EFFECTS OF CREDIT POLICY ON PERFORMANCE OF SAVING AND CREDIT SOCIETY IN KENYA. A SURVEY OF METROPOLITAN TEACHERS SOCIETY AND GITHUNGURI DAIRY FARMERS SOCIETY IN KIAMBU DISTRICT

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September, 2012
DECLARATION

This project is my original work. The project has not been submitted for examination to any university.

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DEDICATION

This work is dedicated to my dad George Kimani Githaiga. Your support has inspired me to move on.
ACKNOWLEDGEMENT

To my husband Peter and my children Kingsley and Cynthia for the patience, love and support you have always given.

To my supervisors, Mr. Mungai and Mr. Ngaba for their total commitment and dedication in this phase of my studies, I am grateful.

To my colleagues Titus, Eunice, Dorcas, Paul and family for encouraging and inspiring me in my professional career, thanks.

Most important, gratitude to Almighty God for giving me the strength and ability to write.
ABSTRACT

A SACCO is a form of financial institution formal in nature controlled, used and democratically governed by members themselves. Its purpose was to encourage saving among members and using the pooled funds to make loans to its members at reasonable rates of interest and providing related financial services to enable members improve their economic and social conditions.

The study intended to identify the effects of credit policy used by SACCOs on its performance in Kiambu District. It was motivated by the fact that currently large populations of its members were seeking financial services from other financial institutions especially commercial banks which threatened its survival into the future. This was because the stringent and traditional credit policy of SACCOs caused delay in service delivery and limited the amount of loan advanced which made them unattractive to customers. During the years the main loan security for SACCOs was members salary and his/her good character while banks required collaterals such as title deed which was more demanding to acquire. At present SACCOs were facing stiff competitions due to this, hence the need for demands of its credit policy in order to improve its performance against its rivals. The study was guided by the following objectives, to establish the effect loan terms and conditions on performance of SACCOs; to examine the effect of loan procedures and performance of SACCOs; and to examine the effect of credit information and length of credit relationship with the SACCOs on the performance of the SACCOs. The study was carried out using descriptive research design and its target population comprised of credit appraisal staff of Metropolitan Teachers SACCO and Githunguri Dairy farmers Society in Kiambu District. The credit officers provided information or data concerning the SACCO itself. Data was collected using questionnaires. Piloting was done to ensure reliability and validity of research instruments. Data was coded and analyzed using statistical package for social sciences (SSPS). Variables were measured mainly using nominal scale and analyzed using Chi-square tests. Finally the SACCOs should review their credit policies regularly in order for them to remain competitive against the changing lending environments. Hence more study should be done.
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**DEFINITION OF TERMS**

**Marketable securities**: A deposit or investment easily convertible to cash with a minimum of loss.

**Liquidity**: The capacity of a financial institution to meet its financial obligations as they fall due.

**Portfolio**: The collection of securities in which an Organization or individual has invested.

**Surplus**: Accumulated Sacco earnings which have not been allocated or distributed to members.

**Term Deposit**: Funds on deposit for a specific length of time.

**Un-pledged**: Not given as security for a loan or other obligation

**Terms of credit**: Are basic requirements a member is required to meet to qualify for a loan in the financial institution.

**Loan procedure**: Was the process followed in obtaining a loan from a financial institution.

**Cost of loan capital**: referred to the rate of interest and other charges on loans advanced.

**Credit information**: Referred length of credit relationship with the SACCO.

**SACCO Performance**: Referred to the rate of growth in provision of savings and credit facilities to its members.
**ABBREVIATIONS**

<table>
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<td>AGM</td>
<td>Annual general meeting</td>
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<td>KCB</td>
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<td>KUSCCO</td>
<td>Kenya Union of Saving and Credit Co-operatives</td>
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<td>MCDM</td>
<td>Ministry of Co-operative Development and Marketing</td>
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<td>MFI</td>
<td>Micro-Finance Institution</td>
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<td>NGO</td>
<td>Non- Governmental Organization</td>
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<td>PFS</td>
<td>Pyramid Financial Schemes</td>
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<td>P.A</td>
<td>Per annual</td>
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<td>SACCO</td>
<td>Saving and Credit Co-operatives</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>SSB</td>
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CHAPTER ONE
INTRODUCTION

1.0 Introduction and Background of the Study

The co-operative sector in Kenya has become the most important sector in Kenyan economy, playing an indispensable role in diverse economic activities, especially in agricultural production, distribution of farm inputs, marketing of agricultural produce, mobilization of credit resources and provision of social services including education, health, transport and housing (Ongwane, 2003).

Co-operative was a very old concept with potential for a very bright future that can only be realized if people with an interest in co-operatives put efforts to make them work. The term co-operative means a legally registered autonomous association of person’s united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise centre of corporate governance (2003). Co-operatives were introduction in Kenya in 1930’s recognized and controlled by government from 1931 when an ordinance to regularize their operations was first passed which was later amended in 1997 removing much of government control. Through the commissioner of co-operatives subsequent events in the co-operative sector have led to the amendment bill of 2004 whose aim was to return to a stronger supervisory role for the government, but without the stiffing and bureaucratic controls. During a workshop in December (2003) of KNFC held in Mombasa it was observed that the co-operative movement has changed a great deal from being dominated by rural
agricultural based to large employer based co-operatives which play a large role in the finance business (Mudibo, 2008).

SACCOs are about economic development of the society. They fight poverty, reduce in-equality and stimulate economic growth throughout the country. At their core SACCOs provide affordable financial services to those who otherwise would not have access to them. Improving living standards and reducing inequality strengthens democracy (Branch, 2007). Saving and credit co-operative (SACCOs) main objective is to mobilize savings from and provide credit facilities to their members. Currently it constitutes the most dynamic and rapidly growing sector of the co-operative movement society in Kenya. By providing credit whose security is members share contribution and employment SACCOs have become the only means of securing credit facilities to many Kenyan’s who do not posses other forms of collateral requirements by commercial banks and other financial institutions. SACCOs are relatively recent phenomenon in Kenya with the first two saving and credit societies having been started in 1964 (Brian, 2007).

The growth of SACCOs and their ability to mobilize savings especially from low and middle income employees has enhanced the role of the co-operative in the country financial and credit system. Although saving resources mobilized by SACCOs are largely meant to serve credit requirements of their members, a substantial proportion of these resources found its way to the banking system. Most of the SACCOs bank with the co-operative bank of Kenya which has become a major banking institution in the country. SACCOs are today spread in virtually all sectors both in rural and urban areas. Today the co-operative sector cuts across all sectors of the economy accounting for more than 45% of Kenya gross domestic product (GDP) and half of the country population of over 40 million Kenyans directly or indirectly derives their livelihood.
from co-operative sector. At the end of 2009 the sector had a total turnover of about Ksh15 billion and a total share capital contribution of more than 24 billion and a membership of over 7 million in the over 12000 registered co-operative societies. (Republic of Kenya, 2009).

Saving and credit co-operatives societies like other deposit taking intuitions thrive on trust and confidence of their members. However the leadership of SACCOs can easily be complacent in the brief that their members have faith in their stewardship since being owned institutions the leaders are democratically elected. Experience in Kenyan SACCOs has proven over the time the most popular persons are not necessary the best leaders to guide the strategic direction of the SACCOs. Governance in SACCOs is increasingly becoming a challenge especially as SACCOs expand in service and product, range and diversified membership. The members want to be involved in the running of SACCOs but the SACCOs being a business entity need to move faster to keep up with the competition (Kibinge, 2008).

The co-operative legislation is restrictive as most decision is reserved to members during AGM and not managers of SACCOs while for commercial banks managers are executing and practicing flexible business rules. Delayed services delivery due to bureaucratic decision making procedures, shortage of fund, inflexible regulatory mechanism makes SACCOs unattractive to customers. This is further worsened by changing economic and political conditions, changing levels of income, lack of stable income, changing standards of living as well as prices of goods and services leading to high demand for loans amongst key community. The board and management are under pressure to ensure access services easily and conveniently while ensuring that the SACCOs remains financially stable. (Odhiambo, 2007).
Since the implementation of the 2004 Co-operative Societies Act significant improvement has been evident in the performance of the sector. In order to enhance co-operate performance the ministry has developed a number of guidelines for co-operative movement which are investment guidelines, governance guidelines, education and training guidelines. In this competitive economic environment, good governance cannot be compromised, as those ethical values and codes of conduct necessary for the development of their co-operatives. The vision 2030 equally identifies co-operatives as a major contributing force to the attachment of its economic, political and social goals. In order to strengthen the sector the Ministry has formulated savings and credit co-operatives societies’ development strategy and facilitated the drafting of a SACCOs bill. This has leaded the role of co-operative in marketing decline over the years (Republic of Kenya, 2009).

Metropolitan Teachers Society (formally Kiambu Teachers SACCO) which was registered on 10th February, 1977. Cs no. 2628 started operation in 1978. The society intended to serve primary teachers in Kiambu District, Central Province. Over the years the society’s by laws have been amended and the membership has now comprised of teachers, KNUT, civil servant and other institutions in the Diaspora. Hence the change of name to metropolitan Teachers SACCO Ltd to cater for the diversity. As at 31st June 2011 the society’s membership stood at 14,634. They have branches at Kiambu, Thika, Limuru, Nairobi and Kisumu. www.metrosacco.co.ke.

Githunguri Dairy Farmers was registered in August 1961 with a membership of 31. The society started with one collection centre, which have increased to 58 fully computerized to date.
Currently the co-operative has grown tremendously to 17,000 registered members annual turnover of Kshs.3billion as an average of 170,000 litres of milk per day. The society has store outlets spread in the catchment area for provision of dairy farm inputs and household consumables to members on credit. www.fresha.co.ke.

1.1 Statement of the Problem

The SACCO societies have had some very good impact in the improvement of their member’s economic well being and bringing people together hence tightening member’s societies. SACCO societies like most other financial organizations were highly affected by the fast changes taking place in the general business environment like competition, legal, technological and political changes. Such factors have gone a long way in affecting the credit policy of SACCO societies.

According to Metropolitan Annual Report 2006-2007 (magazine July-September issue no.4) indicated that the number of applicants for normal loans were 12,355 and 11,875 in year 2006-2007 respectively. This signified a decline of 4.1% which implied that the members have found other sources of meeting their financial needs apart from SACCOs.

The entrance fees for Githunguri SACCO members collected over the period 2007 to 2009 was increasing at a declining rate of 8%, 6.1% and 5.8% respectively (Annual Fresha Report, magazine April 2010). Thus the number of new members joining the SACCO was reducing persistently over this period which implied that it was no longer appealing to the clients. There was a big challenge experienced in SACCOs of retaining current membership and attracting new
members due to lack of a prudent credit policy resulting to seeking funds from mainly the banks instead of SACCOs.

Furthermore, prior studies (Brian 2007, Kibinge 2008,) on credit policy were mainly confined to develop countries and very limited evidence is available on developing countries especially from Africa region. This study therefore sought to determine the effects of credit policy on performance of SACCOs.

1.2 Objective of the Study

1.2.1 General Objectives

The main objective of the study was to investigate the effects of credit policy on performance of SACCOs in the financial sector in Kiambu District.

1.2.2 Specific Objectives

i. To establish the effect of loan terms and conditions and the performance of SACCOs.

ii. To examine the effect of loan acquisition procedures and requirements and the performance of SACCOs.

iii. To determine the cost of capital and the performance of the SACCOs.

iv. To examine the relationship between client credit information and the performance of SACCOs.

1.3 Research Questions

i. What is the relationship between loan terms and conditions and the performance of SACCOs?

ii. How do loan acquisition procedures and requirements relate to the performance of SACCOs?

iii. How do the cost of capital relate to the performance of SACCOs.

iv. How does client credit information relate to the performance of SACCOs?
1.4 Significance of the Study

The study finding will help the prospective loan seekers to make an optimal decision whereby they will be able to choose a source of finance with minimum cost and more benefit both in the short run and long run. Thus their choice of either SACCO or commercial bank loan will be a knowledgeable decision unlike the current scenario whereby many people are ignorant about the terms of credit.

The SACCOs would have an advantage over its competitors from the study in that they would be able to compete favorably by adopting sound loan policies which would stimulate economic development in the country. Amendments in the governing credit policy that impedes SACCOs competitiveness against its rivals due to poor financial performance were suggested in the study for consideration by commission of co-operatives to assist in formulating a product credit policy.

The study would assist the government in achieving the Millennium Development Goal (MDG) if the measures recommended were adopted as it would ensure the sustainability and future survival of SACCOs were achieved. Which were crucial for employment creation and poverty alleviation? From the government survey report (April 15th 2010) 46% or 17.5million of the 40million population lived below the poverty line which indicated that Kenyans were living generally a better life today than ten years ago which needs to reduce further.

Finally the study provided background information to other researchers who would like to investigate more about effects of credit policy used by other types of co-operatives on their operations.
1.5 Scope of the Study;
The study was to investigate the effects of credit policy on SACCO’s performance over the period 2005 and 2010 in the financial sector in Kiambu District. The SACCOs selected for study were Metropolitan Teachers SACCO society and Githunguri Dairy Farmers Co-operative society. The two SACCOs were chosen due to being among the once with a wide coverage within Kiambu District.

The researcher selected metropolitan teachers Sacco’s society and Githunguri Dairy Farmers co-operative society as it was convenient and diversity of the two between the formal employees and informal within the district. Credit policy was analyzed by considering the strength and weakness to the SACCO itself and its members.

1.7 Limitations of the Study
Due to limitation of time and finance only 2 SACCOs were studied. Information collected in the study was of self report nature especially among members which depending on the subject areas being asked were prone to accuracy as a result of lack of information or discomfort with self disclosure. The SACCOs employees were busy that the researcher was unable to collect the required data. Movement of employees did not give enough time for respondents to effectively respond to the questionnaires. The researcher overcame these limitations by requesting the management to set aside a specific time when the workers were not very busy so as to collect the data. These helped to solve the problem of busy respondents. Since the researcher intended to conduct research in different SACCOs, time allocated was not enough and also the researcher was faced with financial constraints due to the fact that whatever funds set for the study was not
enough. To overcome time and finance limitation a survey was used and available resources squeezed to meet the expenses of the research.

The researcher foresaw the respondent not willing to give the required information which lead to not achieving the desired results. This happened in cases whereby the respondents feared giving information due to lack of trust or giving important information to rival competitors or going against the organization rules and ethics. The researcher assured the respondents that the information would be treated with a lot of confidentiality it deserves and it would be used strictly for research purposes only.

The respondents were not willing to give out information pertaining to the subject since they feared that the information would not be confidentially handled which could lead to loss of their jobs. The respondents were made aware that the researcher would be permitted by the management to carry out the investigations on the problem above. In this concern the researcher overcome these issues by giving the letter of research to indicate that she was a researcher and that the information collected was for academic purposes to carry out the investigation in the organization. Also the researcher promised that if the information is not treated confidentially the researcher would be held liable.
1.8 Basic Assumptions

For the purpose of this study the following assumptions were made:

i. That the respondents answered honestly and promptly.

ii. That the SACCOs maintained correct and complete record of their activities.

iii. That the most important effects of credit policy on SACCOs were revealed by the questionnaires.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter gives the background information that aided the researcher to have a wide understanding of the research area. It therefore presented a review of works, some by scholars on area of credit policy of saving and credit co-operative organizations. SACCOs offered services to individuals who must first save some of their incomes with them and apply for credit commensurate with their savings. The credit was not always going to be availed promptly mainly because of the credit policies that were followed within the SACCOs hence the need to investigate the effects of credit policy of such financial organizations.

2.1 Brief History of Co-operative Societies

According to international co-operative Associations (ICA), a co-operative was an autonomous of persons working voluntary to meet their common economic social and cultural needs and aspirations through jointly owned democratically controlled enterprises. According to co-operative societies Act Cap 490 (1966), a co-operative is an association of persons who have voluntarily joined together to achieve a common goal through the formation of a democratically controlled organization making equitable contribution to capital required and accepting a fair share of risks and benefits of the understanding in which the members actively participate. In an ICA meeting held in Manchester, England in 1999 the following were agreed upon as the governing principles of co-operatives; open and voluntary participation of members, autonomy and independence, education and training, co-operation among co-operatives and concern for community in general.
Co-operative movements are known to have existed in countries like England and United State of America. In England they are known to have existed since (1844) at Rachale. They later spread to Canada (1901) and USA (1908). The first saving and credit co-operative was founded in (1949) in Rhineland (Lasserve, 1959). In Philippines members would save, borrow and repay the principal plus interest using rice (Right 2000).

In Kenya traditional co-operative existed all over the Kenyan communities under different names. In kikuyu it was called ngwatio, group work in which members of the group assisted each other in turn in cultivation and construction. The luo had group work called saga, in which members of the group would plough or harvest individual gardens of their members in turn (Ouma, 1990). Similarly in Kisii there was Risaga, and in Kalenjin there was kokweti.

Before colonization, Africans knew that unity is strength and that was why they cleared bushes together, lived in homesteads, defended themselves against enemies together and looked after cattle together. The old people knew that the young ones would look after them when they became too old to work among other things (Ouma, 1987).

In Kenya SACCOs movements began in 1946 when due to great economic problems and social changes which affected the whole nation especially so the working group they felt they should form co-operative associations (Ouma, 1990). They mobilized saving and pooled resources for purposes of granting credit facilities to themselves. Today the co-operative sector cuts across all sectors of the economy accounting for more than 45% of Kenya gross domestic product (GDP)
and half of the country population of over 40 million Kenyans directly or indirectly derives their livelihood from co-operative sector. At the end of 2008 the sector had a total turnover of about ksh15 billion and a total share capital contribution of more than 24 billion and a membership of over 7 million in the over 12000 registered co-operative societies (Republic of Kenya 2009).

2.2 Theoretical framework

Loans that constitute a large proportion of the assets in most SACCOs portfolios are relatively illiquid and exhibit the highest credit risk MacDonld, 2000. The theory of asymmetric information argues that it may be impossible to distinguish good borrowers from bad borrowers (Auronen, 2003) which may result in adverse selection and morals hazards problems. Adverse selection and moral hazards have led to substantial accumulation of non-performing accounts in SACCOs. The very existence of SACCOs is often interpreted in terms of its superior ability to overcome three basic problems of information asymmetry, namely ex ante, interim and ex post (Deventer, 1993).

Consideration that form the basis for sound credit risk management system include: policy and strategies (guidelines) that clearly outline the scope and allocation of a SACCO credit facilities and the manner in which a credit portfolio is managed, i.e. how loans are originated, appraised, supervised and collected (Basel, 1999). Screening borrowers is an activity that has widely put to use in the SACCOs sector in the form of credit assessment. According to the asymmetric information theory, a collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.
The assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques. One major challenge of using qualitative models is their subjective nature. However, borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique is termed as credit scoring (Heffernan, 1996). The technique cannot only minimize processing costs but also reduce subjective judgments and possible biases. The rating systems if meaningful should signal changes in expected level of loan loss. (Chijoriga, 1997) concluded that quantitative models make it possible to, among others, numerically establish which factors, are important in explaining risk, evaluate the relative degree of importance of the factors, improve the pricing of default risk, be more able to screen out bad loan applicants and be in a better position to calculate any reserve needed to meet expected future loan losses.

Clear established process for approving new credit and extending the existing credits has been observed to be very important while managing credit risk (Heffernan, 1996). Further monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem. Monitoring involves, among others, frequent contact with borrowers, creating an environment that the SACCO can be seen as a solver of problems and trusted adviser, develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrowers business through the SACCOs account; regular review of the borrowers report as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted.
2.3 Empirical review

Many surveys on credit policies in Kenya have been mainly qualitative in nature (Raikes, 1989). Zeller, 1993) used a univariate probit model to estimate the factors that determine an individual’s borrowing decisions, in terms of their participation in credit markets in Madagascar. The market segments were treated separately in order to identify similarities and differences between the sectors in credit applications and rationing. The results showed that among the informal lenders, age, schooling, wage income, sick days and household headship are significant determinants of applications for credit. On the other hand, gender and social events are not significant. Age, the years of schooling and the ratio of outstanding loan increase the probability of being supply constrained. Higher household wealth reduces the probability of applying for a loan. Zeller divided the factors into individual characteristics, labor assets, household events that affect credit demand, and reasons for participation. This approach assumed that an individual’s decision is only affected by internal factors. However, external factors also play an important role in influencing participation in credit markets.

In another study on decisions adopted by SACCOs in granting loans, Bibsten et al. 2000) estimated credit market participation and constraints faced by firms by modeling the explicit demand for funds by firms and assessing the decision rules used by financial institutions to grant loans. One of the recommendations of the study were that since applying for funds has transaction costs, firms can build internal funds from retained profits. It argued that controlling for risk attitudes, the factors that determine whether firms have a demand for credit are expected return on investment, the opportunity cost of using own funds and the cost of outside funds. Given credit market imperfections, firms may prefer external funds, but would not apply due to
inability to meet the requirements, perceived low rate of application success, and high costs associated with loan application.

The unique characteristic of credit services provided by the different segments of the informal market to a great extent explains the heterogeneity of the market. In addition, the existence of information asymmetries between borrowers and lenders limits the substitution of credit by switching between formal and informal sectors, thereby inhibiting competition and ensuring segmentation (A. wells, 1981). The credit market fragmentation also implies that there are few lending units that can satisfy the needs of borrowers interested in certain types of credit. This affects enterprises that want to expand. In this study, it was found that the average amount of credit from the informal market was significantly lower than that from the formal market segment. While credit from informal sources may serve the purpose of enabling small enterprises to start, it may not be adequate for those wanting to go beyond a certain level of operation. Hence, whereas the informal market may be more accessible than the formal market, it does not satisfy the needs of a certain category of enterprises that are too big for it, but still do not meet the requirements of the formal market. This study therefore also reveals a credit gap in the rural credit markets, capturing those who cannot get credit from the formal market because of the lending terms and conditions, but who fail to get what they want from the informal lenders (Chijoriga, 1997).

The availability of credit, or access to credit by borrowers, can be explained in terms of the credit rationing behavior of lending institutions. According to a study by Zeller (1994), when borrowing credit is perceived as a decision making process, then it starts with the decision of the
individual to apply for credit or not. This depends on whether the individual has a demand for credit. The studies reviewed in the ongoing discussion indicate that credit terms imposed by SACCOs in any form of lending determine not only the demand for credit but also the category of the borrowers. Credit policy adopted by SACCOs therefore is critical in determining the revenue that a lending institution can realize through lending. The current study will investigate the influence of credit policy adopted by SACCOs on the performance of the SACCOs.

2.4 Credit Policy

A SACCO is a saving and credit society whereby members put together regularly their pooled savings with a view of obtaining loans for provident and productive purposes. A SACCO has several purposes like to promote thrift, to provide a source of credit at a low rate of interest and to teach people the wise use of their money and the efficient management of their limited pooled resources. A SACCO is composed of individual persons who agree voluntarily to pool together their resources and use them in helping one another. These individuals are the owners of the organization. The running of the society therefore is entirely dependent on the owner wises and aspirations provided of course they don’t contravene the government laws, as stipulated in the co-operatives societies Act, ordinance or decree. Due to their number the members cannot all attend to the day-to-day activities of the society. They elect a committee and distribute the society work to sub-committee or outside this committee (Kibinge, 2008).

The SACCOs Bill 2007 requires that loan policy and procedures manual specifying the criteria and procedures applicable in the evaluation, processing, approval, documentation and release of loan credit facilities is put in writing by every licensed society. Loans must be distributed
according to the established credit policy and procedures as given by (Murungi, 2004). Written policies set the levels of authority for granting loans. The policies define the type of loan offered, loans term, interest rate policies, loan ceiling and concentration limits. The leading policies provide guidelines for eligibility information requirements, security and collateral requirements and terms of review. The Minister for co-operatives development commented that most SACCOs did not have clear loaning policies which they should strictly comply with when granting loans to management committees, staff and members as in (17th November, 2007) Nation ltd.

The loan policy gives the management specific guidelines in making individual loan decision and in shaping the institution’s overall loan portfolio. This ensures that regulatory standards are met and promotes profitability in the organization. A written loan policy statement is beneficial as it communicates to employees in the loan department what procedures they must follow and what their responsibilities are. Therefore it helps the organization to move towards a loan portfolio, controlling its risk exposure and satisfying regulatory requirements. Any exceptions to the policy should be fully documented and reasons for it listed. While any written policy must be flexible due to continuing changes in economic conditions and regulations, violation of loan policy should be infrequent events. Loan departments considers all such changes and periodically review is crucial as it helps management to indentify problematic loans more quickly and acts as a continuing check on whether loan policy is adhered to by loan officers. The commercial banks review loans more efficiently such that they are able to top up loans faster for instance, due to use of modern technology unlike SACCOs (Rose, 2007).
It was revealed that the study underscored the need to formulate a prudent credit policy for individual manufacturing firms as well as the need for a conducive macro and micro environments in order to synchronize benefits of using credit facilities and facilitate financial mobilization of firms which can be liked to SACCOs also. Therefore formulation of prudent credit policy for SACCOs is important to avoid loss of its market to its rivals.

The types of loan offered by SACCOs are mainly short-term and long-term loans. The short-term loans are those repayable within one year and are usually meant for school fees and other emergency expenses. The amounts are generally small and are guaranteed by members and do not help members to increase their overall earning capacity. Long-term or development loans are larger amounts and have a longer term of more than one year. They help members to increase their earning capacity through success of projects to be financed by the loans. Repayment period is usually for more than one year. No collaterals are given by members in form of property pledged expect the secured guarantors and thus management should consider securing them in that manner. There is evidence that repayment of SACCO loan are not being taken seriously by members due to low interest rate charged, lack of suitable guarantors and poor management system for loan collection. As a result, most of them are caught up in serious cash flow problem. The situation is complicated further by overdrafts co-operatives negotiable with commercial banks at higher interest rates to loan members at lower interest rates (Murungi, 2004).

The main objective of SACCOs was to offer cheaper savings and loan to its members. Saving is made through check-off system from the member’s monthly salary and farm produce every month. The loans are charged interest rate at 12% per annum which is cheaper than that of
commercial banks excluding other conditions of credit policy. The types of loans offered are mainly business or development loans, personal loans and savings and others such as Front Office Service Activity, FOSA (Ndubi, 2006).

As stated in Metropolitan SACCO web site FOSA is a facility that offers financial services similar to those offered by commercial banks although it's not a bank? It was initiated to facilitate encashment of third party cheques and provision of simple banking services to members only. Commercial loans are offered for those with extra income other than salary while instant loans are for members who need capital loans very urgently. Interest rate charged is on reducing balance for SACCOs as opposed to flat rate and other hidden charges by banks and other financial institutions.

Credit risk management should include strict delinquency monitoring, loan-loss provision and collection procedures. Credit risk is measured most accurately when loans are approved and processed on the basis of “five Cs” character, capital or cash, capacity, collateral and conditions. Loans must be distributed according to established credit policies and procedures. Loan analysis should therefore be guided by the formula: purpose, repayment schedule, amount applied for, collateral, terms of loan agreement, interest rate chargeable, applicant's character and experience that a member has to fulfill the purpose of loan (Murungi, 2004).

2.4.1 Loan Terms and Conditions

Terms and conditions of SACCOs are many and rigid and a member is required to provide guarantors, boost his share savings and cannot be advanced a loan which will attract a deduction
of more than two thirds of his/her gross pay despite amount of shares held, which allows him/her to get a loan of three times her/his shares. This eventually leaves the amount loan disposable to a member less than that advanced by banks thus becomes preferred by many members (KUSSCO Report, 2007).

The main loan security for SACCOs was member's salary and his/her good character while banks required collaterals such as title deed which was more demanding to acquire (Ouma, 1987). This was the case until 2001 when unsecured loans were introduced by commercial banks targeting the Sacco members among other potential clients. (Ndungu, 2008) observed that unless the loan applied for is equal to or less than member's shares it must be secured by guarantors who must be members of the society while in banks there is no such condition.

The two thirds rule must hold always for SACCOs unlike banks which do not strictly adhere to it always. The T.S.C secretary banned the check-off system to pay credit for banks due to not observing the rule, leading to salary over commitment which in turn caused inefficiency in service delivery by teachers affected. The ban was later lifted after a meeting between TSC top management and Kenya Bankers Association whereby the rule was reinforced and agreed that it should be observed strictly by financial institutions as stated in Nation ltd (25th September, 2009). At present SACCOs are facing stiff completion especially from commercial banks due to this, hence the need for changes of its credit policy in order to be more competitive. The credit terms will be measured using the ease of meeting them by considering the total number of loan applications received and those not eligible due to not observing certain terms of the policy.
2.4.2 Loan Acquisition Procedures

The procedure of obtaining a loan from SACCOs is lengthy in that after submission of loan application forms, there is a loan appraisal, its approval and verification by different departments before loan disbursement and finally cheques are dispatched. Normal loans are processed weekly while emergency loans are processed as they are received for Metropolitan SACCO. While for Githunguri Dairy Farmers SACCO the processing period for normal or development loan is one month and for emergency loan is granted on request. (Ndungu, 2008) noted that bureaucracy and long delays in loan processing by SACCOs have led to members seeking for alternatives from banks and other FIs which readily offer loans without delay. The bureaucracy of loan granting process by committee has also caused some dissatisfaction amongst members especially in case of emergency loans and school fees. (Yash Ghai et al, 1972) stated that excessive bureaucracy is one of the main causes of inefficiency in co-operatives. There is ease in obtaining an unsecured loan from commercial banks within two to four days after the submission of loans forms with all supportive documents which is very fast compared to the case of SACCO’s normal loan which takes around one month.

An article on automation by (Mwaniki Nation ltd, 17th November, 2007) indicated that KCB will start issuing loans faster through adoption of credit quest. This will facilitate faster analysis of the customer credit history and enable periodic credit reviews thus will reduce time and manage credit risks more effectively. Being the first to adopt the software in Africa implies that other banks will follow suit. (Turban et al, 1996) states that the way a firm views its business consumers and competition is critical to the successful aligning of its business and information
technology strategies. Information technology is used to automate processes and augment the skill of the organizational staff.

According to (Kibanga, 2003) organization develops new knowledge, skill and competence through marketing research which is lacking in SACCOs unlike banks. Hence SACCOs have failed to accommodate the dynamic nature of a modern business in a fast changing environment. Robson, (1997) stated that strategically successful organizations obtain market feedback continuously and rapidly and adapt to the feedback ahead of its rivals. They exploit the potential of strategic as well as competitive and operating information system which occur in the banks not in SACCOs. Information technology changes are among the most important forces that can generate and utilize information (Porter, 1985). Thus with the aggressiveness of commercial banks of embracing the latest technology in provision of loans and other services SACCOs face a bigger challenge of cut throat competition in the financial sector. This is because co-operatives generally are slow to adapt ICT as only four percent of the registered ones can operate information and communication systems as per the survey carried out in April, 2008 by the Ministry of Co-operative and Marketing Development as per the Nation ltd (26th May, 2008). The loan procedure will be measured using the total number of processed loans within a month and the period of processing after receipt of required documents by the SACCO.

2.4.3 Cost of Loan Capital/Cash

It was revealed that interest rate contributed the highest percentage of the cost of credit of manufacturing firms listed at the NSE. The commercial banks were fully blamed for clipping the Kenyan economy by charging exorbitant interest rates ranging between 30% and 70% p.a. in
1993. This led to the publication of Donde Bill in early 2002 to regulate the interest rate on borrowing to be 3% above the Treasury bill rate. This bill was not passed in parliament due to the adverse effects it was likely to have on the economy such as rush in inflation as for the Nation ltd (28th April, 2002).

A study by (Susan, 2006) concluded that the low interest rate charged by SACCOs wasn’t attractive enough to retain their members or even attract new ones due to the low interest rates charged by banks. The base rate of treasury bills determines the interest rates charged by banks. Thus the lower the base rate, the lower the interest rate and the higher the base rate the higher the interest rate charged by banks. The commercial bank lending interest rates ranges from 12.18%p.a. to 25.50%p.a. at present (CBK 2007), while that of SACCOs has always remained constant at 12%p.a. disregarding all other conditions of credit policy.

The interest rates charged by banks change due to changes in the economy while for SACCOs remain static in most cases as they are determined by members through an AGM. Thus clients are affected negatively when interest rates rise as they will pay more for banks loans than before unlike the SACCO loans. Majority of the SACCO members are ignorant of these fact and thus are vulnerable to exploitation by banks. The T.S.C public relations officer said the check-off facility had been withdrawn following reports that a big number of teachers had over committed their salaries. Teachers formed the single biggest block of clientele for commercial banks especially for unsecured loans according to Nation ltd (25th September, 2007). This is mainly due to the ignorance of the cost element of loans by majority of SACCO members.
The central bank of Kenya CBK commissioned Research International in August 2007 to carry out a survey on the cost of bank services due to low transparency and a complicated price structure. The research picked on two loans of ksh500,000 and ksh50,000 over 36 and 24 months repayment periods respectively for commercial banks. The outcome was that the ksh500,000 loan was repaid with total amounts ranging from ksh593,888 to ksh661,875 excluding other charges. While the total repayment for ksh50,000 loan ranges between ksh56,344 to ksh63,281 excluding other charges by the banks ranged from ksh5,000 to ksh55,000 (CBK, 2007). According to a letter to SACCOs from KUSCCO head office (9th October, 2007) on SACCO loan charges the total loan repayment at an interest rate of 12% p.a. on reducing balance for kshs500,000 over 36 months is kshs590,000 and ksh50,000 over 24 months is ksh56,000. There are no other additional charges for SACCO loans and hence are cheaper than bank loans. The members of SACCOs are not aware of these extra charges by banks and therefore are fully exploited.

According to the first discussion draft by Centre of Corporate Governance (2004), co-operatives operate at cost and keep their prices as low as possible, below completing businesses yet they are subject to the same market conditions, for instance interest rates maintained at 12% p.a. since inception. Thus it makes the SACCO less competitive as it minimizes the amount of revenue raised through interest charged on loans which in turn reduces the amount of loan disposable to members. The members demand for loans is higher than the supply of the SACCO which leads to shifting to commercial banks loans for large amounts with fewer conditions. The Minister for Co-operative Development and Marketing acknowledged that SACCOs faced myriad challenges among them inadequate capitalization (Nation ltd, 1st October, 2007). This problem inhibited the
SACCOs ability to discharge efficient service or offer quality products to their clients. Thus it has led some SACCOs borrowing funds from commercial banks at hefty interest rate which eventually affect their liquidity as they lend to their members at lower rate of 12%p.a.

The Minister recommended that SACCOs should mobilize saving internally by inventing attractive products and affordable accessible services for members instead of getting loans from banks. (Murungi, 2004) recommended that there is now need to develop the German aspect of getting external funds although it is discouraged within the co-operative movement. The study will seek to find out if the recommendation given were implemented by the SACCOs and if not suggest the way forward. Cost of credit will be measured using interest rate and other additional charges.

2.4.4 Credit Information and the Length of Credit Relationship with the Member

This refers to information supplied by a credit agency of the economic circumstances of the borrower. The information helps lenders assess the risk of lending money to loan applications. Many different scoring systems exist, but they all use the borrower's credit history to predict the likelihood of repayment, based on the past behavior of borrowers with similar profiles. Credit information and length of lending relationship with the SACCO are among the most important factors when a lender makes a decision to reject or approve an applicant, and they also affect the rate and terms that lenders will offer (Hussein, 2005).

According to (Ouma, 1987) a long lending relationship reduces a severity of information asymmetries experienced by the SACCO by providing it with information on the borrower’s
credit history and her account movements. The economic performance may convey valuable information to the SACCOs one it reveals the degree of competitiveness in the aggressive financial markets.

2.5 SACCO’s Performance

The statistical information from MCDM as at the end of 2006 indicated that the SACCO movement business performance was voluminous and lucrative by having mobilized more than ksh152 billion thus attracting the attention of business associates and competitors. The main competitor is commercial banks while others include, Micro Finance Institutions (MFI), Financial Services Associations (FSA) and Pyramid Financial Schemes (PFS), which were directed to cease their operation for being illegal by CBK in early 2007. From a survey released recently by the Government Ministry of Finance and that of planning it showed that the co-operative sector ranked third as a lending financial segment to 11% of the entire population (Jeremiah, 2007).

Ray port, (1995), states that competition is defined along two dimensions: the physical world of resources and the vital world of information. Information supports and enhances every activity in the organization and it can itself be a source of added value and hence a competitive advantage. A report of (KUSCCO, 2007) indicated that competition is a daily phenomenon in a financial service industry environment but determining the most effective way of competing and managing the competition can be a real challenge. Thus finding constructive ways to build and retain comparative advantage in the market place is very crucial for a firm’s competitiveness. A study by Centre of Co-operate Governance (2007) identified a real challenge today of SACCOs
being how to build and retain their competitive advantage and establish their relevance in the financial sector. According to (Thompson, 1989), competitive advantage comes to positioning a firm in the market such that it has an edge in coping with competitive forces and in attracting clients. Meeting customer needs is what business must do while continuing to innovate and create better and newer products if they are to expect success. Thus they need to be ready to provide products when, where and how customers want them as well as being more aggressive in capturing new markets which requires effective marketing to be done by SACCOs.

A study by (Fridah, 2007) stated that due to stiff competition faced in the sector many SACCOs have opened FOSAs and serve their clients just as any commercial bank does. Legislative changes governing interest rates and amounts deposited at the CBK by commercial banks have had a big impact in the banking industry over the last five years. Any decisions made by the banks have substantial impact on the banking industry which in turn affects the entire financial sector. (GOK, 2002) in addition highlighted the emergence and recognition of MFI as alternative sources of funds for loans. Thus these changes in the economy have increased competition in the sector especially with regards to the number of financial products available in the market that is comprised of an increasingly more sophisticated clientele.

Kenya’s financial sector landscape comprises of a mix of formal, semi-formal and informal components. The formal sector covers wide range of institutions such as banks and co-operative societies which are mostly urban and pre-urban based. The sector has also experienced an increase in the number of institutions providing similar services previously only provided by SACCOs such as RSCA, MFI and NGOs. These developments have brought about an
environment in which survival of the Sacco depends on its ability to effectively compete in the market (Ndubi, 2006). Sustainability of SACCOs lies in their ability to rely on the market to mobilize savings and generate enough revenues to cover costs of providing services rather than depend on check-off system of cash inflow from monthly salary payments and government support. Thus the provision of market driven products and ability to beat competition is most crucial for their survival (Ouma, 1990).

SACCO’s financial performance was measured in terms of surplus generated and the dividends paid to Metropolitan and Githunguri Dairy Farmers members over the period 2005 and 2010 in the study. Other parameters used were membership total deposits and share capital, loan disbursements and loan delinquency rate. Most SACCOs generated surplus and payed dividend to members of between 2% and 6% of the value of their shares. Usually only between half and two-thirds of total surplus were distributed as dividends (Egerton University, 2004). Capital accumulation depends on membership and volumes of members deposit will lead to high capital formation as well as high profits for the SACCOs as they will be able to meet high demand for loans. Commercial banks capital fund is massive and keeps them afloat in their financial business thus they are able to meet larger unsecured loan amounts required by clients compared to SACCOs (Jeremiah, 2007).

Quest for growth an article by (Wachira Nation ltd, 17th April, 2007) indicated that there was a high expansion in the banking sector due to increase in economic growth and high liquidity of commercial banks which pushes them to seek for more clients aggressively compared to SACCOs. The statistics released by CBK showed that in the end of year 2010 the banking industry made ksh27.3 billion in pre-tax profits against ksh19billion in 2009. The differential
income of the two periods is obtained from non-funded income, fees and commission on transactions, interest on loans and advances. The easy terms and simple loan procedures used by banks has lured SACCO members to obtain loans from them instead of resulting too stiff competition faced by SACCOs. Hence there is need for studying the effect of credit policy on SACCO’s performance and its members in the financial sector in Kenya.

2.6 Summary of Gaps to be filled by the Study

According to (Rebecca, 2007) an urban SACCO is a model SACCO since a rural SACCO is a recent phenomenon. No much research have been done on rural SACCOs especially on the effects of credit policy. The factors that affected credit policy are known but the extent to which each of the effect in different categories of SACCOs was not documented. This research aims at categorizing SACCO societies and establishing the main factors that affect the credit policy of Metropolitan and Githunguri SACCO societies.

SACCOs share capital mainly served as security for loans and it cannot be used for any other purpose like investment. The payment of interest on this share capital demands that SACCOs be in favorable liquidity position (Ouma, 1986). This liquidity would arise if there were proper credit policies managed at all times. What determines these credit policies in the different SACCOs was not known. This research would establish the credit policy of Metropolitan and Githunguri SACCOs in Kiambu District (Rebecca, 2007).
<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLES</th>
<th>INTERVENING VARIABLE</th>
<th>DEPENDENT VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Terms of loan and conditions</strong></td>
<td></td>
<td>Political factors</td>
</tr>
<tr>
<td>• Repayment period.</td>
<td>Economics factors</td>
<td></td>
</tr>
<tr>
<td>• Interest rates.</td>
<td>Bureaucracy</td>
<td></td>
</tr>
<tr>
<td>• Ability to pay</td>
<td>Internal factors</td>
<td></td>
</tr>
<tr>
<td><strong>Loan procedure</strong></td>
<td></td>
<td>Performance</td>
</tr>
<tr>
<td>• Bureaucratic procedures.</td>
<td>• No of New A/c.</td>
<td></td>
</tr>
<tr>
<td>• Delay in loan processing.</td>
<td>• No of loans to customers.</td>
<td></td>
</tr>
<tr>
<td><strong>Cost of capital/cash</strong></td>
<td></td>
<td>• Loan portfolio</td>
</tr>
<tr>
<td>• Loan tenure</td>
<td></td>
<td>• Loan products (Various type of loan)</td>
</tr>
<tr>
<td>• Disposable income</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Credit information and length of credit relationship with SACCO</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowers credit history</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account movement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal behaviour</td>
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</tr>
</tbody>
</table>

Source: Researcher, 2012
2.7 Conceptual Framework

There were four independent variables considered in the study namely terms of credit, loan procedure, and cost of loan capital and credit information and length of credit relationship with SACCO. The link between these variables and the performance as dependent variable was little known which determined Sacco’s competitiveness in the financial sector. Meanings of variables include:

**Terms of loan and conditions** are basic requirements a member is required to meet to qualify for a loan in the financial institution.

**Loan procedure** was the process followed in obtaining a loan from a financial institution.

**Cost of loan capital** referred to the rate of interest and other charges on loans advanced.

**Credit information** and length of credit relationship with the SACCO.

**SACCO Performance** referred to the rate of growth in provision of savings and credit facilities to its members.

The presence of political influence, limited financial resources and bureaucracy as intervening variables adversely affected SACCO’s performance. Variables were measured using nominal scale to be analyzed using chi-square test for qualitative data and used trend analysis for quantitative data.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
This chapter contained the research methodology which was used for the study. It specifically addressed the research design, population, sampling technique, instruments of data collection and data analysis. The research aimed at finding out the effects of credit policy on performance of SACCOs.

3.1 Research Design
The study adopted the descriptive and exploratory survey research to identify the effects of credit policy on performance of SACCOs. They were used because the approach focused on exploration behavior, experiences and opinions of respondents. The designs also attempted to get in depth opinion from participants. They also provided ways of discerning, examining, comparing, contrasting and interpreting meaningful data in order to elicit rich, detailed material that could be used in analysis (Kothari, 2004). The designs also allowed use of multiple tools for data collection, such as questionnaire and document analysis, and gave the researcher a rich data base.

3.2 Target Population
Population referred to an entire group of individuals, events and objects having common observable characteristics that were the aggregate of all what conforms to a given specification (Mugenda, 1999). There were 89 public secondary schools in Kiambu District (District
Education Office 2010). The Githunguri Dairy Farmers had 58 collection centers. For each category 10% of populations were selected (Mugenda 1999).

3.3 Sampling Strategy

Stratified random sampling was used. The representatives were stratified into two categories that is formal and informal according to the respective common bond of the members of the SACCOs. For each category 10% of the members were selected randomly so as to make the sample to be studied. Mugenda, (2003) recommends a sample size of 10%. In each sample category two members were selected. The sample schedule was as follows;

Table 3.1: Sampling Strategy

<table>
<thead>
<tr>
<th>Sample category</th>
<th>Total no. of population</th>
<th>10% of the sample</th>
<th>Total no. of sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>89</td>
<td>9</td>
<td>9*2=18</td>
</tr>
<tr>
<td>Informal</td>
<td>58</td>
<td>6</td>
<td>6*2=12</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>30</td>
</tr>
</tbody>
</table>

3.4 Data Collection Technique and Procedures

The data was collected using questionnaires which were personally administered by the researcher. The questionnaires had structured and semi-structured questions. The questions were aimed at collecting mixed method of quantitative and qualitative and were used to correct and analyze data to all the targeted respondents.
3.5 Pilot Study

Pilot study was done prior to the main research to verify the instruments for data collection of 5 centers in each case. These institutions were chosen through simple random sampling. Any modification and adjustments to the questionnaires were made later after piloting in preparation of the main research.

3.6 Data Analysis Techniques

The analyses were made from coded responses of questionnaires. The data was analyzed using statistical package for social sciences (SPSS). In order to determine the relationship between the variables mixed methods were used to analyze the data. Quantitative data obtained was analyzed using simple descriptive statistics including frequency, charts, graphs and percentages. Qualitative analysis technique was used since the method attempted to get in depth opinion from participants. (Borg, 1989) say that it provided ways of discerning, examining, comparing, contrasting and interpreting meaningful data and materials that were used in the analysis.

Chi-square was used to determine if there was any relationship between the four independent variables and dependent variable. The quantity \( \chi^2 \) describes the magnitude of discrepancy between theory and observation that is with the help of \( \chi^2 \) test can be attributed to chance or whether it results from the inadequacy of the theory to fit the observed facts. If \( \chi^2 \) was zero it means that the observed and expected frequencies completely coincide. The greater the value of \( \chi^2 \) the greater would be the discrepancy between observed and expected frequencies.

\[
\chi^2 = \sum \frac{(O - E)^2}{E}
\]

Where; \( O \) = observed frequency
The calculated value of $\chi^2$ was compared with the table value of $\chi^2$ for a given degrees of freedom at specified level of significance. If the calculated value of $\chi^2$ was greater than the table value, the difference between theory and observation was considered to be significant i.e. it could not have arisen due to fluctuations of simple sampling. On the other hand, if the calculated value of $\chi^2$ was less than the table value, the difference between theory and observation was not considered significant i.e. it could have arisen due to fluctuations of sampling (Saleemi, 2007).

3.7 Expected Output

The expected output was that there was a significant effect of credit policy used by SACCOs on its performance in the financial sector as a result of analyzing the factors considered in the study. The way forward then for the SACCOs future survival was crucial to be planned for by adopting certain measures to be recommended at the end of the project.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction.

This chapter presents the discussions and the findings of the study. The study was of descriptive nature and thus the data will be largely analyzed using percentages and presented using descriptive methods; that is, pie charts, bar graphs and tables. In order to ascertain the extent of effect of independent variables on the dependent variables. The findings were discussed according to the research questions that guided the study.

i. What is the effect of loan terms and conditions on the performance of SACCOs?

ii. How do loan acquisition procedures and requirements affect the performance of SACCOs?

iii. How the cost of capital do affects the performance of SACCOS?

iv. How does client credit information affect the performance of SACCOs?

4.2 Response Rate

The target population of the study was members of the two SACCOs under study. Out of the 30 questionnaires were administered 27 were received back accounting for 90%. This response rate was considered high enough to validate the findings of the study.

4.3 Credit Policies Adopted by SACCO

SACCO credit policy is a statement of its philosophy, standards, and guidelines that its credit appraisal staff must observe in granting or refusing a loan request. These polices determine
which loans will be approved and which will be avoided and must be based on the country’s relevant laws and regulations (Kantor & Maital, 2009).

4.3.1 Presence of a Written Credit Policy

The researcher sought to find out whether SACCOs have a written credit policy in force. The responses were as shown in figure 4.1.

![Figure 4.1 Presence of Credit Policy](image)

The findings of the study revealed that majority of the SACCO (83.3%) have a written credit policy in force while a sizable proportion of the respondents (16.2%) said their SACCO do not have one. The findings indicate that some respondents were not aware of existence or inexistence of a credit policy in their SACCOs. Owing to the importance as underscored by (Kantor & Maital, 2009), the SACCO that operate without a written credit policy may lack a standard way
of administering credit to their customers which may adversely affect their ability to compete with other players in the market.

4.3.2 Frequency of Reviewing Credit Policy

When asked how often the SACCOs review their credit policies. The findings were as displayed in figure 4.2.

![Figure 4.2 Frequency of Reviewing Credit Policy](image)

Majority (49%) of the respondents said that their SACCO review their credit policies very often, 27% of the respondents said their SACCO review the credit policies often, 14% said the SACCO do not review their credit policies often while only a small proportion of the respondents said that the SACCOs never review their credit policies. The findings of the study therefore report that in the SACCOs where the credit policies are in force, the policies are reviewed regularly.
4.3.3 Setting Interest Rates Charged on Loans

The researcher further sought to find out how the SACCO set the interest rates on the loans they process. The findings of the study were as summarized in table

Table 4.1 Setting of Interest Rates on Loans

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidized</td>
<td>7</td>
</tr>
<tr>
<td>Prevailing market rate</td>
<td>15</td>
</tr>
<tr>
<td>At a premium rate</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
</tr>
</tbody>
</table>

 Majority of the respondents (55.6%) reported that their SACCO set the interest rates for the loans procured at the prevailing market rates. 25.9% of the respondents said that their SACCO set the interest rates below the prevailing market rates at a subsidized rates while only a small proportion of the respondents (18.5%) reported that their SACCO set the interest rates at a premium rate; that is; above the prevailing market rates. The findings therefore imply that most SACCO offer loans at the market rate or at a premium rate.

4.3.4 Setting Repayment Schedules

The researcher sought to find out how the SACCO set the repayment schedules. The findings were as displayed in table 4.2.

Table 4.2 Setting of Repayment Schedules

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiated with client</td>
<td>10</td>
</tr>
<tr>
<td>Pegged to type of loan</td>
<td>8</td>
</tr>
<tr>
<td>Depend on principal amount</td>
<td>5</td>
</tr>
<tr>
<td>Fixed by SACCO</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
</tr>
</tbody>
</table>
Majority of the respondents 37.1% said that their SACCO negotiate with their clients in order to come up with the repayment schedules, 29.6% of the respondents reported that their SACCO peg the repayment schedules to the type of the loan, 18.5% said that their repayment schedules are determined by the principal amount of the loans granted while 14.8% said that the interest rates are fixed by the SACCO. The findings therefore indicate that majority of the SACCOs are responsive to their clients as far as the fixing of repayment schedules are concerned. This is likely to boost the competitiveness of the SACCOs that negotiate with their clients in fixing the repayment schedules for the loans.

4.3.5 Percentage of the Loan Amount Constituting Loan Transaction Costs

The researcher further sought to establish the portion of the loan granted by the SACCOs that go to financing of the loan transactions and which have to be offset upfront from the loan amount of amount granted. The findings were as tabulated in table 4.3.

<table>
<thead>
<tr>
<th>Percentage of loan taken by transaction costs</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27</td>
<td>2.50</td>
<td>5.50</td>
<td>3.7838</td>
<td>0.84344</td>
</tr>
</tbody>
</table>

The findings of the study show that the transaction costs charged by the SACCO range from 2.5% to 5.5% of the loan amount granted. The average transaction cost charged by the SACCO is 3.7838% and the standard deviation of 0.84344. The findings therefore imply that the deviation between the transaction costs charged by the SACCO is low and thus the SACCO charge almost equal transaction costs on the loans.
4.3.6 Handling of Lending Risks

On the lending risks and the way the SACCOs manage them, the study sought to determine how the SACCO manage the lending risks. The responses were as displayed in figure 4.3.

Figure 4.3 Handling of Lending Risks

Majority of the respondents (37%) said that their SACCO operate a risk fund against the lending risks. 33.3% said that their SACCO charge the lending risks on their customers while only 29.6% of the respondents said their SACCO absorbs the lending risks.
4.3.7 Influence of Loan terms and Conditions on Loan Volumes

The study sought to establish the influence of loan terms and conditions on the loan volumes sought from a SACCO. The findings were as summarised in figure 4.4.

Figure 4.4 Influences of Loan Terms and Conditions on the Volumes of Loans

Majority of the respondents (91.9%) said that loan terms and conditions influence the volumes of loans sought from a SACCO. Only a small proportion (8.1%) of the respondents said that loan terms and conditions have no influence on the volume of loans sought from a SACCO.

4.3.8 Effect of Loan Terms and Conditions on SACCO's Competitiveness

The study further sought to determine the effect of loan terms and conditions on the competitiveness of a SACCO. The findings of the study were as summarised in figure 4.5.
Majority of the respondents (37.8%) said that loan terms and conditions affect a SACCO’s competitiveness to a large extent, 21.6% responded; to a small extent, 18.9% responded; to a very small extent, 13.5% said to a very large extent while only 8.1% said that loan terms and conditions have no effect on the SACCO’s competitiveness. The findings therefore imply that the nature of loan terms and conditions have a large effect on the SACCO’s competitiveness.

4.3.9 Effect of the Adherence to Loan Terms and Conditions on SACCO Performance.

When asked whether the number of and adherence to the loan terms and conditions have any effect on the performance of a SACCO, the findings were as summarised in figure 4.6.
Most respondents (73%) said they do affect while a few (27%) said they do not. The findings therefore imply that the number of the loan terms and conditions and the strictness of a SACCO in adhering to them have an effect of the performance of a SACCO.

4.4. Factors Considered When Developing Credit Policies

Having established the nature of the influence of credit policy on the performance of a SACCO, the study sought to determine the factors considered when developing the credit policy for a SACCO.

4.4.1 Number of Processes for Approving a Loan

Table 4.4 Number of Processes for Approving a Loan

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of processes</td>
<td>27</td>
<td>2.00</td>
<td>5.00</td>
<td>3.2703</td>
<td>.99019</td>
</tr>
<tr>
<td>of approving a loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The findings of the study shown in table 4.5 indicate that the number of processes of approving the loan application forms range from 2 to 5 among the SACCO with a mean of 3.27 and standard deviation of 0.99. This implies that the number of processes of approving a loan application is fairly uniform across the SACCOs. This further implies that the number of processes involved in the approval of loans is a factor considered to be instrumental to the revenue generation through lending by most of the SACCO.

4.4.2 Duration Taken in Process Loan Application Form

When asked how long their SACCOs take to process loan application forms, the responses were as shown in figure 4.7.

**Figure 4.7 Duration Taken to Process Loan Application Form**

Majority of the respondents (37.8%) said their SACCO take 1-3 days, 24.3% take less than a day, 21.6% take 4-5 days while only 16.2% of the respondents take more than five days. The findings indicate that in most cases the SACCOs take less than 3 days to process application forms. This indicates that the length
of time taken in processing of loan is considered by the SACCOs as one of the important factors in drafting a credit policy.

4.4.3 Duration Taken in Disbursing Successful Loan Amounts

The study sought to establish the amount of time the SACCOs take to disburse successful loan amounts. Figure 4.8 shows the responses obtained.

Figure 4.8 Duration Taken to Disburse Successful Loan Amounts

Majority of the respondents (49%) said their SACCO take 1-3 days to disburse loan amounts, 24% take less than a day, 19% take 4-5 days while 8% of the SACCO take more than five days. The findings indicate that in majority of the cases, SACCOs take up to 3 days to disburse loan amounts to the successful applicants. The number cases of SACCOs taking more than three days are minimal which means that time taken before disbursing the loan amounts is important to most SACCO in drafting the credit policy.
4.4.4 Duration Taken Before Loan Repayment Commences

The study also sought to examine the duration of time taken before loan repayment is commenced. The findings of the study were as displayed on figure 4.10.

**Figure 4.10 Duration Taken for Loan Repayment to Commence**

Majority of the respondents (38%) said that repayment begins between 1-2 months after completing the loan contract, 35% said that the loan repayment begins more than two months after completing the loan contract forms while 27% of the respondents said that loan repayment begins less than one month after signing the loan contract. The findings indicate that in most cases, SACCOs start recovering the loans more than one month after the loan contract is signed and thus the customers are allowed time to re adjust to the new financial arrangements.

4.4.5 Duration Taken Before Computation of Loan Interest Commence

Further, the study sought to establish the duration taken before computation of loan interest commences.
Majority of the respondents (43%) said that the computation of the loan interest in their SACCO begins after the first installment is due, 32%, that it begins after disbursement of the loan amount while 24% of the after signing the loan contract. The findings indicate that in most cases SACCOs do not compute the loan interest until the loan amount has been disbursed to the customer.

4.4.6 Effect of Loan Procedures Adopted Volume of Loans

The study sought to determine the effect of loan application procedures applied by the SACCO on the volume of loans sought from the SACCO. Figure 4.12
Majority of the respondents (86.5%) said that loan procedures adopted by the SACCO affect the loan volumes and only 13.5% of the respondents said that loan conditions do not affect loan volumes procured at the SACCO. This implies that in most cases the nature of the loan policies a SACCO adopts affect the volume of loan applications that a SACCO attracts.

4.5 Effect of Credit Policies on Performance of SACCO

The study further aimed at quantifying the effect of credit policies on the performance of SACCO. This was carried out by surveying the success rates of the loan applications.
4.5.1 Success of Loan Applications

On the rate of success of loan application forms, the responses elicited were as displayed in figure 4.13.

Figure 4.13 Success of Loan Applications

The findings show that majority of the respondents (62.2%) said that all the loan applications received succeed while 37.8% of the respondents said that not all the loan applications succeed.

The findings imply that most of the loan applications received by the SACCO are approved.

4.5.2 Reason for Rejection of Loan Applications

Further, the study sought to establish the reasons given for rejection of the loan applications.

Table 4.5 summarizes the responses obtained.
Table 4.5 Reasons for Rejection of Loan Applications

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non compliance with conditions</td>
<td>21</td>
<td>91.3</td>
</tr>
<tr>
<td>Lack of sufficient liquidity</td>
<td>2</td>
<td>8.7</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100.0</td>
</tr>
</tbody>
</table>

A large majority (91.3%) cite non compliance with the conditions in force as the major reason for rejection of loan applications while only 8.7% of the respondents give lack of sufficient liquidity in the SACCO as the reason behind rejection of loan applications. The findings therefore imply that most of the loans are rejected due to their inability to meet the loan terms and conditions as spelt out in the credit policies. This further implies that credit policies are very vital in deciding which loans are rejected or accepted.

4.5.3 Level of Satisfaction With Loan Amounts Granted

The study sought to determine the levels of satisfaction of loan applicants with the amounts of the loans granted after being completed. Figure 4.14 summarize the findings obtained.
Majority of the respondents (78.4%) said that the customers are satisfied with the loan amounts granted while only 21.6% were of the opinion that the customers are not satisfied with the loan amounts granted.

4.5.4 Appeals on Failed Loan Applications

When asked whether the customers whose loan applications do not succeed appeal for more allocations. The responses obtained were as shown in figure 4.15.
Members appeals

Majority of the respondents (86%) said that the customers whose applications fail do not appeal for more allocations while only 14% of the respondents said that the customers appeal for more allocations. This implies that most of the customers are satisfied with the verdict given according to the credit policy.

4.5.5 Determination of Loan Tenures

Further, the study sought to determine how the loan repayment schedules are fixed. The responses were as summarized in table 4.6.
Table 4.6 Determination of Loan Tenures

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discussed with client</td>
<td>13</td>
</tr>
<tr>
<td>Determined by loan amount</td>
<td>19</td>
</tr>
<tr>
<td>Determined by loan type</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
</tr>
</tbody>
</table>

Majority of the respondents (51.4%) said that the loan repayment schedules are determined by the loan amounts, 35.1% of the respondents said that the loan repayment schedules are determined with discussion with the client while 13.5% of the respondents said that the repayment schedules are determined by the loan type. This implies that in most SACCO, the credit policy dictates the loan repayment schedules and that the schedules are not flexible.

4.5.6 Collateral Requirements

On the collateral requirements demanded by the SACCO, the study sought to determine how relaxed they are. The responses obtained were as displayed in figure 4.16.
Majority of the respondents (59%) rated the collateral requirements of their SACCO as relaxed, 24% as very relaxed, 11% as stringent and 5% as very stringent. The findings indicate that in most SACCOs, the collateral requirements are not fixed but can be varied as need arises. This is likely to increase the volume of loans procured since an appreciable number of customers who seek lending no collateral.

4.5.7 Effect of Loan Requirements on Loan Volumes

The study sought to determine the effect of loan requirements on loans on the volumes. The findings of the study are as summarized in figure 4.17.
Majority of the respondents (64.9%) said that loan terms and conditions affect loan volumes to a small extent, 18.9% said that loan terms and conditions affect the loan volumes to a very small extent, 10.8% said that the loan terms and conditions affect the loan volumes to a large extent while 5.4% of the respondents were of the opinion that loan terms and conditions affect the volume of loans sought from the SACCO by a very large extent. The findings of the study therefore imply that most loan terms and conditions only affect the volumes of the loans procured at a SACCO to a small extent.
4.6 Relationship Between Credit Information and Performance of SACCO

The study also sought to establish the relationship between credit information and the performance of SACCO. Credit information was operationalized by reliance of the credit information, account movement and personal behaviour of the customers.

4.6.1 Reliance on Borrower’s Credit History in Approving Loans

On the reliance on the borrower’s history, the responses were as summarised in figure 4.18.

Figure 4. 18 Reliance on Borrower's Credit History in Approving Loans

![Bar chart showing reliance on borrower's credit history](image)

The findings indicated that most SACCO (54%) rely on the borrower’s credit history to a small extent, 32% to a large extent, 8% to a very large extent and 5% to a very small extent. This indicates that most SACCO rely to a large extent on the borrower’s credit history in awarding loan amounts.
4.6.2 Reliance on Account Movement in Approving Loans

On the reliance on account movement in approving loans, the responses were as summarized in table 4.7.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large extent</td>
<td>24</td>
</tr>
<tr>
<td>Large extent</td>
<td>5</td>
</tr>
<tr>
<td>Small extent</td>
<td>5</td>
</tr>
<tr>
<td>Very small extent</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
</tr>
</tbody>
</table>

Majority of the respondents (64.9%) were of the opinion that their SACCO rely on the account movement to a large extent, 13.5% that their SACCO rely on the account movement to a large extent, 13.5% that their SACCO rely on the account movement to a small extent and only 8.1% of the respondents were of the opinion that their SACCO rely on the account movement to a very small extent. The findings indicate that account movement is considered to be an important factor in considering and approving loans.

4.6.3 Reliance on Personal Behaviour in Approving Loans

On the reliance on the borrower’s personal behavior in approving loans, the responses were as summarized in figure 4.19.
Majority of the respondents (54%) were of the opinion that their SACCO rely on the borrower’s personal behavior to a large extent, 24% to a small extent, 11% to a very large extent and 11% to a very small extent. The findings therefore indicate that majority of the SACCO consider borrower’s personal behavior as an important factor in approving loans sought from the SACCO.

4.7 Determination of Relationships between Variables

The study sought to establish how the variables identified in the conceptual framework were related to one another. It determined whether relationships existed in the variables under study. Further, the level of association and its statistical significance was tested using chi square test of association.
4.7.1 Loan Terms and Conditions and the Performance of SACCOs.

On the relationship between loan terms and conditions and SACCO performance, table 4.8 displays the findings obtained.

**Table 4.8 Correlation of Parameters of Loan Terms and SACCO Performance**

<table>
<thead>
<tr>
<th></th>
<th>Interest charged</th>
<th>Setting repayment schedules</th>
<th>Percentage of transaction costs to loan amounts</th>
</tr>
</thead>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

SACCO performance was operationalized by the trend of growth in membership, membership deposits and loan volumes. Loan terms and conditions adopted by the SACCOs were operationalized by the mode of setting interest rates, setting of repayment schedules and the percentage of loan amounts taken by transaction costs.

The Pearson correlation coefficients obtained indicated strong, positive relationship between all the parameters of nature of loan terms and conditions and the performance of the SACCOs. Further, all the p-values obtained were less than \( \alpha \) (p<0.01) indicating that the relationship between the parameters of loan terms and conditions were all significant at 99% confidence level.

Further, the researcher sought to establish the level of association between the nature of loan terms and conditions and the performance of SACCOs. Chi square test was run and the findings...
were as tabulated in table 4.9.

Table 4.9 Chi-Square Tests for Loan Terms and Conditions and SACCO Performance.

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>48.789(a)</td>
<td>9</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>25.151</td>
<td>9</td>
<td>.003</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>15.714</td>
<td>1</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>27</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a 14 cells (87.5%) have expected count less than 5. The minimum expected count is .04.

The chi square obtained (48.789) was greater than the critical value of 27.88 for 9 degrees of freedom at .001 significance level indicating that there was an association between loan terms and conditions and SACCO performance. Further, the $p$-value obtained was less than $\alpha$ ($p<\alpha$) indicating that the association between the variables was significant and not just as a result of sampling error or a chance occurrence.

The tests conducted indicated that loan terms and conditions are significantly positively linearly associated and related to the SACCO performance. This implies that application of favourable loan terms and conditions lead to improved performance of the SACCO.

4.7.2 Loan Acquisition Procedures and Requirements and the Performance of SACCOs.

On the relationship between loan procedures and requirements and SACCO performance, table 4.10 displays the findings obtained.
Table 4.10 Correlation of Parameters of Loan Procedures and SACCO Performance

<table>
<thead>
<tr>
<th>Duration of processing loan application forms</th>
<th>Growth in membership</th>
<th>Growth in member deposits</th>
<th>Growth in loan volumes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of disbursing loan amounts</td>
<td>Pearson Correlation</td>
<td>.907(**)</td>
<td>.945(**)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Number of departments involved in approving loans</td>
<td>Pearson Correlation</td>
<td>.893(**)</td>
<td>.874(**)</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>27</td>
<td>27</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Loan procedures and requirements adopted by the SACCOs were operationalized by duration of processing loan application forms, duration of disbursing loan amounts and the number of departments involved in approving loans.

The Pearson correlation coefficients obtained indicated strong, positive relationship between all the parameters of nature of loan procedures and requirements and the performance of the SACCOs. Further, all the p-values obtained were less than α (p<0.01) indicating that the relationship between the parameters of loan procedures and requirements were all significant at 99% confidence level.

Further, the researcher sought to establish the level of association between the nature of loan procedures and requirements and the performance of SACCOs. Chi square test was run and the findings were as tabulated in table 4.11.
The chi square obtained (64.658) was greater than the critical value of 27.88 for 9 degrees of freedom at .001 significance level indicating that there was an association between loan procedures and requirements and SACCO performance. Further, the p-value obtained was less than α (p<α) indicating that the association between the variables was significant and not just as a result of sampling error or a chance occurrence.

The tests conducted indicated that loan procedures and requirements are significantly positively linearly associated and related to the SACCO performance. This implies that application of favourable loan procedures and requirements leads to improved performance of the SACCO.

4.7.3 Client Credit Information and the Performance of SACCOs.

Finally, on the relationship between credit information and SACCO performance, table 4.12 displays the findings obtained.
Table 4.12: Correlation of Parameters of Client Information and SACCO Performance

<table>
<thead>
<tr>
<th>Reliance on borrower's credit history</th>
<th>Pearson Correlation</th>
<th>Growth in membership</th>
<th>Growth in member deposits</th>
<th>Growth in loan volumes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.920(**)</td>
<td>.910(**)</td>
<td>.950(**)</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

| Reliance on account movement         | Pearson Correlation | .964(**)             | .929(**)                 | .930(**)               |
| Sig. (2-tailed)                      | 0.000               | 0.000                | 0.000                    |
| N                                    | 27                  | 27                   | 27                       |

| Reliance on personal behavior       | Pearson Correlation | .777(**)             | .801(**)                 | .680(**)               |
| Sig. (2-tailed)                      | 0.000               | 0.000                | 0.000                    |
| N                                    | 27                  | 27                   | 27                       |

** Correlation is significant at the 0.01 level (2-tailed).

Client credit information adopted by the SACCOs was operationalized by reliance on borrower's credit history, reliance on account movement and reliance on personal behavior of the client in approving loans.

The Pearson correlation coefficients obtained indicated strong, positive relationship between all the parameters of client credit information and the performance of the SACCOs. Further, all the p-values obtained were less than α (p<0.01) indicating that the relationship between the parameters of loan procedures and requirements were all significant at 99% confidence level.

Further, the researcher sought to establish the level of association between the use of client credit information in approving loans and the performance of SACCOs. Chi square test was run and the findings were as tabulated in table 4.13.
### Table 4.13 Chi-Square Tests for Client Credit Information and SACCO Performance.

<table>
<thead>
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<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
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<tr>
<td>Pearson Chi-Square</td>
<td>27.215(a)</td>
<td>9</td>
<td>.001</td>
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<tr>
<td>Likelihood Ratio</td>
<td>22.836</td>
<td>9</td>
<td>.007</td>
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<td>Linear-by-Linear Association</td>
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<tr>
<td>N of Valid Cases</td>
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</table>

* 14 cells (87.5%) have expected count less than 5. The minimum expected count is .07.*

The chi square obtained (27.215) was less than the critical value of 27.88 for 9 degrees of freedom at .001 significance level indicating that the association between loan procedures and requirements and SACCO performance was not significantly big. Further, the $p$-value obtained was equal to $\alpha$ ($p=\alpha$) indicating that the association between the variables were insignificant and could have been a chance occurrence.

The tests conducted indicated that client's credit information is positively linearly related to SACCO performance but the two have a weak association. This implies that application of favourable client credit information in approving loans has a likelihood of improving the performance of the SACCO.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter addresses the summary of the findings of the study in relation to the objectives outlined in chapter one. It also presents the conclusion of the study together with the recommendations of the researcher based on the findings. Suggestions for further research are also given.

5.1 Summary of Major Findings

The study aimed at determining the effect of credit policies on the performance of SACCO in Kenya. The major findings of the study were as summarized in the ongoing sections.

5.1.1 Relationship between loan terms and conditions on performance of SACCO

The findings of the study therefore report that in the SACCO where the credit policies are in force, they are reviewed regularly. On the setting of the interest rates, it was found out that SACCO set the interest rates for the loans procured at rates lower than the prevailing market rates implying that most SACCOs offer loans at subsidized rates.

Majority of the respondents said that their SACCO negotiate with their clients in order to come up with the repayment schedules indicating that majority of the SACCO are responsive to their clients as far as the fixing of repayment schedules are concerned. This is likely to boost the competitiveness of the SACCOs that negotiate with their clients in fixing the repayment schedules for the loans.
On the effect of loan terms and conditions on the SACCO’s competitiveness, majority of the respondents said that loan terms and conditions affect a SACCO’s competitiveness to a large extent. The findings therefore imply that the nature of loan terms and conditions have a large effect on the SACCO’s competitiveness.

When asked whether in their opinion the number of loan terms and the strictness of a SACCO in adhering to the loan terms and conditions affect the performance of the SACCO, most respondents said they do affect. The findings therefore imply that the number of the loan terms and conditions and the strictness of a SACCO in adhering to them have an effect of the performance of a SACCO.

The correlations and chi square tests conducted indicated that loan terms and conditions are significantly positively linearly associated and related to the SACCO performance. This implies that application of favourable loan terms and conditions lead to improved performance of the SACCO.

5.1.2 Relationship between loan procedures and performance of SACCO

When asked to state the number of processes involved in approving a loan application forms range from 2 to 5 among the SACCO with a mean of 3.27 and standard deviation of 0.99. This implies that the number of processes of approving a loan application is fairly uniform across the SACCOs. This further implies that the number of processes involved in the approval of loans is a factor considered to be instrumental to the revenue generation through lending by most of the SACCOs.
On the length of time taken to process a loan application form, in most cases the SACCOs take 1-3 days indicating that majority of the SACCO take less than 3 days to process application forms. This implies that the length of time taken in processing of loan is considered by most of the SACCO as one of the important factors in drafting a credit policy.

The number of cases when the SACCO take more than three days is very small which means that time taken before disbursing the loan amounts is important to most SACCO in drafting the credit policy.

When asked to state the duration that lapses between approval of a loan and the commencement of the repayment, majority of the respondents said that repayment begins between 1-2 months after completing the loan contract. The findings indicate that most SACCO start recovering the loans more than one month after the loan contract is signed and thus the customers are allowed time to re adjust to the new financial arrangements.

On the duration taken to start computing the interest on the loan, majority of the respondents said that the computation of the loan interest begins after the first installment is due. The findings indicate that most SACCOs do not compute the loan interest until the loan amount is disbursed to the customer.

On the effect of loan procedures adopted by SACCO on the volumes of loans procured at the SACCO, majority of the respondents said that loan procedures adopted by the SACCO affect the
loan volumes. This implies that in most cases the nature of the loan policies a SACCO adopts affect the volume of loan applications that a SACCO attracts.

The study further aimed at quantifying the effect of credit policies on the performance of SACCO. This was carried out by surveying the success rates of the loan applications. The findings show that majority of the respondents said that all the loan applications made succeed. The findings imply that most of the loan applications received by the SACCO are approved.

When asked to state why some loan applications fail, a large majority cite non compliance with the conditions in force as the major reason for rejection of loan applications. The findings therefore most of the loans are rejected due to their inability to meet the loan terms and conditions as spelt out in the credit policies. This further implies that credit policies are very vital in deciding which loans are rejected or accepted. On the extent of the satisfaction of the customers with the loan amounts approved, majority of the respondents said that they are satisfied with the loan amounts granted while.

On the setting of the repayment schedules, majority of the respondents said that the loan repayment schedules are determined by the loan amounts implying that in most SACCOs, the credit policy dictates the loan repayment schedules and that the schedules are not flexible.

On the collateral requirements demanded by the SACCOs, the study sought to determine how relaxed they are. Majority of the respondents rated the collateral requirements of their SACCO as relaxed. The findings indicate that in most SACCOs, the collateral requirements are not fixed but
can be varied as need arises. This is likely to increase the volume of loans procured since an appreciable number of customers who seek lending lack collateral.

The study further sought to determine the effect of loan requirements on loans on the volumes. Majority of the respondents said that loan terms and conditions affect loan volumes to a small extent. The findings of the study therefore imply that most loan terms and conditions only affect the volumes of the loans procured at a SACCO to a small extent.

The correlations and chi square tests conducted indicated that loan procedures and requirements are significantly positively linearly associated and related to the SACCO performance. This implies that application of favourable loan procedures and requirements leads to improved performance of the SACCO.

5.1.3 Relationship between credit information and performance of SACCO.

The study also sought to establish the relationship between credit information and the performance of SACCO. Credit information was operationalized by reliance of the credit information, account movement and personal behavior of the customers.

On the reliance on the borrower’s history, the findings indicated that most SACCO (54%) rely on the borrower’s credit history to a small extent. This indicates that most SACCO rely to a large extent on the borrower’s credit history in awarding loan amounts.

On the reliance on account movement in approving loans, majority of the respondents the respondents were of the opinion that their SACCO rely on the account movement to a large
extent. The findings indicate that account movement is considered to be an important factor in considering and approving loans.

On the reliance on the borrower's personal behavior in approving loans, majority of the respondents were of the opinion that their SACCO rely on the borrower's personal behavior to a large extent. The findings therefore indicate that majority of the SACCO consider borrower's personal behavior as an important factor in approving loans sought from the SACCO.

Further analysis on the relationship between client's credit information and SACCO performance indicated that client's credit information is positively linearly related to SACCO performance but the two have a weak association. This implies that application of favourable client credit information in approving loans has a likelihood of improving the performance of the SACCO.

5.2 Conclusion
The study aimed at determining the effect of credit policies adopted by SACCO on the performance of the SACCO. It was guided by four objectives which were, to establish the effect of loan term and conditions and performance of SACCO, to examine the effect of loan procedures and performance of SACCO, to determine the cost of capital and the performance of the SACCOs and to establish the relationship between credit information and performance of SACCO in Kenya. The study found that majority of the respondents were of the opinion that that loan terms and conditions influence the volumes of loans sought from a SACCO and that loan terms and conditions affect a SACCO's competitiveness to a large extent implying that the nature of loan terms and conditions have a large effect on the SACCO’s competitiveness.
Finally, on the relationship between credit information and performance of SACCO, the findings indicated that SACCOs rely on the borrower’s credit history to a small extent, account movement and borrower’s personal behavior in approving loans. The findings therefore indicate that majority of the SACCO consider borrower’s personal behavior as an important factor in approving loans sought from the SACCO.

5.3 Recommendations

Based on the findings of the study, various recommendations were made:

First, since the study found that the nature of loan terms and conditions has a large effect on the SACCO’s competitiveness and the volume of loans sought from the SACCO. SACCO need to develop well structured schedules of terms and conditions that will be instrumental to attracting more loan seekers. The terms and conditions should be competitive enough in order to attract the attention of potential borrowers.

Secondly, the study found out that most SACCO relies to a large extent on the borrower’s credit history in awarding loan amounts. This is meant to reduce the lending risks occasioned by cases of default in repayment. The nature of the borrowers history relied on must therefore be accurate and updated. It is however evident that the detailed information on the borrower’s credit history especially on first time borrowers from the SACCO may not be accessible. As such, there is need to develop ways and means of availing the information on credit history of the potential borrowers for effective and efficient access. This could be achieved through the use of databases for each potential borrower which all the financial institutions update regularly the credit details of their clients. The SACCO seeking information on the potential borrower could make use of the information by accessing the database.
Third, the findings indicate that account movement is considered to be an important factor in considering and approving loans. This is meant to ensure that the borrower’s SACCO account has sufficient liquidity to service the loan. The information accessible to the SACCO may sometimes be inadequate or insufficient to enable the SACCO make quality decisions in approving loans. This information could however be availed through centralized system accessible to all the SACCOs and other financial institutions.

Fourth, on credit policies, due to its importance as found out by the current study in boosting the competitiveness in lending, the study recommends that the SACCOs come up with well structured credit policies that will give them a competitive advantage over the other players in the market.

Lastly, the SACCO should review their credit policies regularly in order for them to remain competitive against the changing lending environments. And that the credit policies should be flexible and responsive enough to the lending environment in order to suit various categories of customers and situations. This will boost the volumes of loans procured from the SACCO.
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APPENDIX 1

QUESTIONNAIRE TO THE SACCO MEMBERS

This questionnaire is aimed at collecting data about effect of credit policy on performance of SACCOs in Kenya. It’s hoped that the results from this study will be found useful by SACCO’s in creating a competitive edge against the competitors. Please respond to the questions as accurately, completely and as honest as possible and tick (✓) against one response as appropriate or filling the space provided.

SECTION A BACKGROUND INFORMATION

1. Does your SACCO have any written credit policy?
   a) Yes [ ]
   b) No [ ]
   c) Not sure [ ]

2. If your answer for question 1 above is YES, how frequently does your SACCO review its credit policy?
   (a) Very often [ ]
   (b) Often [ ]
   (c) Not often [ ]
   (d) Never [ ]

SECTION B: LOAN TERMS AND CONDITIONS

4. How does your SACCO set interest rates charged on loans?
   a) At a subsidized rates [ ]
   b) At the prevailing market rate [ ]
   c) At a premium rate [ ]

5. How are the repayment schedules set for each loan procured at the SACCO?
   a) Negotiated with the client [ ]
   b) Pegged to the type of the loan [ ]
   c) Dependent on the principal amount of the loan [ ]
   d) Fixed by the SACCO [ ]

6. What percentage of the loan amount does the loan transaction costs constitute?
   a) Less than 2% [ ]
   b) 2%-5% [ ]
   c) More than 5% [ ]

7. How does the SACCO cater for the lending risks?
8. In your opinion, does the loan terms and conditions practiced by your SACCO influence the volume of loans procured from your SACCO?
   a) Yes [ ]
   b) No [ ]

9. If your answer for question 10 is Yes, what is the nature of the influence of the loan terms and conditions on the volume of loans disbursed by your SACCO?
   a) Positive [ ]
   b) Negative [ ]

10. In your own opinion, to what extent does the nature of loan terms and conditions put in place by a SACCO affect its ability to attract credit seekers?
    a) To a very large extent [ ]
    b) To a large extent [ ]
    c) To a small extent [ ]
    d) To a very small extent [ ]
    e) No effect [ ]

11. Terms and conditions of obtaining credit from SACCO are many and followed strictly thus affecting its performance in the financial sector. Do you agree with this statement?
    Yes [ ]
    No [ ]

(b) If Yes what is your SACCO doing to this situation?

SECTION C: LENDING PROCEDURES

12. State precisely how long your SACCO takes to complete the following processes:

   i. Process loan application form
      a) Less than a day [ ]
      b) 1-3 days [ ]
      c) 4-5 days [ ]
      d) More than 5 days [ ]

   ii. Disburse successful loan amounts to the customer accounts.
      a) Less than a day [ ]
      b) 1-3 days [ ]
      c) 4-5 days [ ]

79
13. What percentage is rejected due to not meeting certain conditions of credit policy?
   (a) Below 1%  
   (b) 1.1 -3%  
   (c) 3.1 -5%  
   (d) Above 5%  

14. How many departments are involved in approving a loan in your SACCO?  

15. Under ordinary circumstances, when is loan repayment for loans scheduled to begin?
   a) More than 2 months after disbursement  
   b) 1-2 months after disbursement  
   c) Less than one month after disbursement  
   Any other (specify)  

16. How soon does the computation of interest due on a loan begin?
   a) After the first loan repayment installment  
   b) Immediately after disbursement  
   c) After signing the loan contract  
   Any other (specify)  

17. In your opinion does nature of the loan procedures adopted affect the volume of loans sought from the SACCO?
   a) Yes  
   b) No  

18. Which of the following best describes how your SACCO determines the loan tenures for different loans products?
   a) Discussed with client  
   b) Determined by the loan amount involved  
   c) Determined by the type of the loan  
   d) Depends on the characteristics of the client  
   Others (specify)  

19. How would you rate the collateral requirements for loans procured from your SACCO?
   a) Very stringent  
   b) Stringent  
   c) Relaxed  
   d) Very relaxed  

20. In your own opinion, to what extent does loan requirements imposed by SACCOs affect the volume of loans approved?
   a) To a very large extent  

80
b) To a large extent [ ]  
c) To a small extent [ ]  
d) To a very small extent [ ]  
e) No effect [ ]

21. Using the following criterion, comment on the SACCO’s loan procedure:


a. Time taken to process a loan [ ]  
b. Ease of obtaining a loan [ ]  
c. Getting guarantors to fill loan forms [ ]  
d. Involvement of various committees in loan approval [ ]  
e. Boosting of shares or loan clearance by cash is not considered immediately for loan advancement [ ]  
f. Normal loans being processed weekly [ ]  
g. Clearance of a previous loan of a similar type first, before qualifying for another [ ]

SECTION D: CREDIT INFORMATION AND CREDIT RELATIONSHIP

22. To what extent does your SACCO rely on the following in approving or disapproving a loan?

(i) Borrower’s history  
   a) To a very large extent [ ]  
   b) To a large extent [ ]  
   c) To a small extent [ ]  
   d) To a very small extent [ ]

(ii) Account movement  
     a) To a very large extent [ ]  
     b) To a large extent [ ]  
     c) To a small extent [ ]  
     d) To a very small extent [ ]

(iii) Personal behaviour  
     a) To a very large extent [ ]  
     b) To a large extent [ ]  
     c) To a small extent [ ]  
     d) To a very small extent [ ]

23. In your own opinion, does relying on the borrower’s credit history in approving or disapproving loans affect a SACCO’s revenues from lending?  
   a) Yes [ ]  
   b) No [ ]
24. If your answer in the above question is yes, what nature of influence does relying on borrower’s credit history in approving or disapproving loans have on SACCO’s profitability from lending?
   a) Positive [ ]
   b) Negative [ ]

SECTION E: SACCO PERFORMANCE

25. (a) What is the percentage of the unloaned members in the SACCO?
   a) Less than 5% [ ]
   b) 5.1%-10% [ ]
   c) 10.1%-20% [ ]
   d) Above 20% [ ]

(b) Was there any follow up made of such members by the SACCO?
   a) Yes [ ]
   b) No [ ]

26. (a) Is there any loan review done periodically?
   a) Yes [ ]
   b) No [ ]

   (b) If yes what percent of loans advanced are problematic over one month’s period?
   a) Less than 5% [ ]
   b) 5.1%-10% [ ]
   c) 10.1%-20% [ ]
   d) Above 20% [ ]
27. Using the following criterion, rate the trend of the SACCO’s performance over the last five years in the parameters indicated.

1. **Increasing sharply** 2. **Increasing** 3. **Stagnating** 4. **Declining** 5. **Declining sharply**

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<th>Parameter</th>
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<th>4</th>
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<tr>
<td>a. Membership</td>
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<td></td>
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</tr>
<tr>
<td>b. Deposit and share capital</td>
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<tr>
<td>c. Amount of loan advanced</td>
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<td>d. Loan default rate</td>
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<tr>
<td>e. Loan outstanding</td>
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<td>f. Dividends paid</td>
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<td>g. Surplus</td>
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THANK YOU FOR COMPLETING THIS QUESTIONNAIRE
## APPENDIX II

### WORK PLAN

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<td>Pilot study</td>
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<td>Data analysis</td>
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<td>Typing of project report</td>
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52,550.00
APPENDIX IV

LIST OF COLLECTION CENTRES

1. Kambaa Centre
2. Gitiha Centre
3. Geteti Centre
4. Githunguri Centre
5. Githiga Centre
6. Kwamaiko Centre

(Source: fresha; website 2012)
APPENDIX V

LIST OF SECONDARY SCHOOLS IN KIAMBU DISTRICT

1. Mukuyu High School
2. Kiambu High School
3. Uthiru High School
4. Ngenda High School
5. Gitwe Girl High School
6. Kagwe Girls School
7. St. Annes Lioki Secondary School
8. Tigoni Secondary School
9. Githiga Secondary School

(Source: Education Office, Kiambu).
Dear Sir/Madam,

RE; PERMISSION TO CONDUCT RESEARCH.

I am a student of MBA at Kenyatta University undertaking a research project as a partial fulfillment of the degree course.

I am researching on “effect of credit policy on SACCOs and performance in Kenya”.

I am therefore seeking your assistance in providing the necessary information in the above areas.

Any information collected will be treated strictly confidential and used solely for academic purposes.

Your corporation will be highly appreciated.

Yours faithfully,

Pauline Njung’e.