FACTORS INFLUENCING THE EFFECTIVENESS OF GUARANTORSHIP IN LOAN RECOVERY: THE CASE OF MWALIMU SACCO SOCIETY LTD.

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D53/OL/5190/03

A research project in partial fulfillment of the requirements for the Degree of Masters in Business Administration (Finance) in the Department of Accounting and Finance, School of Business, Kenyatta University.

DECEMBER 2006
DECLARATION

THIS RESEARCH PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR AN AWARD OF A DEGREE IN ANY OTHER UNIVERSITY.

JAMES K. MUTURA  
28/12/2006  DATE

THIS RESEARCH PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH OUR APPROVAL AS UNIVERSITY SUPERVISORS.

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CHAIRMAN,
ACCOUNTING & FINANCE DEPARTMENT
KENYATTA UNIVERSITY
DEDICATION

This research work is dedicated to:-

My parents the late Jason Mutura Thinguri and Lydia Njeri Mutura for their tireless effort in educating me under difficult circumstances and inspiration to exceed their expectations.

My loving wife Benerdetta Wanjiru Kuria and my sons Edwin Mutura Kuria and Anthony Githua Kuria for their understanding, patience, moral support and encouragement.
ACKNOWLEDGEMENTS

I am deeply indebted to many individuals who contributed towards the success of this research work. They were a source of courage and inspiration.

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I wish to convey special gratitude to Sarah A. Bukachi among other colleagues for their support. I am greatly indebted to Jacob Kajwang, Onyango Tumbo, Isaiah Ngeno, Kenneth Wapakala, Karangu Githua, Benjamin Teigong, Mrs. Jane Mugambi, Philip K. Nganga, Stephen Kinuthia, John G. Macharia and Mrs. Elizabeth Gitau for their invaluable assistance and encouragement.

In a very special way, I am greatly indebted to Peter Mungara Mwaura.

My appreciation also goes to my brothers Gabriel Njoroge, Patrick Thinguri and Paul Njau amongst other brothers and sisters for their support and encouragement.
ABSTRACT

There are about 4,200 sacco societies in Kenya which by December 2005, had mobilized Kshs.105 billion representing 31 percent of the country's savings. Mwalimu Sacco society Ltd is situated in Nairobi and established in 1974 is one of the largest SACCO societies in the country. Its objective is to mobilize savings and grant loans to members. By December 2005, Mwalimu Sacco society Ltd had mobilized Kshs.6.7 billion, which is equivalent to 6.3 percent of all Sacco savings in the country. By then the outstanding loans stood at Kshs.6.04 billion out of which about kshs 35 million was deliquent. The securities for the loans are loanees expected future income and guarantors.

Granted, that Sacco societies mobilize large amounts of savings and consequently give huge loans on the premise that the latter will be paid promptly, a mechanism of compelling loanees to pay such loans from other sources of income in absence of employment income is lacking. Further the retirement benefits authority (RBA) prohibits the use of a loanee's pension in clearing the loan liability. Given the magnitude of funds lent out, there is need to examine factors that influence the effectiveness of guarantorship in loan repayment.

An exploratory study approach was adopted. It involved focus group interviews, review of relevant literature and discussions with experts in the field of co-
operative management. The study used combination of stratified random sampling and purposive sampling to obtain a sample of 200 guarantors who were been attached for defaulted loans at Mwalimu Sacco Society in 2005.

Questionnaires were used to collect data from the attached guarantors. Secondary data from the Sacco was used to identify loan defaulters and their respective guarantors. Data acquired was analyzed through mean mode and standard deviation in addition to analysis of variance (ANOVA). A Pearsons correlation coefficient analysis was carried out to determine multicolinearity amongst the independent variables.

Analyzed data is presented through the use of bar graphs, pie charts and tables.

Findings from the study revealed that females are more prompt in loan repayment than males. The patriarchal nature of the Kenyan society emerged as a major reason for this phenomenon. Age and gender were found to have an impact on loan repayment. As members grew old they become more inclined to repaying the loans than the young with females being more reliable in loan repayment.
It also emerged that members' other sources of income and increased salaries could hardly be traced to the Society in form of increased savings and accelerated loan repayment.

Contrary to commonly held view that peer pressure encourages loan repayment, the researcher found that peer pressure has no role in repayment of defaulted loans. The government policy and regulations were also found to have a minimal role in loan repayment.

Findings from the study revealed that as members income threshold increases, their monthly savings with the Sacco do not increase correspondingly. Loss of employment income was found to be the single most important reason for non-repayment of Sacco loans.
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DEFINITION OF SIGNIFICANT TERMS

Loan: This is a form of cash advance extended to a customer under certain specified terms.

Savings: This is deferred consumption of current income

Micro-finance Institution: A financial institution that specializes in granting loans to small and medium enterprises

Small and medium Enterprises: Firms that employ between 1 and 50 employees

Low Income Earners: Those who earn between Kshs.1,250 and Kshs.10,000 per month

Credit: This is exchange of cash and goods for current consumption pegged on future repayment under specified terms.

Human capital: Skills inherent in individuals that in turn facilitate production of goods and services

Co-operative society: A voluntary association of individuals to achieve a common objective

Bank: A deposit collecting institution licensed by the Central Bank to do so

Guarantor: An individual who is surety to a principal borrower and makes good the debt if the principal fails to pay group members.

Poor: Those who are genuinely unable to meet their basic needs due to level of poverty.

Efficiency: Performing an activity with no wastage of resources applied.
<table>
<thead>
<tr>
<th>Effectiveness</th>
<th>Producing a successful result after a series of functions.</th>
</tr>
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<tr>
<td>Department</td>
<td>A unit of payroll processing to which a number of members belong.</td>
</tr>
<tr>
<td>Delinquency loan</td>
<td>A loan that is in arrears in its repayment schedule.</td>
</tr>
<tr>
<td>Member</td>
<td>This is an individual who has joined a co-operative society after fulfilling admission conditions.</td>
</tr>
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ABBREVIATION

D.F. : Degrees of freedom.
ICA : International Co-operative Alliance.
KUSCCO : Kenya Union of Savings and Credit Co-operatives.
This is the apex body for Sacco Societies in Kenya.
LRE : Loan Repayment Effort - This is the effort made by loanees towards repayment of outstanding debts.
PEARLS : This is a new concept in the Sacco movement worldwide and it refers to - Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity and Signs of growth.
co-operative society engaged in mobilization of savings and granting of loans or credit.
R.B.A : Retirement Benefits Authority.
Rosca : Rotating savings and credit associations. This is an organization merry go round whose members pool financial resources out of which they give loan in turns, at interest free.
SACCO : Saving and credit co-operative society. A type of Savings and credit co-operative societies (credit unions) Worldwide.
TSC : Teachers Service Commission.
WOCCU : World Council of Credit Unions WOCCU: The apex body of
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CHAPTER ONE

1.0 INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The ultimate goal of every nation is uplifting the living standards of its people. Countries all over the world have tried to achieve this goal either by directly involving themselves in activities that lead to improvement of welfare or by creating the infrastructure that encourages the people to be involved in programmes that lead to improvement of their standard of living.

Disparities in natural resource endowment coupled with the effectiveness of development policies adopted by respective countries have contributed to social and economic strata among nations. This is manifested by existence of the well to do, low and middle income. (Todaro M. P. 1980). According to the theories of demand and supply, the demand for goods and services is infinite while the resources to satisfy them are finite and scarce (Samuelson, 1981). The per capita output of goods and services is an indicator of the level of development of a country and the relative incidence of poverty.

Countries have therefore adopted and employed a number of strategies that increase the quantity and range of goods and services that will meet the limitless demand. In so doing, people's standard of living improve and economies develop. Availability of financial services spurs enterprise growth and the economy as well (Atieno 2001).
Financial services are available from formal, informal and semi formal providers. Thus financial services providers range from commercial banks, Non Banking Institutions, Micro finance institutions, money lenders, friends and relatives. Rotating Savings and Credit associations (ROSCA) and Savings and Credit Co-operative societies (SACCO) are some of the best examples of micro finance institutions.

Each of these financial services providers serves a specific segment of customers. Income differentials account for this segmentation. The high income segment obtain financial services from formal financial services providers especially, commercial banks, as they are able to full fill most of the account maintenance conditions. These conditions lock out the poor and the middle income earners (Atieno, 2001).

About fifty percent of Kenyans earn less than Kshs.1,230.00 per Month implying that most Kenyans live below the poverty line (Republic of Kenya, 2005). Uplifting the living standards of the poor calls for availability of secure avenues of savings and affordable credit. The low income earners obtain such financial services from informal and semi formal financial institutions (Thapa et al 1992). These financial services providers range from ROSCAS and NGO's to money lenders, friends and relatives.
Co-operative societies form the best avenue of obtaining credit for the low income earners in regular employment. SACCOs are an integral part of microfinance as they provide savings and credit facilities to the low income and poor households.

Some members of SACCO societies have obtained credit from their co-operatives and have utilized it to buy graded dairy cows and after two or three years of loan repayment the cow would have a calf. By the time the loan is fully repaid, the member has a bigger herd of cattle and income from milk sales (Ouma 1996).

Savings and credit co-operative societies have had the most viable impact on the lives of many Kenyans (Mugwanga 1999). SACCO societies play an important role in economic development by way of mobilizing savings and giving loans for financing real estate, member's personal expenses and human capital development. This has led to uplifting the living standards of their members.

Membership to a SACCO is open and voluntary provided applicants meet preset admission conditions. Once admitted the member is expected to save for a specified period before applying for a loan. (Mutesasira K. L, 2000)

Loan applicants are required to use a specially designed loan form. Loans are granted at the rate of three times a member's savings. The security for the loans
is savings and expected future earnings from salary and this is reinforced by guarantors.

The extent to which guarantors are able to make good for defaulted loans can only be assessed in event of loanees defaulting in loan repayment. Hence there is need to assess the effectiveness of guarantors for those who default in loan repayment.

The co-operative society Act only makes it an offence if deductions are not remitted to the co-operative once recovered from the payroll or source. (Cap.No.12 of laws of Kenya, 1997). SACCOs drawing their membership from formal employers depend on the latter's payroll system to process and remit members contributions. There lacks a provision that compels employers to effect deductions. Consequently, employers are at liberty to effect deductions.

The SACCOs are not under a supervising agent/organization reminiscent to the commercial banks and micro finance institutions despite providing with similar services. Loan default risks are very high to the members and the co-operative society and yet the legal framework for full guarantee for member's loans is lacking.
1.2 STATEMENT OF THE PROBLEM

The core business of savings and credit co-operative societies is to mobilize savings and grant loans to members. Loans are granted upon members filling prescribed loan application forms to which guarantors append their signatures committing themselves to repay the loan in event of default in payment.

Cessation of operations by a member's employer and subsequent loss of job leads to non-recovery of loans granted despite existence of guarantors. A mechanism of compelling members to pay such loans from other sources of income is lacking. The Retirements Benefit Authority (RBA) prohibits the use of members' pension in paying off their liabilities. Hence there is need to examine the factors influencing the effectiveness of guarantorship in loan recovery.

1.3 THE STUDY OBJECTIVES

The study was guided by the following objectives:

1. To identify factors influencing effectiveness of guarantorship in loan recovery
2. To find out the basis upon which members guarantee each other loans.
3. To find out why default in loan repayment occurs.
4. To establish the effectiveness of loan recovery processes
5. To make necessary policy recommendations to the government on effective recovery of all SACCO loans.
1.4 BASIC RESEARCH QUESTIONS

The following research questions were used as a basis for the study:-

1. What factors influence effectiveness of loan guarantorship?
2. On what basis do SACCO members guarantee each other loan?
3. Why do loanees default on repayment?
4. How effective are loan recovery processes?

1.5 SIGNIFICANCE OF THE STUDY

There is no prior research study carried out on effectiveness of guarantorship on loan recovery at Mwalimu SACCO society. Where no prior research bearing on the problem exists, it is imperative to cite the closest research found (Krathwohl, D R 1998). Accordingly past studies in SACCO societies have largely focused on cash flow problems,(Nabangi T, 2005), financial mismanagement, (Goto D.H, 2004) and members attitudes towards SACCO lending policies (Omweri 1998).

This study will expand the existing body of knowledge in this area by providing insights into factors influencing loan guarantorship, reasons for default and effectiveness of loan recovery process. The research findings provide valuable information on guarantorship to existing and potential SACCO members. Findings from the study can also enable management of SACCOs make rational/informed decisions on loan granting and repayment period and hence minimize incidences of loan defaults.
The research findings provide valuable information to the government that may be useful in policy formulation on SACCO loans repayment. The findings from this study also provide literature on loan repayment for interested researchers.

1.6 ASSUMPTIONS OF THE STUDY

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

(i) All loans granted are fully guaranteed.
(ii) A mechanism of recovering defaulted loans from guarantors exists
(iii) The respondents will provide honest answers.
(iv) Relevant legal framework governing the management of SACCO societies exists.

1.7 SCOPE OF THE STUDY

The study was carried out in Mwalimu SACCO society which is the biggest SACCO society in Kenya. The SACCO has been chosen on the basis of the fact that it has a very broad membership spread in the country cutting across TSC, teachers, civil servants, University lecturers and individuals in private sector employment. Hence the findings from this study are a representative of savings and credit societies in the country.
2.0 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter deals with a review of literature relevant to the study. Savings and credit co-operative societies offer financial services to individual members and not groups or companies. Kenya aspires to become an industrialized nation by 2020. Given the limited requisite natural resources market for the metallurgical industry, this goal can only be achieved through the service industry. The financial market is critical to the attainment of this objective. Some sectors of this market such as SACCOs are extremely vibrant and if fully harnessed can be crucial in accelerating economic development.

Although Co-operative societies were started in Rochdale, England in 1844, the first savings and credit co-operative society was founded in 1849 in Rhineland (Lasserve, 1959).

Savings and credit co-operative societies take a number of different means through which members save and are granted loans. In Philippines for example, members would save, borrow and repay the principal plus interest using rice (Wright, 2000).
In Madagascar SACCO societies take the form of a thriving paddy bank system which provides seasonal credit to farmers who store paddy. A group under this programme stores paddy in a communal building for about five months. Each member receives a cash loan that is equivalent to 75% of the quantity stored and the latter acts as collateral (Zeller M. 1994). In event of default in loan repayment, threat of sale of collateral or social sanctions by peers often compels repayment.

SACCO societies strive to mobilize as much savings as possible and give out secured loans. As a strategy of increasing savings amongst SACCOs in Ecuador, WOCCU financed a project that identified children and students as potential members (Galarraga M et al, 1998). This category of members would only save and not get loans. However, they were permitted to either withdraw their savings or become fully fledged members upon attaining the age of majority and securing regular employment.

Traditional co-operative and Savings Societies have existed since time immemorial. Amongst the Kenyan Communities, these Cooperatives took different forms. The Kikuyu Community had Ngwatio, a form of group work in which members of the group assisted each other in turns, during farm cultivation and construction of traditional dwelling huts. The Luo Community had group work called Saga in which members of the group ploughed or harvested individual garden of their members in turns (Ouma 1990). Similar groups that existed among the Kisii were called, Risaga while the Kalenjin Community had Kokweti.
While membership to these groups was voluntary, their main objective was to enhance community cohesion and elimination of poverty.

Despite resistance by the colonial rulers, citing political agitation, formal co-operatives in Kenya were established in 1946 (Ouma, 1990). The co-operative movement supports 45% of the country’s economic activities, and it therefore emerges as the best option for achieving economic growth (Ongwae, 2003).

The management of co-operative societies in Kenya is governed by the co-operative societies Act No.12 of 1997 and subsequent co-operative societies (Amendment) Act No.2 of 2004 that comply with the guidelines of the International Co-operative Alliance (ICA, 1995). Currently there are about 10,000 co-operative societies and unions in the country. They have a membership of about five Million, (Republic of Kenya, 2003).

People join co-operatives for a number of motives that are broadly grouped into three. The establishment of SACCO societies was as a result of a desire to accord low and middle income cadre employees an opportunity to save and borrow at more favourable terms than commercial banks (Chambo S.A, 2006). Social motives to form co-operatives arise from a basic need to join a co-operative in order to survive. Members who face similar conditions of poverty see the need to form co-operatives without which they risk marginalisation as individuals.
Individuals are motivated to join co-operatives so that they can exercise a certain
degree of free riding by contributing little to gain more from a co-operative and
not because of solidarity. When the goal is achieved internal association of
members is greatly disjointed and the co-operative starts to disintegrate.

The government persuades people to form co-operatives through enactment of
laws that set out the minimum number of members to form such organizations.
The Co-operative Societies Act sets out 11 (eleven) as the minimum number of
members required subscribing before a co-operative is registered. Such
individuals are at times forced to join a co-operative because the government
sees great potential for co-operatives and wants to mobilize people and
resources in that direction. Under such circumstances individuals will not have
the commitment to support and protect co-operatives.

The generic survival of co-operatives depends on positive attitude of members as
individual persons, their social solidarity and their mutual perception of
successful business (Davis P, 1999).

SACCOs have mobilized savings in excess of Shs.105 billion representing 31%
of total savings (Khaemba 2006). They cover both rural and urban areas and
country. The SACCO societies account for 42% (4,200) of these can therefore be
used in stimulating economic growth (Republic of Kenya, 2004). Over the last
five years, the SACCOs have demonstrated consistent increase in turnover as
indicated by table 2.1.1
Table 2.1.1 SACCOs Turnover 2001 – 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tr>
<td>Active Sacco</td>
<td>3351</td>
<td>2990</td>
<td>2503</td>
<td>2845</td>
<td>3187</td>
</tr>
<tr>
<td>Turnover (Shs.000)</td>
<td>4,886,426</td>
<td>4,886,984</td>
<td>8,261,984</td>
<td>8,359,000</td>
<td>8,609,000</td>
</tr>
</tbody>
</table>

Source Central Bureau of Statistics 2006

The data from table 2.1.1 shows a continuous growth in turnover inspite of fluctuating number of SACCOs. Between 2002 and 2003 the number of active SACCO declined by 16.3 percent yet the turnover increased by 69 percent. Diversification of product range may have contributed to the remarkable increase in turnover.

The increase in turnover could be associated with increase in the number of loanees among other factors. During the period 2001 to 2005, the number of loanees increased from about 400,000 to 546,000. At the same time the number of defaulters increased from about 19,000 to more than 75,000. Table 2.1.2 illustrates this trend.

Table 2.1.2 SACCO loanees 2001 – 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of loanees</td>
<td>400,306</td>
<td>400,893</td>
<td>482,329</td>
<td>464,549</td>
<td>546,769</td>
</tr>
<tr>
<td>Number of defaulters</td>
<td>19,828</td>
<td>71,291</td>
<td>45,697</td>
<td>64,134</td>
<td>75,571</td>
</tr>
</tbody>
</table>

Source Central Bureau of Statistics 2006
The apparent enormous increase in defaulters by more than three hundred percent over a five period is a worrying situation that calls for detailed investigation. This has serious financial and management implications for the SACCOs.

Other than receiving and accounting for Members contributions, SACCOs grant loans. During the period 2001 to 2005, for example, the outstanding loans portfolio increased by more than three hundred Percent from Kshs 28.3 Million in 2001 to Kshs 87.7 Million in 2005. However, as indicated in Table 2.1.3 the amount defaulted was less than eight Percent of the outstanding loans.

Table 2.1.3 SACCO loan Portfolio and Defaulted Amount 2001 – 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount outstanding Kshs (M)</td>
<td>28,377</td>
<td>53,338</td>
<td>50,079</td>
<td>68,911</td>
<td>87,744</td>
</tr>
<tr>
<td>Amount defaulted Kshs (M)</td>
<td>756.1</td>
<td>4,042</td>
<td>3,625</td>
<td>4,584</td>
<td>5,552</td>
</tr>
<tr>
<td>Percent of amount defaulted</td>
<td>2.7</td>
<td>7.6</td>
<td>7.2</td>
<td>6.7</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source Central Bureau of Statistics 2006

The operations of Co-operative societies are based on social capital theory developed by Hanifan (Putman D.R, 1993). Social capital is defined as those resources inherent in social relations, which facilitate collective action. Social capital can be built over a period of time and can as well be destroyed depending on the extent the trust is nurtured.
The social theory has been adopted and modified by other social scientists. The essence of the theory is trust, reciprocity and social norms that facilitate collective action as a result of social relationships. According to the theory, goodwill, followership, sympathy, and social interaction among individuals and families that make a social unit. Social capital theory emphasizes on norms, trust and networks formed for purpose of achieving a common goal. Trust can be accumulated over time through good actions. Norms call for fair treatment and hence equality of citizens (Fefchamps et al 1994).

According to Woolock, (2000) an individual together with his neighbours accumulate social capital not only to satisfy social needs but facilitate improvement of living conditions of the entire community as well. Co-operative societies are therefore formed on the basis of collective participation by members. They thrive on the basis of equality of members in deciding how its affairs will be managed (ICA, 1995).

Cooperative societies ability to hold together individuals from different backgrounds is due to the trust the members have in their leadership and policies. Members of co-operatives are known to each other as a result of frequent transactions in general meetings and guaranteeing each others loans and this has built ethical standards, transparency and accountability leading to a sustained good corporate reputation (Mudibo 2006).

2:1:1 SAVINGS

Savings help avoid pitfalls of seasonal variations in income, act as collateral for loan insurance against illness, disability or loss of income in case of retirement. The demand for savings services depend on confidence in the institution to safe guard the deposits and easy and immediate access to the funds (Wisniwski and
Hanning, 1991). In a study carried out in Ecuador covering 14 credit unions, it emerged that the largest proportion of members was in the age bracket 30 – 49 years. They saved in order to obtain loans for emergencies and expenses for housing (Oswaldo C. P. 2001).

On the issue of products provided by the credit union, it was found that members sought quick and timely loans as well as high quality services. Their choice of credit union was based on security, trust and referrals from other members. They viewed their credit unions as places they could go for credit when need arose and savings products.

The avenue through which one makes savings depends on costs of making savings or withdrawals, return on savings and the degree of divisibility of savings (Zella and Sharma, 1998).

The decision on savings portfolio is dependent upon the purpose of savings. Saving for the purpose of insurances compels the savers to opt for highly liquid investments as this enables the investor to promptly obtain funds in event of risk occurring. Those who save for future income flows and retirement are driven by the need for security, immediate access and rate of return.

Although savers respond positively to increased rates of return, interest rates and transaction costs, there are indications that the poor will save even when returns
are nil as they base their savings decisions on other factors such as safety or easy access to the funds. They consider the safety and liquidity of their assets as paramount.

Financial services providers have specific category of clients owing to their cost structure. It has been observed that the cost associated with maintaining a savings account or processing a loan is the same regardless of the amount involved (K-Rep, 1999). Thus commercial banks and other related institutions tend to favour large-scale savers and borrowers since the returns from such customers are much higher. Thus the poor and low-income earners are marginalized by these institutions and therefore end up getting solitude in SACCOs.

There is a tendency for Gender bias in respect to reasons for joining a SACCO. A study carried out in Ecuador on reasons for savings showed that Males saved so as to obtain loans, for security and emergencies while females saved principally to obtain loans and for emergencies. (Paredes et al 2001).

The ability of a financial institution to mobilize deposits from its customers depends on the confidence it has built amongst the depositors (Muhammed Y, 1994). High degree of confidence attracts more deposits while low level of confidence attracts dismal deposits.
Savings mobilization enables an organization to be self-sustaining and improve on its efficiency. This is due to the fact that savings tend to have lower financial costs and the organization is expected to meet the depositors demand for safety and efficiency (Wisniwski and Hanning, 1998).

Credit Unions that are committed to financial discipline provide a safe place for the poor to store their savings. They are able to attract more savings to fund loans in amounts that the members demanded without waiting as long as they have the ability to repay (Jones 2002).

2:1:2 CREDIT GRANTING

Credit is an arrangement to receive cash, goods or services now and pay for them in future. Individuals are normally faced with expenditure needs which are large in relation to the sums of money that are available to them (Stuart Rutherford, 1999). Their daily expenditure on food can be met from other incomes but there are other expenses that require large sums of funds.

As an individual grows old, life cycle needs changes. They would require large sums of money to deal with life cycle changes such as birth, marriage, home making and health care among others.

Emergencies do occur some of which are beyond the scope of the individual. Such emergencies can either be impersonal i.e. floods, cyclones and fires or
personal i.e. illness, accident and require large sums of money. The individual is compelled to borrow from the financial service provider.

With time opportunities emerge and an individual would like to seize them despite limited financial resources. Such opportunities include, acquiring assets or buying life enhancing consumer durables such as air fans, television sets, fridges among others. Obtaining such items requires enormous funding that can only be availed by a credit granting institution.

Low income earners have intermittent flow of income and this adversely affects their consumption patterns. To smoothen consumption, such individuals require external funding during lean periods.

The demand for excess funds against the background of limited financial resources calls for credit by the consumers. Consumer credit is the use of credit to meet immediate personal needs by individuals and families. Most consumers have three alternatives of financing their current purchases. They can spend against their earnings/income, use present savings or borrow against future expected earnings.

Each of these options has an opportunity cost. If current savings are continually depleted, the individual will eventually suffer as he may be unable to cater for emergencies that may occur.
If future income is pledged as security for credit purchases future disposable income for an individual will be adversely affected. If current incomes are spent without due care on necessities, the individuals well being will be compromised. (Kapoor et al 1994). Granting of credit to an individual is based on the trust that he will be willing and will have the ability to pay bills when they come due.

Access to credit will depend on the individual’s age, education background and fulfilment of lending conditions as set out by the lender. Young and old people tend to borrow little. Those with many years of schooling demand large loan amounts than less educated. The head of a household request for more credit than other members.

If an individual applies for credit, the lender has a discretion to fully approve the loan applied or partially ration or even completely reject it. Individuals may want credit but do not apply since they perceive no chance of receiving any credit. They do not find it worth trying.

The probability of applying for credit from informal sector increases with age of applicant, number of school years if an individual derives part of his income from wage labour and whether individual is head of family (Zellar M, 1994).

Formal lenders require physical collateral as part of their lending terms and conditions. Thus commercial banks and other financial institutions are unable to
cater for the credit needs of the poor and vulnerable. These category of persons cannot afford the required collateral and are therefore considered unbankable as they cannot meet the rules and regulations of the formal financial institutions (Atieno, 2001). Improving the availability of credit facilitates to the poor households is one of the incentives that the government has proposed for stimulating growth (Republic of Kenya 1994).

Interest rates charged by financial institutions play a dual role of sorting out potential borrowers and affecting their actions. Sorting out potential borrowers leads to adverse selection. This occurs because lenders would like to identify borrowers most likely to repay their loans since the expected returns depend on probability of loan repayment.

At any given interest rate lenders may refuse to give credit to some applicants and ration or fully agree to the loan amounts demanded by other applicants (Zeller, M, 1994). Such a policy is regressive to wage earners and hence negatively affects the equity objectives of development policies (Udry 1989).

Borrowers willing to pay high interest rates have high chances of default. Hence as the interest rate increases the riskness of those who borrow increases and thus reducing the lenders profitability leading to the problem of moral hazard. As a result of existence of moral hazard and adverse selection lenders are aware that increasing interest rate beyond a certain point reduces their expected profits.
The potential for moral hazard and adverse selection depends on the penalties for non compliance. High interest rates, small amounts and related stringent lending conditions for subsequent loans are some of the penalties for non compliance with the agreed loan repayment plan.

In the credit market commercial banks are unable to control all the actions of borrowers due to existence of imperfect and costly information. They will formulate lending policies that will attract low risk borrowers. The resultant credit market environment is where demand for credit exceeds supply and this calls for credit rationing.

Credit rationing in the credit market emerges from limited supply of loanable funds against a background of excess demand for loans. It is manifested by the existence of loan applicants some of whom though identical are denied loans and others who cannot get credit due to its limited supply.

Formal financial institutions restrict access to financial services by the low income earners through their lending policies. They prescribe the minimum loan amounts, complicated loan procedures and credit for specific purposes (Schmidt and Kopp, 1987).

By restricting credit to specific activities, the formal financial institutions make it difficult for the borrowers to compensate for the losses through other forms of
A credit gap emerges capturing those borrowers who cannot get adequate funds from the informal market yet they cannot gain access to credit from formal sources. This unsatisfied demand for funds forces credit rationing using non-interest criteria while an informal market develops uncontrolled interest rates. The informal financial market attempts to bridge the credit gap credited by the formal finance providers by providing informal finance. Informal finance exists so long as it satisfies excess demand by those excluded by formal finance.

Demand for formal savings and lending facilities is influenced by individuals income, bank formalities and preferences, and transaction costs. (Besley, 1994). Transaction costs are generally lower in the informal markets than in the formal markets. Formal lenders tend to rely on project screening unlike informal lenders who relay on character and history of the borrower.

Ideally commercial banks are supposed to cater for the banking needs of the entire population. (Omuodo, 2005). However, most banks require a minimum account operating balance that is beyond the reach of low and medium income earners (Soderland and Oberg, 2001).

Lenders insist that borrowers assure them of loan repayment by way of giving them income projections based on salary or business income. At this moment they have better bargaining powers over loan granting but as soon as the loan has been dispatched, the borrower gets a stronger position. This creates a
lending dilemma in credit administration and it compels the lender to set up measures that will ensure that borrowers repay the loans on time.

Commercial banks have stringent requirements such as collateral and credit worthiness of the borrower and that put off the low income earners. Their procedures and documentation discourages small scale borrowers (Fefchamps et al 1994). Loan collateral is used by banks as a substitute for lack of borrower's information and to enforce repayment of loan in event of default. The market fails to address the financial needs of the poor and the vulnerable as commercial banks view them as high defaulters and costs of providing financial services to them as very high.

Due to the market failure, alternative financial services providers have emerged. They constitute informal and semi formal credit market. These financial services providers use group lending on group control – joint liability and group savings. Savings and credit co-operative societies belong to this group of financial intermediaries. For one to be granted a SACCO loan other members must act as guarantors. Thus for a given SACCO loan a group of individuals are liable to pay at varying levels. The loanee has primary responsibility to pay while guarantors have secondary responsibility to pay.
SACCO lending is based on member’s character, salary, savings and length of employment. Repayment of loans is through payroll deduction and recovery from guarantors in event of default.

With the use of payroll as a means of recovering loans, loans are repaid on regular basis but serious defaults occur where members have lost their jobs (Goto, 2004).

SACCO’s originally shared a common bond based on employment, business type, geographic proximity or religious affiliation. The common bond assists in obtaining knowledge about the work history and members salary.

The common bond thus reduces information costs and default risks. It therefore enables members to know each other and this is useful when following up defaulters. Consequently this has enabled SACCOs to base their lending policy on the character of the borrowers. Setting of minimum savings for one to qualify for a loan is another mechanism for reducing risk associated to loan delinquency.

Loans are usually given three times a members savings but this may vary from one SACCO to another. Members are expected to have their loans guaranteed by three or more guarantors depending on the level of savings and amount of loan.
The membership structure of a SACCO implies that members save, borrow and make decisions on matters pertaining to interest rates and repayment period. Through this organization structure the SACCOs operate on self generated funds. Loans are granted from member's savings and very minimal external funding.

Every member has a personal account with the SACCO to which savings and loan repayments are credited. Savings account balances are used to provide collateral for loans. Although members pledge their future incomes as security for loans, such incomes only assure the lender that there will be a flow of income (Nabangi, 2005). The management committees of the SACCO monitor loan repayment, quickly identify those in arrears and inform or attach the guarantors shares or salary accordingly.

2:1:3 GUARANTORSHIP

A guarantee which is also known as surety is an undertaking whereby one person becomes answerable to the debts of another incase of default in payment. This implies that the guarantor is only secondary liable. The contract of guarantee has three parties. These include the principal debtor, the creditor and the guarantor.

The guarantor is totally unconnected with the contract, save for the loss in the event of the principal debtor failing to pay the amount owed (Kibanga 1994).
The guarantor becomes liable to pay the debts of the principal when the latter fails to pay a debt which was already in existence at the time the guarantee was agreed.

Defaults in repaying a debt to be incurred after the guarantee undertaking, or fails to perform the case of miscarriage does not bid the guarantor. Where the offeror invites another to enter into a contract with them and this can be done in writing, orally or by implication the guarantors become liable. The acceptance from the offeror must correspond exactly with the details of the offer.

The parties to the contract of guarantee must be in a position to enter into contract. SACCOs set up minimum age, character guidelines for one to qualify to be admitted as a member. Thus minors and insane persons cannot enter into valid contracts of guarantee within the SACCO movement.

Guarantors are bound by the contract of guarantee and each guarantor is required to make a contribution to the liability in event of default.

For a guarantee to be enforced, it must be in writing and the guarantor can only suffer loss or damage if the borrower defaults in paying due debts.
When the principal debtor defaults, the right of action at once arises against the guarantor. The guarantor is not liable when the transactions between the principal debtor and the creditor are not legally binding or the principal debtor is discharged.

A guarantor is discharged from being liable to make good the debts due to the creditor under a number of circumstances. Where variation of terms have been made without his knowledge and if without consent of the guarantor, the creditor makes a binding contract to extend the agreed time of repayment of the loan, then he will be discharged.

Any guarantee which the creditor has obtained by means of concealment of material facts is invalid. A misrepresentation of the facts by the creditor also invalidates the guarantorship.

A contract of guarantee may be terminated by revocation of the parties involved. Discharge of the principal debtor either through payment of the loan or disqualification discharges the guarantor. (Hussein, 1987)

2.1.4 DEFAULT IN LOAN REPAYMENT

The problem of default affects commercial banks and other formal credit institutions as it affects their financial viability and erodes the value of loan portfolio in addition to reducing the number of potential loanees. In extreme
cases, default in loan repayment can lead to collapse of the financial services provider. In Kenya, the Catholic Diocese of Isiolo sponsored credit programme was terminated on account of default in loan repayment. The ACK diocese of Maseno South discontinued its credit programme because the entire loaned capital fund was eliminated is as a result of default. (Oketch and Dondo 1994).

In Guatemala, most credit unions collapsed in the early 1990's due to poor lending manifested by lack of effective mechanism of following up of delinquent loans. A WOCCU funded project recommended the application of PEARLS as a strategy of reviving SACCOs in that country. (Branch B and Baker C 1998). WOCCU and a number of countries including Kenya have embraced and recommended PEARLS standards in management of Sacco societies. PEARLS is a tool for monitoring, supervision and business planning for Saccos so as to comply with regulatory authorities.

SACCO societies grant loans to members on the basis of their level of savings. The loan may be more or less than the savings of the borrower. Loans less than the member's savings are secure and repayment is assured. Loans in excess of the member's savings must be guaranteed by other members. Loans that are not being repaid are considered to be delinquent and hence defaulted. A default occurs when a loanee cannot pay a loan that is already overdue.
Default in loan repayment by SACCO members is brought about by commitments to other loans, diversion of salary, withholding of salary by employer due to cash flow problems or employees having discipline issue, unwillingness to pay and unprofitability of the financed units.

To encourage loan repayment lenders impose penalties for default. The cost of default should be so severe that loanees should try to avoid it as much as possible. If the cost of default penalty is less than the cost of compliance a default occurs. The basic analytical framework that outlines factors influencing loan repayment is known as loan repayment effort (LRE) (Farrukh Iqbal 1983).

The LRE is a fraction of monthly household income that a loanees is willing to devote to repay a loan. This amount is viewed as a percentage of total household expenses. The loanees adopts several strategies to deal with shortfalls in household liquidity demands. A default occurs when the cost of default is less than the opportunity cost of postponing other expenses. The consequence of default is considered against other possibilities such as arrest, loss of property used as security, being expelled from the SACCO, being declared uncredit worthy or the cost of emigration to other locations.

To minimize defaults, the lender must address critical areas that lead to loan repayment default. These have been identified as image and philosophy, credit methodology, information systems and internal management (Stearn, K, 1991).
The image that the lender must receive loan repayments promptly and philosophy of non-tolerance of late loan repayments default implies that borrowers will be committed to loan repayment. Potential borrowers are screened and only those who are committed to loan repayment end up applying.

The manner in which borrowers are selected and the amount of loan given to each successful borrower determines the magnitude of loan delinquency. Borrowers who are given loans they can repay without hardships hardly default in repayment. In any case default in loan repayment is as a result of bad loans and not bad borrowers. A bad loan is one that the borrower repays with a lot of hardships.

In a study carried out on the problem of default among recipients of agricultural loans in Sri Lanka, it was found the rates of default are directly correlated to the level of credit advanced. When a large number of loans are disbursed, there is a higher rate of default as barriers to the less credit worthy borrowers are lifted. Large scale borrowers have a higher default rate than small scale borrowers (Sarah S. L. 1991).

Information system helps in tracking down loan repayment. Borrowers credit history is easily obtained from a good information system. Those in arrears are easily identified and if necessary alternative ways of loan repayment are identified and applied.
Technical capabilities of the management has a direct impact on the level of loan repayment default. The credit manager should have the capacity to analyse and compare the period of loan repayment arrears, number of loanees, amount involved and the percentage of amount in default. He may also evaluate whether gender, the size of loan and repayment terms, purpose of the loan, borrowers occupation and frequency of loan application have a relationship with default in loan repayment.

The treatment of loan delinquency varies from one country to another. In Venezuela loans in arrears are collected by special agents who wear uniforms with inscriptions “loan collection agents”. The mere sight of such officers compels defaulters to repay their loans promptly in order to avoid family and public embarrassment.

In Rwanda loan defaulters are listed and their names pinned at the notice board that is strategically placed at the entrance of the SACCO. The list is deliberately maintained at an optimum number so as to deter potential defaulters. The list is therefore neither too small nor too big. SACCOs also employ debt collectors who wear conspicuous uniforms (Murekezi, 2006).
2.2 CONCEPTUAL FRAMEWORK

Effectiveness of guarantorship of SACCO loans depends on the financial stability of member’s employer, insurance for default on account of members demise, savings and other sources of income, government regulations as enacted in statutes and co-operative societies by-laws.

The conceptual framework shows the interaction between factors that influence the effectiveness of guarantorship in SACCO loans repayment.

**Independent variables**

- Financial stability of employer
- Loan Insurance schemes
- Level of savings
- Government regulations/policy
- Members other sources of income

**Dependent variable**

Effectiveness of guarantorship of SACCO loans

The following equation explain the above relationships.

\[ Y = f(x_1 + x_2 + x_3 + x_4 + x_5) + e \]
The equation shows the factors that influence the effectiveness of guarantors. Since the factors will be given values ranging from 3 to 1, then their respective values will have a linear relationship with the effectiveness of guarantorship.

Where \( Y = \) Effectiveness of guarantorship

This is the extent to which guarantors are able to pay defaulted loans. If guarantorship is very effective, then all defaulted loans are recovered from them. If it is not effective none of the defaulted loans is recovered.

\[
\begin{align*}
3 & = \text{Very effective} \\
2 & = \text{Effective} \\
1 & = \text{Not effective}
\end{align*}
\]

\( X_1 = \) Financial stability of employer

This depends on the nature of business undertaken and the source of funds, Parastatals and Government departments are funded by the exchequer and are therefore financially stable. Privately owned organizations tend to have a low capital base and may be unable to remit members' deductions. Local authorities have intermittent cash flows due to their erratic source of income. This affects remittance of members' dues to the SACCO.

\[
\begin{align*}
3 & = \text{Very strong financial position} \\
2 & = \text{Strong financial position} \\
1 & = \text{Weak financial position}
\end{align*}
\]

\( X_2 = \) Loan insurance scheme

This cover members' loans in event of demise. Lack of such a scheme may compel guarantors to make good for unpaid loans from such members. Parameters used in this case are:

\[
\begin{align*}
2 & = \text{Existence of loan insurance schemes} \\
1 & = \text{No loan insurance schemes.}
\end{align*}
\]
Members level of savings

Member's level of savings depend on his level of income, duration of membership and savings mobilization schemes adopted by concerned SACCOs. Existence of the three parameters will be ranked

3 = High level of savings
2 = Modest level of savings
1 = Low level of savings

Government policy and regulations

Government policies and regulations that encourage use of all available sources of revenue will be given a value of 3. If they do not, a value of 1 will be given.

3 = Very effective policies
2 = Effective policies
1 = Not effective policies

Members other sources of income

Where members rely on salary as a source of income, then a value of one will be given. Values two and three will be given to other sources of income.

3 = More than 3 sources of income
2 = 2 sources of income
1 = No other source of income apart from salary

Other factors

These emerged from responses given by members and other external factors. They constitute the error term in the model.
The resulting relationship between the independent and dependent variables is therefore a curvilinear. The sum of the independent variables and error term will have a curvilinear relationship with the dependent variables.

The stability of member’s employer leads to prompt loan repayment. Hence there are limited instances when guarantors will be called upon to pay defaulted loans. Members are assured of a steady flow of income thus enabling them to have investments elsewhere. These in turn argument quick loan repayment. The insurance scheme acts as a guarantor for Saco loans in case of demise of a member. Members other source of income may lead to more savings that may ultimately be used to repay loans in event of default.

2.3 REVIEW OF PAST STUDIES DONE IN THE AREA

SACCO Societies have a higher concentration of low and middle income earners. They provide a basic set of services that are not appealing to the affluent (K-Rep 1999). For example they do not operate current accounts, and the use of loans given is relatively small given the amount disbursed to loanees.

Members save with their SACCO so as to obtain low cost loans as compared with commercial banks. They follow a minimalist approach to credit delivery as they rarely provide technical assistance training or auxiliary services to members. Some of the research carried out in the field of SACCOs have addressed to problems of cash flow (Nabangi E.T. 2005).
This research undertook a study to examine factors that lead to cash flow problems amongst major SACCOs in Nairobi. It was found that withholding remittances by the member's employer greatly contributed to cash flow problems in urban SACCOs. This study did not address cash flow problems among rural based farmers SACCOs. The study also did not address the role of guarantors in improving cash flows where the default in loan repayment has occurred. Consequently SACCOs sampled experienced cash flow problems despite existence of guarantors.

A study on member's attitudes towards lending policies was carried out at Mwalimu SACCO Society (Omweri L, 1998). The study found out that there are certain lending policies that members would prefer done away with. The study also revealed that members are unhappy about the government policy on supervision of SACCOs.

However, the study did not address on the issue of guarantorship as a condition of obtaining loans and this is an important aspect of SACCO lending policies. The research should have explored member's views on the issue of guarantors since it is an integral part of SACCO loans.

Another study carried out to examine the financial management problems revealed that lack of skilled manpower at staff and management levels, poor
internal control system, favouritism, corruption and limited review of operating systems by the supervisory committee led to financial mismanagement problems at Nyati SACCO (Goto, D. H, 2004).

The study also revealed that these problems affect the operations of many SACCOs in the country. The study however, did not address the issue of how guarantors can pressurise the loanees to pay the loans and this would minimize instances of favouritisms since funds will be available.

Other related research have concentrated on the dynamics of competition in the financial market (Johnson S. 2003), impact of micro finance programmes on the economy (Otto H, et al, 2002) and causes of delinquency for loans. (Oketch and Dondo, 1994). These studies have also not considered effect of guarantorship in ensuring repayment of loans.

2.4 REVIEW OF MAJOR ISSUES

SACCOs tend to put emphasis on loan granting than loan recovery (Lestina, 1999). Employee based SACCO’s have low delinquency because the employer guarantees loan recovery and remittance. The biggest challenge in credit management is to set up sustainable and cost effective system of loan recovery and default control. Defaulted loans are a cost to the society in terms of foregone or delayed interest, high recovery costs and finance costs associated with external borrowing to meet cash flow deficits.
Borrowers repay loans for a number of reasons among them, moral obligations, religious conditions, social responsibility but the overriding reason is to obtain future value (WOCCU, 1999). Future value is the benefit obtained in future arising from an action taken today.

WOCCU has found that most credit granting and recovery systems in Kenya have not addressed the issue of future value. They have no incentive schemes for members to repay their loans on time. The future value for loanees is the same whether one repays the loan early, on time or late. Such a phenomenon implies that the member does not enjoy any benefit arising from quick loan repayment.

To encourage members to repay the loans on time the SACCO may adopt some rewards and punishment also referred to as 'carrots and sticks'. The rewards include preferential interest rates for subsequent loans for members who pay existing loan on time but higher interest rates for those who pay loans late. Loan amounts may be increased for prompt payers but reduced for subsequent loans if the borrower paid late. If there is queuing for loans, those who pay promptly do not wait for loans unlike those who are late in repayment. The SACCO may also consider recognizing prompt payers during the Annual General Meeting but subject to members consent.
Those who fail to repay the loans on time may be subject to late charges, attachment of guarantors, public embarrassment, use of lawyers to threaten them, legal action and loss of membership privileges such as voting rights, being elected into leadership positions.

Although the government has encouraged the establishment of front office services by SACCOs, a regulatory framework is lacking (Republic of Kenya, 1987). They give advances based on salary and guarantorship provided by other members. Cessation of operations by an employer and subsequent loss of jobs leads to non recovery of loans granted despite existence of guarantors. A mechanism of compelling members to pay such loans from other sources of income ought to be explored.

The Retirement Benefits Authority rules prohibit the use of retirement benefits in off-setting a member's liability including outstanding SACCO loans (Sec. 22 Act No.3 of 1997). The retirees may be drawing their monthly pension which the SACCO society cannot easily access for the purpose of loan repayment. The mechanism of recovering retirees loan is cumbersome and costly to the society.

2.5 GAPS TO BE FILLED BY THE STUDY

The study has provided information on the significant factors that affect effectiveness of loan guarantee and insight into factors causing default in loan repayment.
The study has revealed that there are contradictions to the generally held view that members save more with their Sacco as their salary and other incomes increase. Research findings indicate that member's level of savings do not commensurate with their salary levels and sources of income.

At low levels of income members save proportionately more. Savings increase as incomes increase up to a point where a member is unable to secure a loan that is below the generally applied lending criterion. The study has revealed the reasons why such disadvantaged members opt to save their increased incomes elsewhere. This may be a basis for policy formulation by the government.
3.0 RESEARCH METHODOLOGY

3.1 Research design

The researcher adopted an exploratory study approach. An exploratory involves search of the literature, talking to the experts in the subject and conducting focus group interviews (Saunders M et al 2000). This study approach was chosen because it is useful in clarifying an understanding of a problem.

An exploratory study aims at finding out what is happening, seek new insights, ask questions and assess phenomena in a new light (Robson 1993). This study design enabled the researcher to examine factors leading to non-payment of SACCO loans, and factors that ensure prompt and reliable recovery of defaulted loans from guarantors.

3.2 Target population

The target population was all guarantors who were attached in 2005 for loans they had guaranteed that later became defaulted. These guarantors were distributed as follows:
<table>
<thead>
<tr>
<th>Department</th>
<th>Female</th>
<th>Male</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>03</td>
<td>87</td>
<td>136</td>
<td>223</td>
</tr>
<tr>
<td>08</td>
<td>61</td>
<td>108</td>
<td>169</td>
</tr>
<tr>
<td>31</td>
<td>55</td>
<td>89</td>
<td>144</td>
</tr>
<tr>
<td>41</td>
<td>69</td>
<td>87</td>
<td>156</td>
</tr>
<tr>
<td>44</td>
<td>45</td>
<td>97</td>
<td>142</td>
</tr>
<tr>
<td>45</td>
<td>52</td>
<td>95</td>
<td>147</td>
</tr>
<tr>
<td>46</td>
<td>47</td>
<td>89</td>
<td>136</td>
</tr>
<tr>
<td>47</td>
<td>66</td>
<td>138</td>
<td>204</td>
</tr>
<tr>
<td>48</td>
<td>68</td>
<td>123</td>
<td>191</td>
</tr>
<tr>
<td>49</td>
<td>47</td>
<td>68</td>
<td>115</td>
</tr>
<tr>
<td>52</td>
<td>62</td>
<td>113</td>
<td>175</td>
</tr>
<tr>
<td>57</td>
<td>32</td>
<td>41</td>
<td>73</td>
</tr>
<tr>
<td>58</td>
<td>44</td>
<td>97</td>
<td>141</td>
</tr>
<tr>
<td>TOTAL</td>
<td>686</td>
<td>1330</td>
<td>2016</td>
</tr>
</tbody>
</table>


Where: Departments refer to members remitting deductions through:

- 03 - Private employers and universities.
- 08 - Ministry of Education and others
- 31 - TSC secretariat
- 41 - Teachers colleges and special institutions
- 45 - Nyanza Province
- 46 - Western Province
3.2.1 Sampling design

The study used a combination of purposive and stratified random sampling. Stratified random sampling achieves a greater degree of representation and members have equal chances of being included in the sample. (Kothari, 2004). Attached guarantors from the TSC payroll departments and other organizations were purposively selected and stratified random sampling used to obtain a sample from different departments.

There are 2,016 members who were attached defaulted loans in 2005. Consequently 200 members were selected for this study. Thus Ten percent of the members who have been attached defaulted loans were randomly selected from each payroll department. The collection of samples was aided by use of random numbers.
3.3. Data collection procedures

The research instruments for this study were member's questionnaires. Questionnaires enables the researcher to accumulate data with ease and also help in obtaining important data from a number of respondents (Mugenda and Mugenda, 1999). Structured and open-ended questionnaires covering loan granting and repayment of default were used.

The researcher trained a team of research assistants who administered the questionnaires. The researcher also sought permission from the management of Mwalimu society to carry out the study. Once permission was granted, the researcher made necessary arrangement to carry out a pilot survey for the SACCO. The aim of the pilot study was to enhance the validity and reliability of the research instruments. It also enabled the researcher to identify inherent problems in the questionnaire.

3.4 Members questionnaire

The member's questionnaire was designed to collect information on gender, age, perception on loan guarantorship, level of savings and reasons for default in loan repayment. The questionnaire also sought to find out how long a member has been with the SACCO, whether they guarantee loans and on what basis. Member's views on the impact of Government rules and regulations in enhancing loan recovery were sought. Members were also asked to indicate their level of
savings with the SACCO and whether they use their other source of income in repaying loans. The questions were structured and open ended.

3.5 Data analysis

The raw data obtained from pre-coded questions was entered into a computer and analyzed using Statistical Package for Social Sciences software (SPSS) version 11.5. This software was chosen because it is able to handle large quantities of data and is thus efficient for this study. Qualitative information generated from open-ended questions was organized into themes and the report produced used to enrich the quantitative analysis. The data was analyzed by getting the mean mode and standard deviation of the samples.

An analysis of variances (ANOVA) was carried out to determine whether the independent variables were statistically significant in determining the value of dependent variable. The ANOVA assisted in development of the predictive model for factors influencing effectiveness of guarantorship in loan recovery.

Analysed data was presented through the use of frequency tables bar graphs and pie charts.
4.0 DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction to data analysis
This chapter presents the major data analysis techniques that were used during the study. The chapter also captures the background information of study population and the effect of the independent variables on the dependent variable. The chapter consists of two sections. The first section focuses on quantitative analysis while the second section focuses on qualitative analysis.

4.2 Quantitative analysis
Quantitative analysis involves preparing data for analysis by choosing the most appropriate tables and diagrams to explore and present data. It also involves choosing the most appropriate statistics to describe and examine relationships and trend in the data collected. The researcher sent out two hundred (200) questionnaires and 164 were returned and analysed. This represents 84% response rate.

Gender of the respondents
The researcher wanted to establish the gender of the respondents. Analyzed findings indicate that most of the respondents 62.2 percent were male. This is perhaps an indication that the SACCO movement is male dominated. Table 4.2.1 and figure 4.2.2 presents the gender of the respondents.
Table 4.2.1 Gender of Respondent

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>102</td>
<td>62.2</td>
<td>62.2</td>
</tr>
<tr>
<td>Female</td>
<td>62</td>
<td>37.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.2.2 Gender of Respondent

Respondent's highest level of education

The researcher sought to establish the education level of the respondents. Analyzed findings presented in table 4.2.3 and Figure 4.2.4 indicates that majority of the respondents, 82.9 percent are University graduates. This can be attributed to the fact that Mwalimu SACCO Society draws it membership mainly from amongst Secondary School teachers in the Country.
Table 4.2.3 Respondent’s highest level of education

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
<td>1</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>College</td>
<td>26</td>
<td>15.9</td>
<td>16.5</td>
</tr>
<tr>
<td>University</td>
<td>136</td>
<td>82.9</td>
<td>99.4</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>0.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.2.4 Respondents highest level of education

Age of the respondent

The researcher sought to identify the number of members in the various age brackets of the respondents. Data obtained revealed that most of the members, 43.9 Percent are in the age bracket 36 to 45 years. However there is a significant proportion of members below the age of 35 years, 26.8 Percent and above 45 years, 29.3 Percent. This findings are presented in Table 4.1.5 and Figure 4.1.6.
Table 4.2.5 Age of respondents

<table>
<thead>
<tr>
<th>Age group</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>26-35 Years</td>
<td>44</td>
<td>26.8</td>
<td>26.8</td>
</tr>
<tr>
<td>36-45 Years</td>
<td>72</td>
<td>43.9</td>
<td>70.7</td>
</tr>
<tr>
<td>Above 45 Years</td>
<td>48</td>
<td>29.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.2.6 Age of the respondent

Membership period

Members were asked to indicate the period they have been with the SACCO. Analysed data revealed that significant proportions of members, 27.4; 25.0; and 24.4 Percent have been with the SACCO for periods between 10 to 15; 15 to 20 and 5 to 10 years respectively. These periods are perhaps indicative of the member's employment periods. Table 4.2.7 and Figure 4.2.8 presents analysed data for membership periods.
### Table 4.2.7 Membership period

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 Years</td>
<td>14</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td>5-10 Years</td>
<td>40</td>
<td>24.4</td>
<td>32.9</td>
</tr>
<tr>
<td>10-15 Years</td>
<td>45</td>
<td>27.4</td>
<td>60.4</td>
</tr>
<tr>
<td>15-20 Years</td>
<td>41</td>
<td>25.0</td>
<td>85.4</td>
</tr>
<tr>
<td>Over 20 Years</td>
<td>24</td>
<td>14.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 4.2.8 Membership Period

![Figure 4.2.8 Membership Period]

- Less than 5 Years
- 5-10 Years
- 10-15 Years
- 15-20 Years
- Over 20 Years
Frequency of loan applications

The respondents were asked to indicate how often they applied for in a year. Analysed responses presented in table 4.1.9 and Figure 4.1.10 indicate that a significant number of members, 37.8 Percent apply for loan once in three years and an almost similar proportion, 34.1 Percent apply for loans yearly. These findings are in conformity with the society’s main products of a normal loan and emergency/ School fees loans whose repayments periods are on average three years and one year respectively.

Table 4.2.9 Frequency of loan applications

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly</td>
<td>56</td>
<td>34.1</td>
</tr>
<tr>
<td>Twice per year</td>
<td>20</td>
<td>12.2</td>
</tr>
<tr>
<td>Once in 3 Years</td>
<td>62</td>
<td>37.8</td>
</tr>
<tr>
<td>Once in 4 Years</td>
<td>18</td>
<td>11.0</td>
</tr>
<tr>
<td>Not Applicable</td>
<td>8</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>164</td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Reason for Non-repayment

The respondents were asked to indicate the reasons why some loans are not repaid. Analysed responses indicated that loss of job is the single most contributing reason, 72.0 Percent. However it is important to note that a significant proportion of members, 19.5 Percent indicated that loans are not repaid because of employers withholding remittances.
Table 4.2.11 Reason for Non-repayment of loan

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of job</td>
<td>118</td>
<td>72.0</td>
<td>72.0</td>
</tr>
<tr>
<td>Lack of alternative sources of Income</td>
<td>11</td>
<td>6.7</td>
<td>78.7</td>
</tr>
<tr>
<td>Lax SACCO rules</td>
<td>3</td>
<td>1.8</td>
<td>80.5</td>
</tr>
<tr>
<td>Employers withholding remittances</td>
<td>32</td>
<td>19.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.2.12 Reasons for Non Repayment of Loans
Gender and loan Repayments

The researcher sought to establish whether there are differences in loan repayment by gender. Analysed findings presented in table 4.2.13 and figure 4.2.14 indicated that overall 84.8 Percent of the respondents repaid the loans in time. However when males and females are compared, the proportion of females that repay the loan in time 95 Percent is higher than that of males 78 Percent.

Table 4.2.13 Gender and loan Repayment

<table>
<thead>
<tr>
<th>Gender</th>
<th>Total</th>
<th>Percent</th>
<th>Number that Repaid loan on time</th>
<th>Percentage</th>
<th>Number that Did not repay loan on time</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>102</td>
<td>62.2</td>
<td>80</td>
<td>78</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Female</td>
<td>62</td>
<td>37.8</td>
<td>59</td>
<td>95</td>
<td>03</td>
<td>05</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td>139</td>
<td>84.8</td>
<td>25</td>
<td>15.2</td>
</tr>
</tbody>
</table>
Age of member and loan Repayment

The researcher sought to establish whether there are differences in loan repayment on the basis of age. Analysed data presented in table 4.2.15 and figure 4.2.16 indicates that the greatest proportion of those who repay the loan in time, 92.3 Percent are in the age bracket 45 years and above. Those in the age bracket 26 to 35 years have the least proportion, 65.7 Percent.
### Table 4.2.15 Age of member and loan Repayment

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Frequency</th>
<th>Percent</th>
<th>Number that Repaid loan on time</th>
<th>Percentage</th>
<th>Number that Did not repay loan on time</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>26-35</td>
<td>38</td>
<td>23.1</td>
<td>25</td>
<td>65.7</td>
<td>13</td>
<td>34.3</td>
</tr>
<tr>
<td>36-45</td>
<td>74</td>
<td>45.1</td>
<td>66</td>
<td>89.2</td>
<td>08</td>
<td>10.8</td>
</tr>
<tr>
<td>Over 45</td>
<td>52</td>
<td>31.8</td>
<td>48</td>
<td>92.3</td>
<td>04</td>
<td>7.7</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td>139</td>
<td>84.7</td>
<td>25</td>
<td>15.3</td>
</tr>
</tbody>
</table>

**Figure 4.2.16 Age of member and loan repayment**

- **Percent**
  - 100
  - 90
  - 80
  - 70
  - 60
  - 50
  - 40
  - 30
  - 20
  - 10
  - 0

- **Age bracket (Years)**
  - 26-35
  - 36-45
  - Over 45

- **Legend**
  - Percentage that repay Loan in time
  - Percentage that do not repay the loan in time
Basis of guarantorship

The researcher wanted to know the basis upon which members guarantee each others loan. Analysed responses presented in table 4.2.16 and figure 4.2.17 indicate that the greatest proportion of members, 38.4 percent guarantee loans on the basis of the potential loanees integrity. However, a significant proportion of members, 20.1 percent guarantee loans on the basis of friendship and trust.

Table 4.2.17 Factors to consider when guaranteeing members loans

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being colleagues at school/business</td>
<td>17</td>
<td>10.4</td>
<td>10.4</td>
</tr>
<tr>
<td>Being from the same home background</td>
<td>9</td>
<td>5.5</td>
<td>15.9</td>
</tr>
<tr>
<td>Being close friends/trust</td>
<td>33</td>
<td>20.1</td>
<td>36.0</td>
</tr>
<tr>
<td>Employment/income level</td>
<td>13</td>
<td>7.9</td>
<td>43.9</td>
</tr>
<tr>
<td>Integrity of member</td>
<td>63</td>
<td>38.4</td>
<td>82.3</td>
</tr>
<tr>
<td>Commitment of career/business</td>
<td>17</td>
<td>10.4</td>
<td>92.7</td>
</tr>
<tr>
<td>Disciplinary record of member</td>
<td>12</td>
<td>7.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
How often members guaranteed loans

Members were asked to indicate the number of occasions they guaranteed loans. Analysed data presented in table 4.1.18 and figure 4.1.19 indicate that the greatest proportion of members, 82.9 percent have guaranteed loans more than three times.
Table 4.2.18 The number of occasions the respondent has guaranteed loans

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once</td>
<td>6</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Twice</td>
<td>7</td>
<td>4.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Thrice</td>
<td>15</td>
<td>9.1</td>
<td>17.1</td>
</tr>
<tr>
<td>More than thrice</td>
<td>136</td>
<td>82.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.2.19 The number of occasions the respondent has guaranteed loans
Whether appending signature on loan form assures loan repayment.

The respondents were asked to indicate whether or not appending their signature assures loan repayment. Analysed responses presented in table 4.1.20 and figure 4.1.21 indicated that most members 50.6 percent are of the view that appending signature on loan form assures loan repayment. A significant proportion, 49.4 percent of the members are of the view that appending a signature on the loan form does not assure loan repayment.

Table 4.2.20 Whether appending the respondents signature on a members loan form provides an assurance for loan repayment

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>81</td>
<td>49.4</td>
<td>49.1</td>
</tr>
<tr>
<td>No</td>
<td>83</td>
<td>50.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
How the defaulted loan was repaid

Guarantors were requested to indicate how they repaid the attached loan. Analysed responses in figure 4.2.22 and table 4.2.23 show that the greatest proportion of respondents, 85.7 percent repaid the attached loan from their salary. However, a significant proportion, 25.7 percent pressurized the defaulter to pay.
Table 4.2.22  How the defaulted loan was repaid

<table>
<thead>
<tr>
<th>Repayment mode</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>From defaulter’s salary</td>
<td>107</td>
<td>65.7</td>
</tr>
<tr>
<td>Pressured the defaulter to pay from other sources</td>
<td>42</td>
<td>25.7</td>
</tr>
<tr>
<td>Defaulter paid by cash</td>
<td>15</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Figure 4.2.23**

How the defaulted loan was repaid
Guarantors' recommendations on how to enforce loan repayment

The guarantors were requested to suggest ways of enforcing loan repayment from defaulters. Analysed data presented in table 4.2.24 and figure 4.2.25 indicate that the greatest proportion, 59.7 percent of the respondents would request the employer to take action that would ensure loan repayment. A significant proportion of the respondents, 29.3 percent would take legal action in order to recover defaulted loans.

Table 4.2.24  Guarantors' recommendation on how to enforce repayment of defaulted loans

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take legal action</td>
<td>48</td>
<td>29.3</td>
<td>29.8</td>
</tr>
<tr>
<td>Take possession of defaulter’s property</td>
<td>13</td>
<td>7.9</td>
<td>37.9</td>
</tr>
<tr>
<td>Request the SACCO to shame defaulter during members forum</td>
<td>1</td>
<td>.6</td>
<td>38.5</td>
</tr>
<tr>
<td>Request employer to take action that ensures loan repayment</td>
<td>98</td>
<td>59.7</td>
<td>97.5</td>
</tr>
<tr>
<td>Persuade defaulters spouse/relatives to pay</td>
<td>4</td>
<td>2.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>164</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Figure 4.2.25 Guarantors’ recommendation on how to enforce repayment of defaulted loans

- Take legal action
- Take possession of defaulter's property
- Request the defaulter to shame him/her at members forum
- Request employer to take action that ensures loan repayment
- Persuade spouse/relatives to pay

Percent

60
50
40
30
20
10
0

Action
4.3. QUALITATIVE ANALYSIS

Qualitative data analysis allows the researcher to rearrange and analyse data systematically and rigorously. It also helps the researcher comprehend and manage data, merge related data drawn from different sources, identify key patterns and themes, draw and verify conclusions.

Qualitative data analysis also involves categorisation, identifying units for data collected and recognising relationships and their categories. Inductive and deductive positions are important strategies for qualitative analysis. Inductive position helps the researcher build up a theory which is adequately grounded in a number of relevant cases. Deductive position enables the researcher use the existing theory to shape up aspects of data analysis.

Members views and opinions concerning issues raised are analysed into themes and important factors contributing to certain issues are identified. The reasons for occurrence of certain events and activities are also analysed.

4.3.1 Role of Government in loan repayment

From member's responses, it emerged that the Government regulations and rules do not strongly support loan recovery including from guarantors. Relevant laws on recovery of member's dues from salary and other sources are retrogressive. Members were of the view that such laws should be amended.
4.3.2 Factors to consider when choosing a guarantor

To most members integrity, trust and proximity to working stations are the most important issues to consider when guaranteeing loans. Being a member of informal guarantorship cartels is also another important factor.

Other factors to consider include member’s level of saving, their other sources of income and government rules and regulations. Disciplinary record and commitment to career are some of the equally important issues to consider when choosing a guarantor.

Members indicated that being from the same home background is not an important factor when choosing guarantors for their loans.

4.3.3 Whether appending signature guarantees loan repayment

It came out strongly that signing a loan form as a guarantor is a formality. The financial strength and stability of the employer determines to a large extent whether loans will be repaid or not. It is therefore one major determinant of loan repayment according to most members. It emerged that where a member is applying a loan that is less than his savings, then the loan is fully guaranteed.
4.3.4 Whether SACCO loans are fully guaranteed

The respondents highlighted the existence of a loan insurance scheme commonly known as risk management. This scheme ensures full guarantee for SACCO loans in event of demise of members.

It emerged that where a member is applying a loan that is less than his savings, then a loan is fully guaranteed. These are the only instances when SACCO loans are fully guaranteed.

4.3.5 Factors that ensure repayment of defaulted loans

It emerged from the respondents that financial stability of employer ensure loan repayment. Members other sources of income and level of savings equally came out strongly as factors that ensure loan repayment. However, there are instances when guarantors pressurised the defaulter to pay with positive results.

A number of members felt that centralised of payroll processing for government departments where different stakeholders were given varying priorities in recovery of dues had an effect on loan default. SACCO dues appear to be given least a higher priority. Those members who default on account of securing bank loans after being granted SACCO loans would be netted thus ensuring repayment of SACCO dues.
4.3.6 Basis upon which loans should be granted

Most of the respondents were of the view that SACCO loans should be based on the character of the borrower. The ease with which members are able to repay the loans should also be taken into account. Some of the members felt that existence of groups for purpose of borrowing and repaying loans should also be taken into account when granting loans.

Most of the members felt that the SACCO should use collateral as substitute for guarantors in order for one to be granted a loan. Some of the members felt that their spouse's salary in addition to income from their business should be taken into account when granting loans. Information from successful loan applications revealed that members wished to have wife's salary/income as additional security.

4.3.7 Whether increased salary leads to increased savings

Members felt that they save with the SACCO as a prerequisite to get loans. As their salary increases, most members shy away from saving more with the SACCO but instead they use enhanced pay to finance their unaccomplished requirements. A large number of members opted to save part of their enhanced earnings with commercial banks. Others chose to purchase insurance policies and goods from hire purchase shops.
4.3.8 On whether members use their other sources of income to repay loans

Most members felt that due to their engagement at work place they are unable to start large scale income generating projects. Additionally the small projects they have started are in most cases situated in towns and are far away from their workstations. The transaction costs of using incomes from these other sources of income to repay loans are too high. Members felt that the SACCO lacks a mechanism of encouraging them to repay part of the loans using cash.

4.3.9 Ways through which members can accelerate loan repayment

Most members indicated that cash payment in addition to payroll deduction accelerates loan repayment. A significant number of members indicated that revision of salaries and other emoluments led to increased loan repayment in the short-run.

4.3.10 Whether increased salaries and other sources of income lead to increased savings

A significant number of members indicated that increased salaries did not translate to increased savings and they cited rigidity of the Sacco in offering other avenues of savings as the major reason. The members found it uneconomical to save their other sources of income with the Sacco as transaction costs were too high.
From the qualitative analysis the major factors influencing the effectiveness of guarantorship in loan recovery emerged. These factors are financial stability of employer, loan insurance scheme, government rules and regulations, members other sources of income and level of savings.

The researcher undertook further statistical analysis using Pearsons correlation and regression analysis in addition to analysis of variance (ANOVA).
### 4.3.11 PEARSON CORRELATION MATRIX FOR THE VARIABLES

#### Table 4.3.11

<table>
<thead>
<tr>
<th></th>
<th>Effectiveness of guarantorship</th>
<th>Financial stability of employer</th>
<th>Loan insurance scheme</th>
<th>Government policy</th>
<th>Other source of income</th>
<th>Members level of saving</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effectiveness of guarantorship</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.92</td>
<td>.85</td>
<td>.35</td>
<td>.840</td>
<td>.90</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.634</td>
<td>.</td>
<td>.004</td>
<td>.610</td>
<td>.907</td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td><strong>Financial stability of employer</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.92</td>
<td>1</td>
<td>.</td>
<td>.167</td>
<td>.932</td>
<td>-.348</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.634</td>
<td>.</td>
<td>.</td>
<td>.033</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td><strong>Loan insurance scheme</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.85</td>
<td>1</td>
<td>.</td>
<td>0.451</td>
<td>.</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td><strong>Government policy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.35</td>
<td>.167</td>
<td>.0451</td>
<td>1</td>
<td>.179</td>
<td>-.041</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.004</td>
<td>.033</td>
<td>.</td>
<td>.</td>
<td>.022</td>
<td>.603</td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td><strong>Other sources of income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.840</td>
<td>.932</td>
<td>.</td>
<td>.179</td>
<td>1</td>
<td>-.373</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.610</td>
<td>.000</td>
<td>.</td>
<td>.022</td>
<td>.</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
<tr>
<td><strong>Members level of saving</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.90</td>
<td>-.348</td>
<td>-.041</td>
<td>-.373</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.907</td>
<td>.000</td>
<td>.</td>
<td>.603</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
<td>164</td>
</tr>
</tbody>
</table>
All the major factors affecting the effectiveness of guarantorship were identified from the respondents feedback. Analysed data presented in table 4.3.11 show the various factors that influence effectiveness of guarantorship. The factors that emerged are financial stability of employer 92 percent, loan insurance scheme, 85 percent, government policy 35 percent, members other source of income, 84 percent and members level of savings 90 percent.

4.3.12 Regression analysis
The correlation matrix was based on the qualitative analysis of data. The variables have a curvilinear relationship thus requiring use of analysis of variance (ANOVA) in order to develop a predictive model.

From the correlation matrix, regression analysis was carried out in order to develop a model showing the relationship between factors that influence (independent variables) the effectiveness of guarantorship (dependent variables). The purpose of the regression analysis was to get the relationship between the variables and come up with predictions model.
4.3.13 Model Summary
A model summary derived from the correlation matrix is presented in table 4.3.13.

Table 4.3.13 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.959</td>
<td>.92</td>
<td>.706</td>
<td>.214</td>
<td>1.944</td>
</tr>
</tbody>
</table>

From the model summary, 92% of variations in the dependent variable can be explained by changes in the independent variables.

4.3.14 Analysis of Variance – ANOVA

Analysis of variance determines whether mean scores of the factors influencing the effectiveness of gurantorship differ significantly from each other. It also determines whether the various variables interact significantly with each other. The ANOVA helps to explain the relationship between the respective independent variables and the extent to which they differ from each other. Table 4.3.14 shows the computed values of the ANOVA

Table 4.3.14

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.389</td>
<td>5</td>
<td>.078</td>
<td>1.702</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>7.221</td>
<td>158</td>
<td>.046</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7.610</td>
<td>163</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The ANOVA was derived from the correlation matrix and was computed by way of dividing the established variations of the group averages by the expected variations. This gives the F-ratio at given degrees of freedom. From the table, model = 1 refers to data that came from normal population distribution.

An F ratio of more than 1 implies that each of the identified factors have an effect on guarantorship. From table 4.3.14, the computed $F = 1.702$ and this implies that all the factors identified have significant effect on recovery of defaulted loans from guarantors. The error margin of 0.137 at 95% confidence level is significant. Thus the correlation matrix is validated by an ANOVA of 1:702

4.3.15 Correlation matrix coefficients

An estimation of the model coefficients emanating from the correlation matrix was done through bivariate analysis of the dependent and independent variables. The estimated co-efficient are shown on table 4.3.15
Table 4.3.15 Correlation matrix coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>(Constant)</th>
<th>Financial stability of employer</th>
<th>Loan insurance scheme</th>
<th>Members level of savings</th>
<th>Government policy and regulations</th>
<th>Members other sources of income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>.835</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error</td>
<td>.174</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.037</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>4.805</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td></td>
<td>Financial stability of employer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error</td>
<td>.90</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.93</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>.037</td>
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<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.971</td>
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<td></td>
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<tr>
<td>X2</td>
<td></td>
<td>Loan insurance scheme</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>.267</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error</td>
<td>.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>1.995</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.048</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X3</td>
<td></td>
<td>Members level of savings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.039</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error</td>
<td>.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.92</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>1.173</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.243</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X4</td>
<td></td>
<td>Government policy and regulations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.052</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error</td>
<td>.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.42</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.217</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X5</td>
<td></td>
<td>Members other sources of income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.061</td>
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</tr>
<tr>
<td>Std. Error</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Beta</td>
<td>.84</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t</td>
<td>.729</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.467</td>
<td></td>
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</tr>
</tbody>
</table>

The correlation matrix coefficients were used to derive a prediction model for the factors influencing the effectiveness of guarantorship in loan recovery. Thus the correlation coefficients derived from the matrix have been used to come up with a standard prediction model.
4.3.16 Model Predictions

The researcher carried out a t-test to generate the variance between a pair of variables from the computed values of correlation coefficient matrix. This was the basis upon which the predictions model was developed. Save for financial stability of the employer and member's level of savings all the other variables have their standardised and unstandardised coefficients being equal.

The following equation was generated from the co-efficients in the model.

\[ ef = \beta_0 + 0.93x_1 + 0.65x_2 + 0.92x_3 + 0.42x_4 + 0.84x_5 + e \]

Where:

- \( ef \) = Effectiveness of guarantorship
- \( \beta_0 \) = Beta coefficient
- \( x_1 \) = Financial stability of the employer
- \( x_2 \) = Loan insurance scheme
- \( x_3 \) = Members level of savings
- \( x_4 \) = Government policy and regulations
- \( x_5 \) = Members other sources of income
- \( e \) = Errors term that covers other unexplained variables
4.4 SUMMARY OF DATA ANALYSIS

Qualitative data was analysed through the use of correlation matrix and ANOVA. The Pearson’s correlation matrix enabled the researcher identify the extent to which each of the independent variables affects the dependent variable.

The relationship amongst the independent variables also emerged. The ANOVA that was carried out helped in determining whether the independent variables have a significant effect on the dependent variable. The ANOVA enabled the researcher develop a predictions model on the factors influencing the effectiveness of guarantorship.

Quantitative data was analysed through the use of pie charts, bar-graphs and frequency tables. These tools of data analyses enabled the researcher identify and present the significant characteristics of the sample. Significant factors influencing loan repayment were identified with ease.
CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the findings, answers to research questions, conclusion, recommendations and suggestions for further research.

The main aim of this study was to examine factors that influence the effectiveness of guarantorship in loan repayment. The findings of the study revealed that there exists a direct relationship between those factors and repayment of loans by guarantors and those of Mwalimu SACCO in particular.

5.1 SUMMARY OF MAJOR FINDINGS

The study revealed that there were cases of non-recovery of loans despite existence of guarantorship. The study revealed that although appending of signatures by guarantor(s) on members loan form is a condition for obtaining SACCO loans, the signature in itself is not a guarantee for repayment of the loan in event of default. Signing a loan form by a guarantor is therefore a mere formality as other factors play a more significant role in recover of defaulted Sacco loans. The financial stability of member's employer, member's level of savings, and their other business significantly contributed towards assurance of loan repayment when the loanee defaults.

The study established that there is a time lag between when a loanee defaults in repayment and consequent attachment of guarantors. This is likely to disrupt
continuity of SACCO operations. In addition there lacks a mechanism to compel members to pay such loans from alternative sources of income.

It emerged that default in loan repayment arises from termination of services of a member by the employer and subsequent loss of job. Loan repayment is strongly dependent on member's savings, financial stability and continuity of operations by the employer among other factors. There were some instances of 'secondary defaulters' where guarantors had failed to repay the loans guaranteed. This is likely to result in irrecoverable loans which could adversely affect the operations of SACCOs.

A Pearsons correlation matrix that was developed revealed that there exist a direct positive relationship between financial stability of employer and effectiveness of guarantorship ($r=0.92$). This finding suggests that SACCOs whose membership is drawn from financially stable employers experience prompt loan repayment from loanees and guarantors. Financially stable employers, in addition to paying high salaries that support individual private investment,($r=0.84$); hardly delay in forwarding members remittances to the SACCO.

Another variable found to have an equally strong direct positive relationship is members level of savings ($r=0.9$).This strong relationship is partly explained by the fact that employer based SACCOs apply payslip ability lending approach.
Therefore a high level of savings implies that the guarantors would be risking a proportionally low amount of loan to be attached.

Loan insurance scheme was also found to have a strong direct relationship with effectiveness of guarantorship (r=0.85). This relationship can be attributed to the fact the SACCO has an insurance scheme meant to cover guaranteed loans in case of members demise or becoming medically incapacitated.

The study however revealed that the government policy and regulations do not have a strong direct relationship with the effectiveness of guarantorship (r=0.35). The genesis of SACCO dues recovery from member's salary is a non binding undertaking that the employer will be remitting deductions to the SACCO and it is on this basis that SACCOs are registered by the relevant government department.

The existing Government laws do not enhance recovery of loans as there is no binding provision in the cooperative societies Act that compels employers to deduct member's contribution from the payroll. There is no provision in law that criminalises a defaulter who is in employment.

The income tax act gives tax relief on pension contributions to registered pension funds but completely disregards tax incentives on savings contributions to registered cooperative societies.
The Government has formulated regulations governing the operations of commercial banks and non bank financial institutions but has completely failed to formulate regulations governing operations of SACCO societies despite offering financial products almost similar to those of commercial banks. The government has also restricted access to some specified sources of member’s funds such as pension dues that would otherwise be used in loan repayment.

It also emerged that these independent variables have varying degrees of multicolinearity. Financial stability of the employer has a direct relationship with members other sources of income \( (r = 0.932) \), suggesting that the high disposable incomes of members from such organisations enables them to start private income generating projects thus diversifying their sources of income.

However, financial stability of the employer has an indirect relationship with member’s level of savings \( (r = -0.348) \). This implies that as financially stable employers pay high salaries, the employees do not translate their incremental incomes to SACCO savings. This would mean that members save principally to obtain loans from the SACCO and the improved income threshold is likely to be spent elsewhere. This behavioural pattern perhaps confirms that one of the cardinal motives of joining a cooperative is to contribute little in order to get more.

A weak direct relationship exist between financial stability of employer and government policy and regulations \( (r=0.167) \). It appears that financially stable
organisations are target of Government policy and regulations on fiscal and monetary policies relating to savings.

Government policy and regulations have a weak direct relationship with guarantors other sources of income (r=0.179). The Government through the application of taxation and stringent licensing policies and procedures discourages private individual investments. There also exist a indirect relationship between the Government policy and regulations and members level of savings (r= -0.41). This implies that Government policy and regulations are perceived to be retrogressive to savings mobilization in SACCOs. The existing levels and types of taxation have little incentive for members to save more in SACCOs.

Members other sources of income and level of savings have a significant indirect relationship (r= − 0.373). This suggests that as members diversify their sources of income, there is a tendency to save with other financial service providers. The implication is that perhaps such members no longer feel that they have the risk of being marginalised by mainstream financial service providers.

An analysis of the regression model revealed that 92 percent of the variations in effectiveness of guarantorship are explained by variations in financial stability of the employer, loan insurance, Government policy and regulations, other sources of income and members level of savings.
Thus the independent variables explain 92 percent of variations in the dependent variables. This is a significant relationship.

An analysis of variance (ANOVA) conducted to establish whether there is any significant difference in the mean effectiveness of guarantorship due to the changes in independent variables revealed that the independent variables have a significant effect on effectiveness of guarantorship. The mean of the effectiveness of guarantorship and the independent variables (P=1.702) is significant (0.132) at 95 Percent confidence level (0.132>0.05).

5.1.1 Other findings
The study also revealed that some financial institutions especially Commercial Banks were lending unsecured personal loans at attractively low interest rates thus enticing members of SACCOs. They were additionally offering diverse financial products at competitive rates some of which are not available in SACCOs. The resultant competition poses a potential threat to membership and operations of SACCOs.

The study revealed that there were some instances of secondary defaulters where by the guarantors defaulted loans. This could lead to irrecoverable loans which could adversely affect ability of SACCOs to lend funds.
5.2 ANSWERS TO RESEARCH QUESTIONS

Research questions one to five were on the issues pertaining to member's background. The researcher explored the member's gender, education background and the duration of SACCO membership.

5.2.1 Gender

It was established that majority of members of Mwalimu SACCO are males accounting for 62.2 percent and that females constitute 37.8 percent. This is explained by the gender distribution of the SACCO membership where males are 28,359 and females are 15,388 representing 65.6 and 34.3 percent respectively.

5.2.2 Highest level of education

It was established that the highest level of education for most members of Mwalimu SACCO, 82.9 percent is university degree. This is in conformity with the SACCOs membership catchments area of secondary and technical schools teachers.

5.2.3 Age and duration of membership

It was established that most members of the SACCO are in the age bracket 26 years to 45 years. About 75 Percent of the members have been with the SACCO for period ranging from 5 years to 20 years. This shows there exists a relationship between age of members and duration of membership. Change of
workstation does not affect one's membership status. This is in conformity with one of the cooperative principles of open and voluntary membership.

5.2.4 Frequency of loan application

A frequency of loans applications was analysed. It emerged that 34.1 percent of the members applied for loans yearly while 37.8 percent applied for loans once in every year. Only 4.9 per cent did not apply for loans. The implication is that most members join the SACCO for purpose of securing some of the available loan products.

5.2.5 Gender and promptness of loan repayment

Although males are dominant in the membership of the SACCO, the study revealed that over 27.5 percent did not repay their loans on time compared to only 5 percent of the females. Females are therefore more inclined to repay the loans unlike the male counterparts. Females fear the risk of public embarrassment, legal action and are more committed to their career unlike males. This finding implies that it is perhaps more risky to grant and guarantee a loan to males than it is to females. Gender, age, nature of employer and members commitment to career have an impact on loan repayment. As noted elsewhere, females who are employed in financially stable organisation tend to be good borrowers as they are committed to their careers. The incidence of default in loan repayment by this category of members is proportionately low.
5.2.6 Age of respondent and repayment of loan

When the age factor was considered, the study revealed the older age bracket members 36 – 45 years, 88.8 percent repaid the loans on time as contrasted with younger age bracket 25 – 30 years, 11.2 Percent who tended to delay in loan repayment. Members in the old age bracket are likely to be settled in their careers have accumulated savings over time and may be earning higher incomes.

5.2.7 Reasons for non-repayment of loans

It emerged that loss of job is the single most contributor to non-repayment of loans. This is perhaps as a result of the SACCO drawing most of its membership from formal organisations. Non-repayment of SACCO loans was also greatly contributed to by lack of alternative sources of income.

5.3 CONCLUSION

The study on factors influencing effectiveness of guarantorship in loan recovery was an excellent opportunity for the researcher to learn more on SACCO loan recovery. The findings especially on loans recovery are very timely and useful at this time when focus has shifted to co-operatives as agents of mobilization of savings and formation of capital in Kenya. It is possible that prudent management of SACCO loans recovery process could provide a feasible solution to some of the economic problems facing the country.
This study has not only identified the factors influencing guarantorship in loan recovery but also provided an insight into possible solutions towards some of the challenges highlighted.

SACCOs face stiff competition from banks and financial institutions for customers who are SACCO members. Whereas SACCOs insist on guarantors, the competitors grant unsecured loans. This poses a serious threat to the survival of SACCOs. Further it necessitates the SACCOs review their products, lending terms and criteria.

To wade off competition, the affected SACCOs should embark on sustained marketing campaign of their products to have a competitive edge. In addition SACCOs could consider diversifying to other sources of funds and incomes to supplement their limited financial resources base.

The study revealed that loan processing costs are higher in SACCOs compared to Commercial banks. SACCOs should endeavour to reduce such costs. Members felt that SACCOs should process loans promptly at reduced transaction costs. SACCOs should also increase the products offered to meet changing member's expectations. They should encourage members to save more so as to enhance loan recovery.
From the research findings, members are of the view that SACCO loans should be granted on the basis of character and not the payslip ability. SACCOs should embark on vigorous marketing and publicity of their products so as to position such products in the financial market. Since SACCO usually ration credit, due to limited funds, they should consider issuing commercial paper or securing long-term loans whose interest rates are hedged against fluctuations. The cost of such financial instruments should be lower than the interest income earned from members loans.

It was also observed that the transaction costs of a member with the SACCO are much higher than other financial intermediaries despite the interest they charge on loans being low. SACCO should therefore endeavour to reduce such costs. Members are keen at getting loans quickly regardless of the costs. This came out strongly from the respondents. SACCO should consider forward and backward linkages so as to respond to the competitors threat. This would require them to have business relationships with other SACCOs as well as commercial banks. They should consider getting syndicated low interest overseas loans channelled through reputable commercial banks.

Guarantors normally guarantee loans as long as the going is good. Where organizations go under or the Government amends the laws, their effectiveness in ensuring loan repayment is compromised. An increase in member's salary and sources of income do not translate to increased savings.
To counter this trend, SACCOs should develop saving products such as premium savings account that is aimed at harnessing savings from members other sources of income. They may also consider introducing children's savings account where loans are not allowed. Withdrawals from such account may be restricted to only when the child is above certain age say 18 years. This would enable them diversify the avenues through which members and their relatives can save. In any case, the trend in co-operative movement is to diversify product range and increase membership.

Integrity of members ensure their cohesion and hence their ability to work for a common goal. It was established that integrity and trust enabled members guarantee each others loans that were eventually fully repaid. The two aspects help in primary screening of loanees and therefore reduces costs associated with gathering information. Thus SACCO societies and borrower have minimal problems associated with conventional information asymmetry between lenders and borrowers.

The patriarchal nature of the Kenyan society may have prompted female members of the SACCO to be regular in loan repayments. In event of default in loan repayment gender bias is evident when following up loanees. Government rules and regulations do not provide for affirmative action prompting females to be more rational when dealing with their SACCO.
The concept of full guarantee of SACCO loans is almost non-existent. Members pledge their savings as security of other member’s loans not withstanding that they are not barred from using their own shares as basis of applying and securing loans. A mechanism for attaching shares to specific loan should be explored.

From the study it emerged that members are willing to pay high interest for loans provided they are granted loans equal to the amount they have applied. SACCOs should therefore develop product range targeting different segments of membership but at the same time maintaining Cooperative identity.

To encourage quick loan repayment from other sources of income in addition to salary, SACCOs should establish loan repayment incentive schemes such as interest rebate or lower interest on subsequent loans for prompt payers. It was established that Mwalimu SACCO has two forms of punishment for partial or full defaulters. These take the form of charging accrued interest which is compounded and therefore increases in geometric progression and closure of accounts for those who are in loan repayment arrears for a specified period of time.
5.4 RECOMMENDATIONS

SACCOs should embark on education and marketing programmes geared towards attracting new and retaining old members. They should also have special training programmes for loanees and their guarantors that aims at bridging the information gap on loan repayment trend between the two parties.

Loanees and guarantors are in contact at the time of guaranteeing the loan and when default in its repayment occurs. Events occurring in the intervening period are only privy to the loanee and the Sacco. Such a training programme may perhaps equip both parties with skills that will forestall default in loan repayments. It may also act as a moral deterrent thus compelling loanees to repay the loans no matter the circumstances.

Sacco's should also lobby for amendment of the Co-operative Societies Act so that members shares can be freely transferable. To this end they should strive to have fixed and non withdrawable shares. These shares can be used as security for loans and can only be transferred if they are free of any encumbrances. Such an arrangement will ensure that the SACCO capital base does not fluctuate downwards.

SACCOs should also diversify their product range so as to have more income streams and hence higher to members. With such a diversified product range,
such SACCOs will be able to cushion bad debts emanating from non performing loans.

The SACCO movement should lobby for the amendment of the Retirement Benefits Authority and Co-operative Societies Act for easy collection of remittances from retirees and un-co-operating employers.

SACCOs should also consider factoring some of the defaulted loans. This calls for selling at discount defaulted loans to specialized debt collecting firms. This will reduce costs associated with follow up of guarantors and reconciliation of such loans.

SACCO should establish a reward system whereby those who pay cash in addition to payroll deduction are given interest discounts. SACCO members should not be subjected to a waiting period upon making cash payments as this minimizes chances of default in loan repayment.
5.5 RECOMMENDATIONS FOR FURTHER RESEARCH

Further research may be carried out in the following areas:

A study on the relationship between defaulted loans and lending policies in SACCOs. The impact of government rules and regulation on financial management of SACCOs could also be studied. A study can also be carried out to find out the effect of school fees loans on education advancement of members and their immediate family members.

Further research may be conducted to examine the impact the management styles of members' employer on the operations of the SACCO.

Further research may be carried out to examine the effect of government policy and regulations on gender and loan repayment.

Further research may be carried out to determine the effects of product diversification by SACCOs on member's economic empowerment.
Dear Sir/Madam,

Thank you very much for agreeing to participate in this study.

The researcher is a post graduate MBA student at Kenyatta University and undertaking a study on the effectiveness of guarantorship in repayment of SACCO loans.

The questions are meant to assist the researcher obtain information that will enable him conduct the study.

Kindly respond to the issues in the questions as truly as possible. All the information collected will be treated with utmost confidentiality.

Thank you for your co-operation.

James K. Mutura
Appendix II

Questionnaire for collecting information covering guarantorship.

Please respond to the following questions as appropriate.

1. Your gender
   Male [ ]  Female [ ]

2. Your highest level of education
   Secondary [ ]
   College [ ]
   University [ ]
   Other specify _________________________________________

3. Please tick your age bracket.
   18 – 25 years [ ]
   26 – 45 years [ ]
   Above45 years [ ]

5. How long have you been a member of Mwalimu SACCO society?
   Less than 5yrs [ ]
   Between 5– 10 years [ ]
   Between 10– 15 years [ ]
   Between 15 – 20 years [ ]
   Over 20 years [ ]
5. Indicate your level of savings with the SACCO.
   (i) Less than 100,000
   (ii) Between 100,000 – 500,000
   (iii) More than 500,000

6. How often do you apply for SACCO loans
   Yearly
   Twice per year
   Once in 3 years
   Once in 4 years
   Not applicable

7. What would **most likely** make you fail to repay SACCO loan?
   Loss of job
   Lack of alternative sources of income
   Lax SACCO rules
   Guarantors willingness to pay
   Lengthy recovery process

   (i) ________________________________________
   (ii) ________________________________________
   (iii) ________________________________________
   (iv)  ________________________________________
9. What factors do you consider when you choose a guarantor for your loans?

(i) 
(ii) 
(iii) 
(iv) 
(v) 

10. What is the greatest single factor that you consider when guaranteeing a member's loan?

- Being colleagues at school [ ]
- Being close friend [ ]
- Employment/income level [ ]
- Integrity of member [ ]
- Commitment to career [ ]
- Disciplinary record of member [ ]
- Age in profession [ ]

11. Are you aware of the amount of loan that you guarantee?

Yes [ ]

12. How often have you guaranteed loans?

- Once [ ]
- Twice [ ]
- Thrice [ ]
- More than thrice [ ]
- Never [ ]
13. Does appending your signature on a member's loan form provides a guarantee for loan repayment?

Yes [ ] No [ ]

Explain your answer
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

14. Are SACCO loans fully guaranteed?

Yes [ ] No [ ]

Please explain answer above
(i) _____________________________________________________________________
(ii) ___________________________________________________________________
(iii) ___________________________________________________________________
(iv) ___________________________________________________________________
(v) ___________________________________________________________________

15. How often have you been attached defaulted loans?

Once [ ] Twice [ ] More than twice [ ]

16. How was the defaulted loan repaid?

From your salary [ ]
From your shares [ ]
Pressured the defaulter to pay [ ]
From the defaulters spouse [ ]
Defaulter paid by cash [ ]
17. As a guarantor, what action should you recommend in order to enforce payment of defaulted loans?

Take legal action  
Take possession of defaulter’s properties  
Request the SACCO to shame him/her at members forum  
Request employer to use dues relating to the member to pay the loan  
Persuade spouse/relatives to pay

18. Briefly explain the factors that ensure recovery of defaulted loans from guarantors.

(i)  
(ii)  
(iii)  
(iv)  
(v)  

19. From the above explanations, explain the basis upon which SACCO loans should be granted.

(i)  
(ii)  
(iii)  
(iv)  
(v)  

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20. Explain ways through which you accelerate repayment of your SACCO loans
(i) __________________________
(ii) __________________________
(iii) __________________________
(iv) __________________________
(v) __________________________

21. Briefly explain whether increased salaries and sources of income leads to increased savings
(i) __________________________
(ii) __________________________
(iii) __________________________
(iv) __________________________
(v) __________________________

22. Briefly comment on other factors that may affect the defaulted loans recovery process.
(i) __________________________
(ii) __________________________
(iii) __________________________
(iv) __________________________
(v) __________________________
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