory. Empowerment theory is an alternative development approach as a result of the failures of mainstream development theories in addressing the poverty situation in third world countries due to their emphasis on growth, pursuit of industrialization and urban bias on holding unfulfilled small promises of better life for the excluded and downtrodden majority. This situation pushed the poor people in downward spiral of resources deficit trapped in a vicious life cycle of poverty. Empowerment has become a buzzword in most development and international agencies with most of its discussion centering on power relations, awareness, control, poverty alleviation, development and empowerment (Fagha, 2010).

The contribution of motivation theory on development cannot be over emphasized taking into consideration the numerous emergence of microfinance and microcredit initiatives all around the world and their impact on the local community at large. A good example of success of this theory is from the Grameen Bank in Bangladesh and how its message has been transformed throughout the developing world leading to the emergence of self help groups as is the case in the India, the Susu's of Ghana, the SACCOs of Tanzania and all aimed at providing microcredit initiatives to the rural poor. Hence microfinance has emerged as a paradigm changed in alternative development despites its challenges. This makes motivation theory a perfect bottom-up approach on development in its manifestation on the convergence of power relation from top-bottom to bottom-up autonomy there by giving power and wider opportunities to the powerless so that they could use their initiatives, rights and capabilities for the common good of their social settings not only to better their lifestyles and improve their standards of living but gradually moving themselves out the deprivations of poverty in a sustainable manner (Perkins et al, 1995).

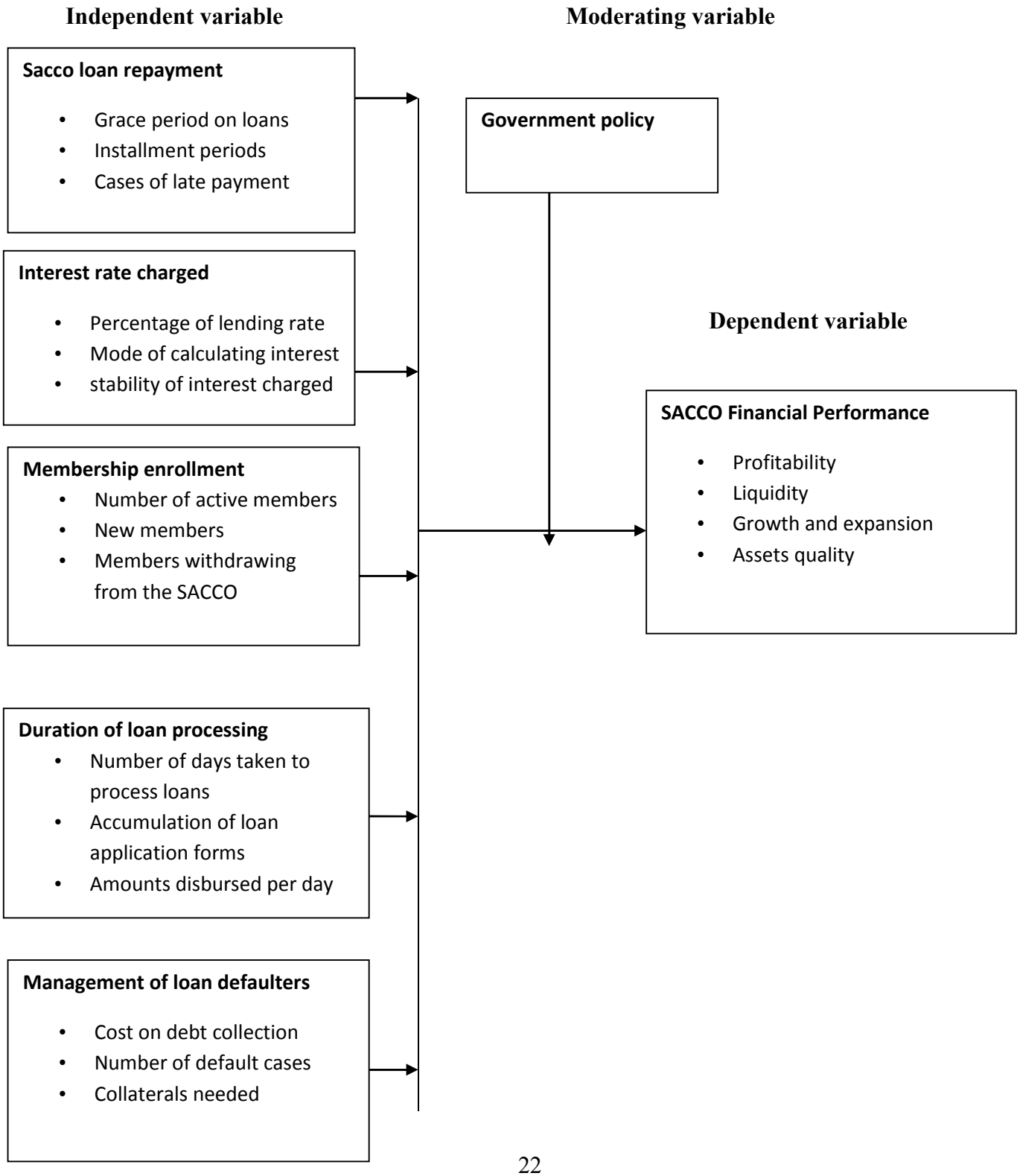
2.8.2. Theory on the importance of capital and property rights

Adam Smith who was a Scottish political economist made a publication in 1776 (an inquiry into the nature and causes of the wealth of nations). He said that within a given stable system of commerce and evaluation, individuals would respond to the incentives of earning more by specializing their production. These individuals would naturally without specific state intervention direct that industry in such a manner that its produce may be of greatest value. In his study of microfinance as a development paradigm Robert D. Fagha (2010) agreed with Adams Smith's inquiry into the nature and causes of the wealth of nations in which he saw people as economic agents guided by invisible hands, thereby creating the basis of understanding modern capitalism and the political economy. According to Smith capital is the source of economic activities and specialization in the division of labour. It is the source of increased productivity that sum up to the wealth of nations. He defined capital as a stock of assets accumulated for productive purpose geared towards increased specialization and output emphasizing on the conversion of accumulated assets to active capital referring to the potential of capital. SACCOs and other microfinance institutions have been used as a tool for wealth creation for members and capital provider for clients.

Desoto (2009) further advocated for a system of credit financing from financial institutions which could not only boast the entrepreneurial spirit of the poor people but could create self-employment. He recommends compulsory land registration so that financial institution will be willing to lend the poor people money as their assets can be used as collaterals. This will in turn act as a catalyst to the productive power of the poor people in order to work hard and keep up with their repayments because of the fear of seizures by financial institutions in case of default payments. He lavished his praises to governments around the world that has welcome microfinance initiative in assisting sweetshops that are transforming residential areas into industrial zones throughout the world quoting the capital city of Dhaka. In this study investigation will be done to establish what can stimulate the country's economy to increase capital accumulation. Apart from the ideals of Smith about the need to have a stable system of commerce the nation can stimulate the economy through strengthening the microfinance industry so that every individual can access credit to finance the economic activities.

2.9. Conceptual frame work

The study was guided by the following framework.



SACCO loan repayment- SACCOs lender financial services to its member who in most case are the marginalized poor who cannot afford to access these services from the mainstream banks. The SACCOs face a lot of challenge because the borrowers do not honor their obligations in time hence causing delay in meeting financial demand of all the borrowers. Loan repayment covers the interest on the loan and principal amount borrowed. Nonpayment of loan or delay in loan repayment reduces the profitability of the SACCO because these are nonperforming loans

Interest rates charged - Interest rate is the amount of interest paid per unit of time expressed as a percentage of the amount borrowed, Anyanwu(1997). High interest charged on loans increases the cost of loan to the borrower hence discouraging borrowing. Low interest charged on loans reduces the SACCOs profits. Therefore for the interests of both the borrower and the SACCO financial performance to be met, interest rates should be fixed appropriately. Most SACCOs in Kenya are currently charging between 1 – 1.5% pm interest to all their products as compared to 1.5 – 2.5% charged by other finance institutions.

Membership enrolment - SACCO members are persons who belong to that SACCO willingly by filling in the membership form and paying the required membership fee. All SACCOs depends mostly on their members contribution to meet their financial demands. This is why SACCOs have increase their complain to increase their membership base by even involving people from different sectors of the economy. The future and financial performance of a SACCO depends on the strength of its members.

Duration of loan repayment - Some SACCO members gauge the performance of their SACCO by the number of days it takes to process their loans. SACCOs have introduced different loan products whereby some products like emergency loans take as little as one day to be processed. Delays in loan processing makes the borrower impatient and the may opt to move to other finance institutions that can give timely services.

Management of loan defaulters - A loan defaulter is a person or an institution who fails to honor his or her loan obligation borrowed from a financial institution. In all ways loan default is an expense to the lender regardless of if the loan was insured against default or not. If the loan is insured, the insurance premium are a burden to the SACCO and if it is not insured the firm stands to lose the amount in default. Debt collection is another expensive exercise that calls for debt

collector on hire. If a financial institution is able eliminate default case or reduce it by a high percentage then it can sustain its financial services. SACCOs have opted to curry out regular trainings and counseling to their borrowers to ensure that they remain on path of payment.

2.10. Knowledge gap

SACCOs in Kenya are currently a leading source of the cooperative credit for social economic development. The existing SACCOs have experienced a wide range of problems partly owing to the fact that they target low income earners. A lot of research has been done on problems experienced by SACCOs in Kenya and the research has reviewed governance, level of education and market risk as factors affecting SACCO performance. Little research has been carried out about the effect of duration of loan processing, management of loan defaulters and interest rate charged on performance of SACCOs. This research will investigate the influence of these factors on financial performance of SACCOs and for the purpose of achieving this goal, Capital SACCO located in Meru County, kenya will be studied.

2.11. Summary of literature

The views from the literature review indicate mixed results with regard to the financial performance of SACCOs. Even though SACCOs are regarded as one of the tools that contribute to poverty alleviation, there are numerous constraints impacting on their performance and sustainability. The review has established that the interest charged on loans determines the cost of the loan. A great percentage of SACCO members are low income earners therefore they cannot afford pay high interests on loans. The literature review has shown the for SACCOs to charge affordable interest rate on their loans so that they can achieve the goal of poverty reduction. Poor Loan repayment has been observed as a great challenge to the growth and expansion of SACCOs in Africa and other continents. Long term loans become very expensive to borrowers hence most people prefer to get short term loans to finance recurrent expenditure. It has been reviewed that if borrower can be able to repay their loans in time it can give the SACCO the financial strength to finance all its loan applicants.

SACCOs and other microfinance institution are mostly formed to meet the financial demands of the marginalized poor who cannot afford to access financial services to the main stream banks. SACCOs having this type of membership enrolment have been found to have difficulties in growth and financial sustainability. With the current regulations SACCOs are allowed to take deposit from its members. The review has established that for a SACCO to perform properly financially it is necessary to have a large number of membership with stable sources of income.

Several financial institutions have been observe to take a very long time to process the applicants loan and this has been found that it can cause impatience to borrowers. Delays in loan processing sometimes are caused by several internal coordination activities like checking of applicant files by the processing team and obtaining credit history of the borrower. Loan default has been established to be greatest obstacle to the financial performance of most financial institutions especially in the developing countries like Kenya. Of late proper systems have been put in place to help in management of loan default but still the loan repayment is never 100%. The review has established that financial institutions have embarked on offering training, advice and counseling to borrowers to ensure that they remain in the path of repayment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, target population, sample and sampling procedure which was used to carry out the study. The chapter also describes the instruments of data collection, data collection procedure, data analysis techniques, ethical consideration and operational definition of variables.

3.2. Research design

Descriptive research design was used in this study. Information was collected without changing the environment using questionnaires to collect primary data. Descriptive research design was chosen because it ensured that large amount of data was collected within a very short time. This method does not offer the researcher control over the data collected in terms of manipulation of the variables of the study, Kerlinger(2005). Through this design the researcher was able to acquire factual, accurate and systematic data that can be used in averages, frequencies and similar statistical calculations

3.3. Target population

The population was drawn from Capital SACCO, staff, management committee and SACCO members. Capital SACCO has 7 directors, 114 staff in all the 14 branches and 32100 members from which a sample was drawn. A sample was drawn only from the Meru branch which is the head office of the Capital SACCO situated in Meru town. It has 25 staff, 4800 members and 7 directors who manage all the branches from there.

3.4. Sample size and sampling procedure

This section describes the sample size and sampling procedure that was used in the study.

3.4.1 Sample Size

Since it was not be possible to interview all the population under consideration, a sample size of 298 respondents which consist of 5 staff, 3 directors and 290 SACCO members was selected randomly to ensure that all the units of the sampling frame has equal chances.

3.4.2 Sampling Procedure

According to Gay (1981) 10% of the accessible population in a description study is enough samples. In this research 25% of the population was tested for employees and directors which was determined using table 2 in the appendix. Stratified random sampling was used for SACCO members whereby there were 3 strata. 30 members were selected from SACCO members with over 100,000 worth of shares, 40 members were selected from SACCO members with 50,000-100,000 worth of shares and 100 members selected from SACCO members with shares less than 50,000. All these members were selected randomly from each strata.

Table 3.1 Sampling frame

Type of sample	Total population	Sample Size
SACCO directos	7	3
SACCO staff	25	5
SACCO members	4800	290
Total	**4832**	**298**

3.5 Research instruments

Data was collected using questionnaires. In formulating research instruments the researcher considered the objectives of the study and the research questions. The questionnaires were administered to employees, directors and SACCO members. The questionnaire method was mainly employed in primary data collection although observation method was also used. The instruments were organized into six sections, where by section A solicited data on demographic information

of the respondents. Section B of the questionnaire was used to collect data about the effects of loan repayment on financial performance of capital SACCO. Section C of the questionnaire was used to solicit data on the effects of interest rate on financial performance of capital SACCO while section D was on the effect of membership enrollment on financial performance of SACCOs. Section E collected data on the effects of duration of loan processing on financial performance of SACCOs and section F was used to solicit data on the effects of loan defaulter on financial performance of SACCOs. Observation method was also useful to compare and verify the answers given by the informants to establish their correctness. Any secondary data needed was collected from SACCO annual reports published, magazines and any other available literature.

3.5.1 Pilot testing

Piloting is the study carried out before the actual study as a way of testing the effectiveness of researchers' data collection instruments and the procedures used (Mugenda and Mugenda 2003). This pilot study was done to a similar sample size selected for Yetu SACCO located in the same Meru County. Before administering the questionnaire the researcher presented an introduction letter from the University of Nairobi to the Yetu SACCO manager to acquire a permit to conduct pilot study. This piloting tested the reliability of the research instruments. Reliability is the ability of a research instrument to yield consistent results after repeated trials (Mugenda and Mugenda 2003). The pilot also tested the validity of the research instruments. Validity is that which makes sense or is persuasive and seems right to the reader (Mugenda and Mugenda 2003). Polkinghorne (1988) defined validity of a theory as those results that have the appearance of truth or reality.

3.5.2 validity of instruments

Lacity and Jansen (1994) defined validity as that which makes sense , is persuasive and seems right to the reader. The results of this study were validated in consultation with the supervisor and since the researcher randomly selected the respondents, it is believed that the results of the study were valid and without any ambiguities.

3.5.3 reliability of instruments

Reliability is the measure to which a research instrument yields consistent results after repeated trials (Mugenda and Mugenda, 2003). The researcher used split half technique of assessing reliability. Scores from one part were correlated with scores from the second part thus eliminating chance of error due to differing test conditions.

3.6 Data collection procedure

Before administering the questionnaire the researcher gave an introduction letter to the respondent. The introduction letter was certified by the university to ensure that the respondent gets the confidence to give correct information. Once the respondent was confident and ready to give information, questionnaires were administered but the respondents were not required to give their names. The researcher and the informant made arrangements on the appropriate time to collect back the questionnaires. To ensure that the informants gives as much information as possible, the questionnaires had open and close –ended questions.

3.7. Data analysis procedure

Data collected was analyzed and presented by use of tables and the use of summarized percentages and proportions. Data was first subjected through a sequence of operations which includes editing, coding, classification and analysis using statistical package for social science. Analysis was done through descriptive statistics such as percentages, averages and inferential statistics.

3.8 Ethical considerations

The researcher enhanced ethics by keeping the information shared by the respondents confidential and assuring them of the same. The study avoided asking personal questions that may invade into the respondents' privacy. After successful completion of the study, questionnaires were kept in a safe archive for future reference should there be need.

3.9 Operational definition of variables

Table 3.2 Operationalization of Variables

Research objectives	Variables	Indicators	Measurement	Level of scale	Data collection	Types of analysis	Level of analysis
To establish how loan repayment influences financial performance of Capital SACCO in Meru County.	**Independent** Loan repayment	Early repayment Late payment	-Grace period on loans -Installment periods -Cases of late payment	Nominal Interval	Interview/ questionnaire	Qualitative/ Quantitative	Descriptive Inferential
To determine how interest rate charged influence financial performance of Capital SACCO in Meru County, Kenya.	**Independent** Interest rate charged	-Rate charged per loan acquired	-Number of active members -New members -Members withdrawing from the SACCO	Nominal Interval	Interview/ questionnaire	Qualitative/ Quantitative	Descriptive Inferential

To assess how membership enrollment influence financial performance of Capital SACCO in Meru County, Kenya	**Independent** -Membership enrollment	No of members in the SACCO	-Reported Sacco members -Reported rate of enrollment	Nominal Interval	Interview/ questionnaire	Qualitative/ Quantitative	Descriptive Inferential
To how duration of loan processing influence financial performance of Capital SACCO in Meru County, Kenya.	**Independent** -Duration of loan processing	-Time to disbursement	-Time between application and approval -Time between approval and disbursement	Nominal Interval	Interview/ Secondary data	Qualitative/ Quantitative	Descriptive Inferential
To identify how management of loan defaulters	**Independent**	-bad debts	-action taken to loan defaulters	Nominal Interval	Interview/ Secondary data	Qualitative/ Quantitative	Descriptive Inferential

influence financial performance of Capital SACCO in Meru County	-Management of loan defaulters	-number of loan defaulters	-procedures followed for any loan defaulter				
	Dependent Financial performance of capital SACCO	Financial success of capital SACCOS	-Efficient loan repayments -optimal loan repayments -increase in membership -proper loan management	Nominal Interval	Secondary data sources	Qualitative/ Quantitative	Descriptive Inferential
	Moderating Government	Government Policies	-Existence of sound sacco management regulations -Functional monitoring council	Nominal Interval	Secondary data sources	Qualitative/ Quantitative	Descriptive

	Intervening Community	Level of awareness	-No of individual members aware of their role in the SACCO -Reported cases of breaking SACCO rules	Nominal Interval	Interviews / Secondary data sources	Qualitative/ Quantitative	Descriptive

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the study findings based on objectives on the following themes, loan repayment and financial performance of SACCOs, interest rate charged and financial performance of SACCOs, membership enrollment on financial performance of SACCOs, duration of loan processing and management of loan defaulters.

4.2 Questionnaires return rate

Out of the 298 questionnaires distributed for this research all of them were filled and returned giving a response rate of 100 per cent. This is an indication that all the respondents took this research seriously and they had trust with the researcher. According to Mugenda and Mugenda (2003), 50% response rate is adequate, 60% good, above 70% is rated very good. Therefore in this study there was a very good response on the return of the questionnaires.

4.3 Demographic characteristics of respondents

The researcher was interested in the distribution of respondents by gender, age, marital status and their nature of duty in the organization. These characteristics are further discussed in the following sub-themes.

4.3.1 Distribution of respondents by gender

Gender was a matter of concern in this study because men and women have different ideologies on matters of savings and investments. The researcher wanted to establish how savings and investment in SACCOs can be influenced by an individual gender status. The findings are presented in table 4.1.

Table 4.1 Respondents by gender

Gender	Frequency	Percent
Male	117	39.3%
Female	181	60.7%
Total	298	100%

Out of the 298 respondents who participated in the study 117(39.3%) were males, 181(60.7%) were females .All participants responded to this question. This implies that majority of SACCO

members are females probably because females do not own collaterals like land and other fix assets as much as males does hence the females end up joining SACCOs because they use group guarantee mechanisms to secure loans.

4.3.2 Distribution of respondents by Age

The researcher sought to establish the age distribution of respondents so that it can be ascertained how age disparity affects the membership of SACCOs and appointments in SACCO management. The findings of this study are presented in table 4.2.

Table 4.2 Respondents by age

Age in years	Frequency	Percent
20-29	29	9.7%
30-39	123	41.3%
40-49	89	29.9%
50-59	57	19.1%
Total	298	100%

Table 4.2 shows that out of the 298 respondents who participated in this study, 123(41.3%) fell in the age bracket of 30-39 years, 89(29.9%) fell in the age bracket of 40-49 years, 57(19.1%) were in the age bracket of 50-59 years while 29(9.7%) fell in the age bracket of 20-29 years respectively. This implies that majority of SACCO members are in the age bracket of between 30 and 39 years probably because this is the age of young adults who seek money from financial institutions to establish their homes and educate their children. The smallest percentage of respondents were in the age brackets of 20-29(9.7%) implying that these are unemployed youth who have not acquired enough resources to invest in SACCOs.

4.3.3 Distribution of respondents by marital status

The researcher sought to establish the marital status of respondents with the aim of establishing how it affects the saving and investing culture.

Table 4.3 Respondents by marital status

Marital status	Frequency	Percent
Married	248	83.2%
Single	50	16.8%
Total	298	100%

Table 4.3 shows that 248(83.2%) were married while 50(16.8%) were single. This implies that married people have more financial demands as compared to single because they need to educate their children and establish their families.

4.3.4 Distribution of respondents by nature of duty

The researcher sought to establish the nature of duty either staff, member or management. This was supposed to enable the researcher to get varied responses from the different categories.

Table 4.4 Respondents by nature of duty

Nature of duty	Frequency	Percent
Staff	7	2.3%
Member	288	96.6%
Management	3	1.1%
Total	298	100%

Table 4.4 shows that 288(96.6%) are members, 7(2.3%) are staff while 3(1.1%) are in management. This shows that all the categories of respondents responded well by filling in the questionnaire and returning them back.

4.4 Loan repayment and financial performance

The researcher wanted to find out the system used by SACCO members to repay their loans, challenges that they face in the system used and the maximum period given to borrowers to repay back their loans. This was supposed to enable the researcher to determine the SACCO cash flow and profitability.

4.4.1 Systems used in loan repayment

The researcher wanted to find out if and in what ways does the system used to repay back the loan affects the cash flows and financial performance of the SACCO.

Table 4.5 systems used in loan repayment.

System	Frequency	Percent
monthly cash installment	287	96.3%
Check off	11	3.7%
Total	298	100%

Majority of respondents 287(96.3%) use monthly payment to repay their loans. Only 11(3.7%) used check off methods as their repayment method. This implies that majority of SACCO members are self-employed with no regular salaries. This is the reasons why they pay monthly cash installments.

4.4.2 Challenges faced

The researcher sought to establish if the SACCO members faced any challenges in the system they used to repay their loans and how those challenges affected the financial performance of SACCOs

Table 4.6 Challenges faced in the loan repayment system in use

Response	Frequency	Percent
Yes	223	74.8%
No	75	25.2%
Total	298	100%

It is unfortunate that the highest percentage, 74.8% of the respondents face problems while using the repayment system. Only 25.2% of the total sample does not face problems while using the

system. Meaning there might be fault in the system or not familiarized with the system. Bearing in mind that most of them are members. Those facing the challenges are above the 50% mark meaning there is a major problem in the use of the system.

4.4.3 Period given to repay loans.

This is the maximum period to borrowers to repay their loans. The researcher wanted to find out if the period given to repay the loans has any financial influence on SACCO profitability and cash flow. The results are presented in table 4.7.

Table 4.7 Period given to repay loans

Period given	Frequency	Percent
two years	11	3.7%
three years	287	96.3
Total	298	100%

There was 100% response to this question. 287(96.3%) of the respondents were positive of the fact that borrowers are given 3 years of loan repayments. Only 11(3.7%) of the respondents said that the borrowers are given 2 years of repayment. This implies that borrowers preferred longer duration so that they may have enough time to invest the amount borrowed and pay back out of profits.

4.5 Interest rate charged and financial performance of SACCOs

Interest rate charged by SACCOs was identified as the major factor affecting its financial performance. Interest rates are affected by the level of leading rate of the Central Bank and the levels of inflation in the country. The researcher wanted to find out the views of respondents on the current interest charged. This is further explained in the following subthemes.

4.5.1 Level of inflation in the country.

Banks' lending rates are affected by inflation in the country. When there is high inflation the cost of living goes up. The researcher sought to establish views of respondents on inflation and if this affects the financial performance of SACCOs.

Table 4.8 Level of inflation in the country for the last two years.

Inflation level	Frequency	Percent
very high	39	13.1%
high	153	51.3%
moderate	106	35.6%
Total	298	100%

Table 4.8 shows that out of the 298 respondents, 153(51.3%) rated the level of inflation in the country for the past 2 years as being high,106(35.6%) said moderate while the smallest group 39(13.1%) said it was very high. This show the reason why some SACCO members said the interest rate charged is high. Inflation is a factor beyond the control of the SACCO therefore the SACCO should look for other ways of controlling its lending rate like trying to minimize other operations cost.

4.5.2 Interest rates charged compared with other financial institutions.

The researcher sought to find out the views of respondents concerning the current interest rate charged by the SACCO and if it can influence SACCO membership and its financial performance.

Table 4.9 Interest rate charged

Rate charged	Frequency	Percent
Competitive	261	87.6%
Low	37	12.4%
Total	298	100%

Most of the respondents, 261(87.6%) consider the interest charged being competitive in comparison to other financial institutions. Only 37(12.4%) of the respondents are contrary to the opinion. This is a positive result that shows SACCOs are offering better terms than other financial institution.

4.5.3 Payment of dividends.

SACCOs pay dividends out of profits, therefore the researcher wanted to find out if the SACCO usually paid dividends to members so that it can be established if the SACCO had financial stability. The findings are presented in table 4.10.

Table 4.10 Response on whether the SACCO pays dividends.

Response	Frequency	Percent
Yes	298	100%
Total	298	100%

All the respondents responded positively to this question. Meaning the Sacco pays dividends to its members. This is a positive move by the SACCO that shows it has financial stability.

4.5.4 Dividends in arrears.

The researcher wanted to find out if there are times when the SACCO fails to pay dividends in the year they are earned so that it can be established if the SACCO has cash flow problem.

Table 4.11 Dividends in arrears

Response	Frequency	Percent
No arrears	298	100%
Total	298	100%

Since the Sacco pays dividends to its members all the respondents responded to the question. 100% of the respondents said there were no arrears in dividends meaning that the Sacco pays dividends in time.

4.5.5 Rate at which dividends are paid

The researcher sought to establish if SACCO members were satisfied by the rate of dividend paid to them so that it can be established how this affects financial performance of SACCOs. The findings are presented in table 4.12

Table 4.12 Member satisfaction on interest charged

Response	Frequency	Percent
Not satisfied	49	16.4%
No response	249	83.6
Total	298	100%

Table 4.12 shows that 249(83%) respondents out of 298 did not respond to this question while 49(16%) said they were not satisfied. This implies that the rate paid is relatively low as compared to members expectation.

4.5.6 Amount contributed as shares per month.

Shares form the major source of funds used by SACCOs for lending. In this case the researcher wanted to establish how much is contributed per month and if this can sustain the SACCO without seeking loans from commercial banks.

Table 4.13 monthly share contribution

Amount contributed	Frequency	Percent
1000-3000	125	41.9%
3000-5000	155	52%
Over 5000	18	6.1%
Total	298	100%

Out of the 298 responses, most of the respondents155 (52%) contribute shares ranging from 3000 to 5000, 125(41.9%) contribute shares of between 1000 and 3000, 18(6.1%) of the respondents contributed above 5000. This implies that majority of SACCO members are middle income earners

hence it may necessitate the SACCO to seek finance from commercial banks because the members shares alone may not be adequate.

4.6 Duration of loan processing and financial performance of SACCOs

In this study the researcher wanted to establish if duration taken to process loans can affect the financial performance of SACCOs. This is further analyzed in the following subthemes.

4.6.1 Period taken to disburse loans.

This was necessary because different financial institutions have different policies regarding the period to be taken to process and disburse loans to borrowers. The researcher sought to find out if the SACCO met the specified period of loan disbursement.

Table 4.14 Period taken to disburse loans

Response	Frequency	Percent
SACCO met specified period	224	75.2%
SACCO did not meet	56	18.8%
No response	18	6%
Total	298	100%

The highest percentage of the respondents, 224(75.2%), said that the Sacco met the specified period, 56(18.8%) said that the Sacco does not meet at the specified period of time, 18(6%) did not respond to this question. This implies that duration of loan processing is not a big problem since the majority of the respondents had no problem with the period taken.

4.7 Management of loan defaulters and financial performance of SACCOs

The researcher sought find out if there were any loan defaulters, how the SACCO deals with them and if the SACCO insure their loans against default. This is further analyzed in the following subthemes.

4.7.1 Loan defaulters and financial performance of SACCOs.

Loan defaulters' affects the cash flow of any financial institution in that amount of money meant for relending is held by the defaulters. The study sought to establish if there are any loan defaulters and how they affect financial performance of SACCOs.

Table 4.15 loan defaulters

Response	Frequency	Per
There are loan defaulters	251	84.2%
There are no defaulters	47	15.8%
Total	298	100%

In table 4.15 251(84.2%) respondents said that there are loan defaulters in the Sacco. And this is the highest percentage. Only 47(15.8%) of the respondents think that there are no loan defaulters in the Sacco. This implies that loan default is a big threat to the financial performance of SACCOs.

4.7.2 Action taken to loan defaulters.

The study was aimed at establishing the action the SACCO took on loan defaulters.

Table 4.16 Action taken to loan default

Action taken	Frequency	Percent
Attach guarantees shares	173	58.1%
Attach borrowers assets	85	28.5%
Take legal action	11	3.7%
Give more payment period	29	9.7%
Total	298	100%

Different respondents have different views on the action taken on the loan defaulters. Most of the respondents 173(58.1%) basically more than half of the total sample think that guarantors shares are attached on defaulters, 85(28.5%) said that borrowers assets are attached, 29(9.7% said that defaulters are dealt with by giving them more time to pay loans while 11(3.7%) said legal action is taken on defaulters respectively. This shows that mostly SACCOs opt the most lenient method of attaching guarantors' shares because group guarantee system of securing loans is mostly used.

4.7.3 Insurance cover on defaulters

The study aimed at finding out whether any insurance cover was taken against default.

Table 4.17 Insurance on loan default

Response	Frequency	Percent
Insurance is taken	250	83.9%
Insurance is not taken	48	16.1%
Total	298	100%

Out of the 298 respondents, 250(83.9%) said the Sacco insured loans against defaulters. This might be as a result of 251 people believing that there are loan defaulters as presented in table 4.15. 48(16%) of the responds said that the Sacco does not insure loans against defaulters.

4.8 Variable analysis

The researcher used cross tabulation to illustrate various variables and their relationships.

4.8.1 Duration of loan repayment and financial performance of SACCOs

The researcher sought to find out if there is any relationship between duration of loan repayment and financial performance of SACCOs.

Table 4.18 Duration of loan repayment and financial performance of SACCOs

Crosstab

			Have you sourced any credit from the commercial banks?		
			yes	No	Total
Period given to repay loans	two years	Count	0	11	11
		Percent	0%	100%	100%
	three years	Count	67	184	251
		Percent	26.7%	73.3%	100%
Total		Count	67	195	262
		Percent	25.6%	74.4%	100%

None of the borrowers given a repayment period of 2 years sourced for credit from commercial banks. Out of the 251 respondents that are given a repayment period of three years 184 respondents 184(73.3%) had not sourced any credit from commercial banks .This shows the level of satisfaction given a reasonably longer repayment period. Thus we see a positive correlation between duration of loan repayment and eventual retaining of customers once they are satisfied. Only 67 of them had sourced credit from commercial banks. We attribute the 67(25.6%) of the respondents who borrowed loans from commercial banks given a longer repayment period to those customers who had exhausted their borrowing capability owing to their share capital.

4.8.2. Interest rate charged and financial performance of Capital SACCO in Meru County, Kenya.

The researcher wanted to find out the relationship between interest rates charged and membership enrollment of SACCOs.

Table 4.19 Interest rate charged and financial performance of Capital SACCO

Crosstab				
			Trend of membership Enrollment	
			Increasing	Total
Interest rate charged as compared to other financial institutions	High	Count	261	261
		Percent	100.0%	100.0%
		% of Total	87.6%	87.6%
	Low	Count	37	37
		Percent	100.0%	100.0%
		% of Total	12.4%	12.4%
Total		Count	298	298
		Percent	100.0%	100.0%
		% of Total	100.0%	100.0%

All the respondents felt that the membership of Capital SACCO was increasing during the last two years. Out of these, 37(12.4%) of these respondents felt that the interest rate was low compared to other banks whereas a majority 261(87.6%) of the respondents felt that the interest rates charged was high thus we not that the membership increase for capital SACCO cannot be associated to the rates of interests charged as majority felt that the rates charged were high compared to other banks. Thus there are other underlying factors causing the increase in membership of Capital SACCO other than the rates of interests charged. Thus the interests rates charged currently don't affect the growth of this SACCO.

4.8.3 Duration of loan processing and financial performance of Capital SACCO in Meru County, Kenya.

The researcher wanted to establish if there existed any relationship between duration taken to process loans and members sourcing credit from other financial institutions.

Table 4.20 duration of loan processing and financial performance of Capital SACCO

Crosstab

			Those who sourced credit from other financial institutions.		
			Yes	No	Total
SACCO met specified period of loan processing	yes	Count	10	196	206
		Percent	4.9%	95.1%	100.0%
		% of Total	3.4%	65.8%	69.2%
	No	Count	30	14	44
		Percent	68.2%	31.8%	100.0%
		% of Total	10.1%	4.7%	14.8%
Total		Count	40	210	250
		Percent	16%	84%	100.0%

As noted from descriptive statistics, majority of the respondents have not sourced credit from commercial banks. 196(65.8%0 of the respondents have not sourced for credit from commercial banks and are satisfied that the loan processing duration was ok. However 68.2% of the respondents who have sourced for loans from other commercial banks attribute it to delay in loan processing and a minimal 31.8% attribute borrowing loans from other commercial banks to some other factors others than loan processing duration. We thus see an association between loan processing duration and quest to source for loans in other banks. When Capital SACCO members source loan from other commercial banks due to delayed loan processing in their SACCO it translated to loss of revenue to the SACCO in form of interests and hence affect the eventual performance thus we can say that duration of loan repayments affects the performance of Capital SACCO.

4.8.4 Management of loan defaulters and financial performance of Capital SACCO in Meru County, Kenya.

Here the researcher wanted to establish if there was any relationship between how the SACCO dealt with loan defaulters and the membership enrollment of Capital SACCO>

Table 4.21 management of loan defaulters

Crosstab

			Membership enrollment increasing	Total
How to deal with defaulters	Attach guarantors Shares	Count	173	173
		Percent	100.0%	100.0%
		% of Total	58.1%	58.1%
	Attach borrowers Assets	Count	85	85
		Percent	100.0%	100.0%
		% of Total	28.5%	28.5%
	Take legal action	Count	11	11
		Percent	100.0%	100.0%
		% of Total	3.7%	3.7%
	Give borrower more period	Count	29	29
		Percent	100.0%	100.0%
		% of Total	9.7%	9.7%

Table 4.21 shows that 173(58.1%) of the loan defaulters are attached to guarantee shares to recover the loan owned to the SACCO. However this does not affect the growth and performance of Capital SACCO as all the respondents sampled accepted that the membership was growing within the last two years. Generally, the decision taken by the management of Capital SACCO does not affect the growth of the SACCO thus we can conclude that the management of the loan defaulters does not affect the growth of Capital SACCO largely because this is an individual challenge and cannot affect eventual growth of Capital SACCO.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, discussions, conclusions, recommendations and areas for further research.

5.2 Summary of findings.

The key movers of SACCO financial performance like loan repayment, interest rates, membership enrollment, duration of loan processing and management of loan defaulters were used as the variables of this study. Capital SACCO was studied for the effects of these variables on its financial performance. Descriptive research design was used. Questionnaires, interviews and observations was used as instrument of data collection.

5.2.1 Loan repayment and financial performance of Capital SACCO in Meru County.

As had been noted none of the borrowers given a repayment period of 2 years sourced for credit from commercial banks. Out of the 251 respondents that are given a repayment period of three years 184 respondents (73.3%) had not sourced any credit from commercial banks .This shows the level of satisfaction given a reasonably longer repayment period. Thus we see a positive correlation between duration of loan repayment and eventual retaining of customers once they are satisfied. Only 67% of them had sourced credit from commercial banks. We attribute the 25.6% of the respondents who borrowed loans from commercial banks given a longer repayment period to those customers who had exhausted their borrowing capability owing to their share capital. We thus note that given a reasonable duration will be an asset in growing the performance of Capital SACCO.

5.2.2 Interest rate charged and financial performance of Capital SACCO in Meru County, Kenya.

All the respondents felt that the membership of Capital SACCO was increasing during the last two years. Out of these, 12% of these respondents felt that the interest rate was low compared to other banks whereas a majority 87.6% of the respondents felt that the interest rates charged was high

thus we note that the membership increase for capital SACCO cannot be associated to the rates of interests charged as majority felt that the rates charged were high compared to other banks. Thus there are other underlying factors causing the increase in membership of Capital SACCO other than the rates of interests charged. Thus the interests rates charged currently don't affect the growth of this SACCO. Further, 86.7% of the respondents though feeling that the interest's rates were high have never taken a loan from commercial banks. Only 13.3% of those respondents who felt that the interests' rates were high took a loan with the commercial banks. This further attest that the current rate of interest rates charged to Capital SACCO members does not affect the eventual growth and performance of the SACCO in terms of membership growth like noted earlier then there exists other factors that we shall continue to investigate in this work that explains this underlying truth.

5.2.3 Duration of loan processing and financial performance of Capital SACCO in Meru County, Kenya.

As noted from descriptive statistics, majority of the respondents have not sourced credit from commercial banks.94.32% of the respondents have not sourced for credit from commercial banks and are satisfied that the loan processing duration was ok. However 68.18% of the respondents who have sourced for loans from other commercial banks attribute it to delay in loan processing and a minimal 31.82% attribute borrowing loans from other commercial banks to some other factors others than loan processing duration. We thus see an association between duration of loan processing and quest to source for loans in other banks. When Capital SACCO member's source loan from other commercial banks due to delayed loan processing in their SACCO it translated to loss of revenue to the SACCO in form of interests and hence affect the eventual performance thus we can say that duration of loan repayments affects the performance of Capital SACCO.

74.3% of those respondents who claim to have sourced money from other commercial banks felt that this was due to complaints about delays in processing members' loans while a minority 25.6% felt that this was not the course. Only 11.5% of those members of Capital SACCO who sourced for loans with other commercial banks felt that this was due to some other factors other than delayed loan repayment thus the effect of loan repayment in growth of this enterprise cannot be ignored. We see a positive relationship between members shift to other commercial banks with increase in complaints about delayed in loan processing as had been noted above as well. Thus we

conclude that delay in loan repayment will affect the performance of Capital SACCO in Meru County.

5.2.4 Management of loan defaulters and financial performance of Capital SACCO in Meru County, Kenya.

58% of the loan defaulters are attached to guarantor's shares to recover the loan owned to the SACCO. However this does not affect the growth and performance of Capital SACCO as all the respondents samples accepted that the membership was growing within the last two years. Generally, the decision taken by the management of Capital SACCO does not affect the growth of the SACCO thus we can conclude that the management of the loan defaulters does not affect the growth of Capital SACCO largely because this is an individual challenge and hence it does not affect the eventual growth of Capital SACCO.

A majority 78.2% of those respondents who felt that the current measures used to recover loans from defaulters were fair claims not to have sought loans from other commercial banks. Further only 10.2% of these respondents who had sought loans from other banks felt that the measures taken to recover loans from defaulters were punitive. We note no association between the measures taken to recover loans and a migration of members to seek other loan sources hence these current loan management measures doesn't affect performance of Capital in a negative way. In our view these measures seem to maintain a 'status quo' but we would suggest further studies given other factors. Thus management of loan defaulters in terms of measures used to recover the loans does not affect the performance of Capital SACCO.

5.3 Discussions

In this study a thorough literature review was carried out to identify variables such as loan repayment, interest rates, duration of loan processing and management of loan defaulters. Questionnaires were formulated with comprehensive questions and were used to collect data from Capital SACCO. The SACCO showed good operational and financial performance with increasing growth but there was weakness in it product diversity. The data analysis showed that

the SACCO should also review their interest rates to ensure that their rates are competitive. The default rate in the SACCO also shown a threat to the future financial performance of the SACCO hence the need to put in place policy measure to reduce default rates.

In this study it was established that there was a positive correlation between duration of loan repayment and retaining of customers because the study shows that 73% of respondents who were given a reasonable repayment period did not source credit from other commercial banks. Besley (2003) asserted that enforcement of loan repayment constitute a major difference between rural credit markets in developing countries and credit markets in developed countries. This means that if SACCOs becomes flexible by extending repayment period to loan borrowers they can retain their customers and increase their financial performance as established in this study.

A lot has been reviewed in terms of lending activities of various deposit money banks. Felicia(2011) used regression analysis to investigate the determinants of commercial banks' lending in Nigeria and the study discovered that interest rates charged has the greatest impact on the lending behavior. In this study it was established that the favorable interest rates charged by capital SACCO give it an increasing tread in membership enrollment. Those respondent who felt that the interest rates charged were high went ahead and sourced credit to other commercial banks while those who felt that interest rates were fair did not source credit from commercial banks.

The duration taken to process loan also affects the financial performance of financial institutions because borrowers approach lenders for loans when sometimes they are faced with urgent financial needs. In this study it was established that capital SACCO met the specified period of loan processing as per the firms policy, hence 94.32% of the respondents did not source for credit from commercial bank because they were satisfied that the loan processing duration was ok. In his study Nyanjwa(2008) he found that the performance of financial institutions depends on their operational efficiency. He noted that although there is no standardized performance measure tool to evaluate the status of a SACCO the borrowers expect timely services so that they can meet their business financial demands.

It was also established in this study that the overall financial performance of SACCOs is greatly affected by the increasing default rates. Default was not established as big threat to the growth and expansion of SACCOs because default is an individual problem but it affects the

profitability. It was established that loan defaulters were attached to guarantors shares and 78.2% of respondents felt that this method of dealing with loan defaulters was right. A study was carried out by Yashwant(2014) on nonperforming assets caused by increase default in the corporate lending segment and it was established that a number of financial institutions have been attributed to have managerial failures because of their inability to arrest the rising nonperforming assets. A number of business entities have been lining up for restructuring their debt to escape bank action on non-payment of loans. It was not clear the exact cause of default therefore financial institutions should investigate the cause so that they can mitigate this vise.

5.4 Conclusions

The study identified issues that affect financial performance of the SACCO. The research challenges the management of Capital SACCO to consider the interest rates they charge on loan to members as compared to other financial institutions because if featured as the major challenge to financial performance of Capital SACCO. Interest rates should be reviewed frequently depending on the prevailing market rates. The management have given a lot of attention to increased marketing to increase membership but this alone will not be of much benefit if the whole business environment is not brought into the picture. This should include the services given to customers and the time taken to give these services.

5.5 Recommendations for policy issues

1. The researcher recommends that the management should enhance marketing to increase the number of members hence increasing the capital base of the SACCO.

2 It is also recommended that the board of management must have basic financial skills to enable them interpret financial statements

3. It is recommended that the SACCO should diversify its product to be able to compete perfectly in the market and to meet the demands of its members. This can be done through market research.

5.6 Areas for further research

1. Further studies should be carried out to know the optimal duration for loan repayment has this has been seen to affect the loan repayment of Capital SACCO.A shorter duration has been seen to affect the customer while very long durations are known to affect profitability of the institution.
2. The study established that the current interests charged doesn't affect the growth in terms of expansion of the SACCO, a further study should be done to strike a balance between profitability and membership increase.
3. The SACCO should improve on its loan processing periods as this has been seen to cause a shift to other commercial banks when the duration is longer as opposed to when the duration is shorter.
4. A study on other factors of credit management can affect the growth of Capital SACCO as the current factor studied in this study (recovery technique) does not affect the performance of the SACCO.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

James Mutuma
P.O. Box 730 NKUBU
Mobile phone 0720825246

Dear Respondent

REF: RESEARCH REPORT QUESTIONNAIRE

I am a master's student at university of Nairobi pursuing a degree in masters in project planning and management. This is to introduce to you to the academic based research study being conducted on factors affecting financial performance of saving and credit cooperative societies. I kindly request for your assistance in filling the attached questionnaire to enable me complete my research. The questionnaire is only for academic purposes and any information given shall be treated with strict confidentiality. Please give the information as accurately as possible and do not write your name on the questionnaire. Thank you in advance and I look forward for your cooperation.

Yours sincerely,

James Mutuma
Registration: L50/60079/2013

APPENDIX II: QUESTIONNAIRE

The questionnaire will be presented for answering to staff, SACCO members and management of Capital SACCO.

i) Please tick the appropriate box
ii) Where there are lines please give your views as per the question
iii) Do not write your name in the questionnaire

Section A

Demographic Data

1. Gender Male ☐ Female ☐
2. Age 20-29 ☐ 30-39 ☐ 40-49 ☐ 50-59 ☐
   60 and above ☐
3. Marital status: Married ☐ Single ☐
4. Nature of duty staff ☐ Member ☐ Management ☐

Section B

Effects of loan repayment on financial performance of Capital SACCO

1. What system do you apply to your members to repay their loan?
   Check off system ☐ Monthly cash installment ☐ Both ☐
2. Do you face any challenges in using your system?
   Yes ☐ No ☐
3. If yes what can you suggest as the possible solution to these challenges?
   ---
4. What is the maximum period given to borrowers to repay their loan?
   Six months ☐ One year ☐ Two years ☐ Three years ☐
   Any other specify
   ---
5. How does the period given affect the cash flow of the SACCO?

Section C

Effect of interest rate on financial performance of Capital SACCO.

1. How would you rate the level of inflation in your country for the last two years?
   Very high ☐ High ☐ Moderate ☐ Low ☐
2. Has the level of inflation affected the interest rate in your SACCO?
   Yes ☐ No ☐
3. If yes in what ways? Please indicate

---

4. What has been the average rate of interest charged on loan to your members for the last 2 years?

---

5. How can you rate the interest you charge as compared to other financial institutions in the county?

   High ☐ Competitive ☐ Low ☐

6. Does the interest rate charged by your SACCO affect its financial performance

   Yes ☐ No ☐

7. If yes how? Please specify

Section D

Effect of membership enrollment on financial performance of Capital SACCO

1. What is the trend of membership enrollment for the last 2 years?

   Increasing ☐ Decreasing ☐ No change ☐

2. If the membership has been increasing what strategy has been used?

   Increased marketing ☐ Good quality of services ☐

   High dividends paid ☐ Good management ☐

3. In your opinions can the members' shares sustain the SACCO operation without sourcing any credit from the commercial banks?

   Yes ☐ No ☐

4. If no please suggest what can be done to acquire financial sustainability?

   ---

5. Do you pay dividends to your members?

   Yes ☐ No ☐

6. What has been the average rate of dividend in the last 2years?

   ---

7. Are there any dividends in arrears not paid to the members?

   Yes ☐ No ☐

8. If yes what are the reasons of not paying?

   ---

9. Have you sourced any credit from the commercial banks?

   Yes ☐ No ☐

10. If yes are you satisfied by the rate at which the bank charges you?

    Yes ☐ No ☐

11. What is your position in the SACCO?

    Member ☐ Staff ☐ Management ☐

12. What prompted you to join the SACCO society?

    ---

13. How much do you contribute as shares per month?

    1000-3000 ☐ 3000-5000 ☐ 5000 and above ☐

14. What is your view about the minimum monthly compulsory contribution?

Section E

Effect of duration of loan processing on the financial performance of capital SACCO

1. According to the SACCO policy how long should a loan take to be disbursed to the borrower? Please specify

---

---

2. Does the SACCO meet the specified period?

   Yes ☐ No ☐

3. If no what are the reasons?

   Lack of enough funds ☐

   Inadequate credit staff ☐

   Poor management ☐

   Others specify

   ---

4. What effort has the SACCO management put in place to mitigate this problem?

   ---

5. Do members come to complain about delays in processing loans in this SACCO?

   Yes ☐ No ☐

6. If yes, what is the main problem complained about?

   Bad attitude of credit staff ☐

   Incompetent staff ☐

   Long process of loan processing ☐

   Others specify

Section F

Effects of loan defaulters on financial performance of capital SACCO

1. Are there any loan defaulters in your SACCO?

   Yes ☐ No ☐

2. If yes how would you rate the level of default?

   Very high ☐ High ☐ Moderate ☐ Low ☐

3. What do you think are the reasons for loan defaulting?

   ---

4. In your own views what is the main solution to loan defaulting?

   ---

5. How do you deal with loan default in your SACCO?

   Attach guarantees shares ☐

   Attach borrower's assets ☐

   Take legal action ☐

   Give more periods to the borrower to pay the loan ☐

6. Do you insure your loans against default?

   Yes ☐ No ☐

7. If yes what percentage do the insurers charge you?

   ---

8. Do you think it is economical to insure loans against default?

   Yes ☐ No ☐

9. If no which is the best way to deal with loan defaulters? ---

   ---

APPENDIX III tabular method of determining minimum sample size

Table 5.1 Bartlett, Kotrlik &Higgins Sample size determination table

Population size	Sample size	
	Continuous data (margin of error 0.03)	Categorical data (margin of error 0.05)

	Alpha .10 t 1.65	Alpha .05 t 1.96	Alpha .01 t 2.58	p .05 t 1.65	p .50 t 1.96	p .50 t 2.58
100	46	55	68	74	80	87
200	59	75	102	116	132	154
300	65	85	123	143	169	207
400	69	92	137	162	196	250
500	72	96	147	176	218	286
600	73	100	155	187	235	316
700	75	102	161	196	249	341
800	76	104	166	203	260	363
900	76	105	170	209	270	382
1000	77	106	173	213	278	399
1500	79	110	183	230	306	461
2000	83	112	189	239	323	499
4000	83	119	198	254	351	570
6000	83	119	209	259	362	598
8000	83	119	209	262	367	613
10000	83	119	209	264	370	623

NOTE: the margin of error use in the table were .03 for continuous data and .05 for categorical data. Researcher may use this table if the margin of error shown is appropriate for their study, however the appropriate sample size must be calculated if these error rates are not appropriate. Table developed by Bartlett, kotrlik,&Higgins.