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Effect of Loan Repayment on Performance of Savings and Credit Co-Operative Organization in Kajiado County, Kenya

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Abstract: ***Sacco have been facing a lot of financial challenges leading to few Saccos remaining active compared to the number of Saccos being registered every year. The general objective was to investigate effect of loan repayment on performance of savings and credit co-operative organizationin Kajiado County in Kenya and the specific objectives were, to determine the effect of Poor management procedureson performance of savings and credit co-operative organization, to establish the effect of Loan diversionon performance of savings and credit co-operative organization, to investigate the effect of Unwillingness to repayon performance of savings and credit co-operative organization and effect of Lack of enforcement of loan contractson performance of savings and credit co-operative organization The target population was all the active Sacco's licensed by SASRA in Kajiado County. The research was conducted where financial factors such as loan repayment, membership withdrawal, funds misappropriation and investment decisions were discussed as independent variables in relation to Saccos performance being dependent variable sample size was 136 active saccos within Kajiado county. The choice and identification of key informants was purposive for they were deemed to possess key information of the Sacco's business information. Questionnaire was the main instrument for data collection. Analysis and interpretation of the data was done using both qualitative and quantitative methods according to research objectives and research questions. The data collected was summarized, classified, tabulated, then presented using tables, charts and percentages.***

Keywords: Loan repayment,performance, savings and credit co-operative, organization, Kajiado County, Poor management procedures, Loan diversion, Unwillingness to repay and Lack of enforcement of loan contracts

1. Introduction

Globally SACCOS is traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, particularly in Great Britain and France. Where there was invention of models of the consumer and labor cooperative that defend and promote the interest of working class in the face of the social disasters endangered by the Industrial Revolution (Assenga, 2008). The second generation of the pioneers of modern cooperation emerged in certain European rural environments in the late 19th century. The countryside was economically out of sync with the industrial cities; agricultural cooperatives was set that enabled families of farmers and livestock raisers money for their own supply system of agricultural inputs and market their products and no longer depend on the merchants and businessmen in the cities (Assenga, 2008). Also the SACCOS enabled them to no longer depend on money lenders (usurers) and to find the credit necessary to modernize their agricultural operations (MUCCoBS, 2005). In African countries, the first experiences of savings and credit co-operatives were to a large degree the work of foreign missionaries (Mwelukilwa, 2001). In Africa many of the first savings and credit cooperatives emerged in the English- speaking countries, primarily in Ghana 1955, Uganda 1946 and in Nigeria dates back to 1951-1953 (Mbwana and Mwakujonga, 2013). In Kenya Saccos was introduced in 1964 and this has contributed a lot to the economy of the developing countries Kenya among them.

The Co-operative Movement in Africa has faced numerous operational challenges in the past decade especially due to sudden Government withdrawal from its previous extensive support to rural sector and also due to the negative effects of economic liberalization in the country (Mudibo, 2005). Kenya has the most vibrant and dynamic Sacco sectors in Africa. They range from agricultural and livestock co-operative societies in the rural areas to the savings and credit co-operatives in the urban centers (ICA Report, 2006). A Savings and Credit Cooperative is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities (UN-HABITAT, 2010). The general objective of SACCOs is to promote the economic interests and general welfare of its members. Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others (Bibby& Shaw, 2005).

SACCOs play a significant role in the provision of financial services to the poor (target groups). They provide savings and credit and investment opportunities to individuals, institutions and group members. Sacco's performance active financial intermediation function, particularly mediating from urban and semi-urban to rural areas, and between net savers and net borrowers while ensuring that loan resources remain in the communities from which the savings were mobilized. Equity bank was formed in 1984 as a building society and with time it was transformed to microfinance institution up to its current status of commercial bank. The government through the ministry of cooperative development and marketing is empowering the cooperative movement in Kenya and gets support by cooperative bank of Kenya. There has been established a college to teach matters of cooperative movement (cooperative college at Nairobi) due to this concern by various stakeholders that SACCOs (cooperative movements) started to be more competitive in their field of financial institution since they contribute 30% of economic growth in the country (Gathurithu, 2011).

2. Statement the Problem

The uniqueness of the Sacco movement is its geographical distribution across Kenya. In all the 47 counties there are numerous Sacco's providing finances to small and medium enterprises and to young innovators. SACCOs in Kenya are gradually responding to the fast changes in the financial environment and adopting new approaches to the SACCO model. SACCO membership is based on common bonds and knowledge about the borrower. These mechanisms, SACCOs argue, have proven their ability to manage risk, enforce lending contracts and reduce the transaction costs of delivering credit. Until recently, SACCOs have been able to retain their membership and attract new members through natural affiliation, stemming from the common bond among members. With increased competition from other financial service providers and other factors such as retrenchment, poor management and loan defaulting have influenced Sacco performance.

As envisioned in Kenya's development blueprint role of savings mobilization for investments. Many rural and urban Kenyans now own homes and other business enterprises courtesy of funds through th economy in East Africa, her service industry performing better than any other sector in the economy (GOK,2007). One sector of the service industry is the financial sector whereby many commercial banks and other financial institutions continue to grow day by day. Some banks have even crossed border to offer services in the neighboring East African states. SACCOs are financial institutions which offers similar products like banks and most of them were formed long time ago but their performance is not something to be proud of compared to commercial banks and other financial institutions (Gathurithu, 2011). The poor performance in Kenya usually attributes to poor utilization of surplus and reserves, mismanagement of funds and poor dividend and investing decisions among other factors. Their performance and growth in those terms also varies among different SACCOs. This prompted the researcher to search on the financial factors influencing Sacco performance in Kajiado County, Kenya

General objective of the Study

To establish the effect of loan repayment on performance of savings and credit co-operative organization in Kajiado County, Kenya

Specific objectives of the Study

1) To establish the effect of Poor management procedures on performance of savings and credit co-operative organization in Kajiado County, Kenya
2) To establish the effect of Loan diversionon performance of savings and credit co-operative organization in Kajiado County, Kenya
3) To establish the effect of Unwillingness to repayon performance of savings and credit co-operative organization in Kajiado County, Kenya
4) To establish the effect of Lack of enforcement of loan contractson performance of savings and credit co-operative organization in Kajiado County, Kenya

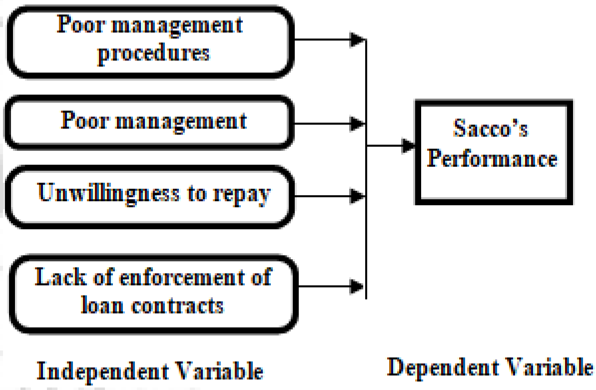
3. Theoretical Framework

The Rational Expectations Theory

The research was guided by two investment theories; the rational expectations theory and the short interest theory which are important theories in investment of shares for Sacco managers. The theory states that the players in an economy will act in a way that conforms to what can logically be expected in the future. That is, a person will invest; spend, according to what he or she rationally believes will happen in the future. By doing so, that person creates a self-fulfilling prophecy that helps bring about the future event. Although this theory has become quite important to economics, its utility is doubtful. For example, an investor thinks a stock is going to go up, and by buying it, this act actually causes the stock to go up. This same transaction can be framed outside of rational expectations theory. An investor notices that a stock is undervalued, buys it, and watches as other investors notice the same thing, thus pushing the price up to its proper market value (Johnson & Scholes, 2007).

4. Conceptual Framework

The study adopted the following conceptual framework:



Source: Author 2018

Loan Repayment

Awoke (2004) reported that high rates of default arise from poor management procedures; loan diversion and unwillingness to repay; lack of enforcement of loan contracts; low and poor recovery performance; government imprudent interference; pose high risk on Sacco performance and the low level of commercialization in Saccos business On the part of the lending institutions, they often lack detailed local knowledge about the Beneficiaries" creditworthiness. According to Awoke (2004), high rate of default threaten the sustainability of Sacco credit schemes. This makes Sacco lending to be a risky enterprise because repayment of loans can seldom be guaranteed. Strategic defaulting of loan is quite widespread among the opportunistic members who consider Sacco loans more as gift than as debt that have to be paid back.

According to Norell (2001), the most common reasons for the existence of defaults are the following: if the institution

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is not serious on loan repayment, the borrowers are not willing to repay their loan; clients‟ live illness or death in the family; if loans are too large for the cash needs of the business, extra funds may go towards personal use; and if loans are given without proper evaluation of the business. Many financial institutions in developing countries provide financial services such as saving and credit to aid several smallholder enterprises. This is an effort in line with the Millennium Development Goals (MDGs) which seeks to reduce poverty by 50% by the year 2015. However, the sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on the repayment rates. High repayment rates allow the institutions to lower the interest rates and processing costs and consequently increase patronage of loans.

High repayment rates reduce the subsidy: - dependence of the credit institutions to help them reach a better sustainability level. Repayment performance thus serves as a positive signal for increasing the volume of credit availability to various sectors of the economy. However, the financial institutions continue to decline credit to business enterprises. This decline is partly due to poor loan repayment performance from these sectors. Most of the loans default in these sectors could arise from poor management procedures, loans diversion and unwillingness to repay loans as well as other socio economic characteristics. However, despite the importance of repayment rates on the sustainability of financial institutions, and poverty reduction, within the Kenyan context, very few studies have tried to investigate loan repayment performance entrepreneurs. The inability of borrowers to repay the loans is crucial for the long-term sustenance of the credit institutions

Research Methodology

Surveys are very reliable when one wants to measure the characteristics of a large population. Descriptive methods are unusually popular in obtaining data used in evaluating present ways of doing things and establishing basis for action. Kerlinger (1983) asserts that survey design allows the researcher to study variables as they exist. For this study the researcher has no power to manipulate the results of the variables of the study. This study basically sought to investigate in depth the financial factors that influence Sacco performance in Kajiado County, Kenya.). The target population in this study was one hundred and thirty six (136), registered and active Saccos in Kajiado County. Savings and credit cooperative societies (SACCOs) and housing and livestock marketing societies are the most common in the county. Others include dairy marketing, handicraft and multipurpose co-operative societies. The study focused on Sacco with positive value of return. The questionnaires were used to obtain primary data from the sampled population, The study targeted all the active Saccos within Kajiado County in Kenya. Due to the fact that the population from where this sample is drawn is not homogenous, stratified sampling will be used to obtain a representative sample of the study. According to Mugenda and Mugenda (1999), the goal of stratified sampling is to achieve desired representation from various subgroups in the population. In stratified random sampling the subjects are selected in such a way that the existing subgroups in the population are more or less produced in the sample. For the purpose of this study the identified strata are: activeSaccos in the County. Qualitative analysis was done on the information collected from the results of the questionnaires; quantitative analysis was included, both descriptive and inferential statistical techniques were used. Descriptive statistics was used to analyze the quantitative data. The findings were presented using tables, graphs and pie charts.

5. Results and discussions of the findings

The study sought to find out the levels of agreement with the statement related to Loan Repayment onSaccos performance.

Table: Opinion relating to statements concerning loan repayment in a Sacco

Statement	1	2	3	4	5
Loan default usually occurs when there is no proper records that are used by the organization to follow up the repayments from the members	16%	12%	4%	32%	36%
When the organization does not consider the collateral requirements before extending a loan to others in the organization then there is likelihood of borrowers being reluctant from paying back their loans	18%	13%	7%	28%	34%
When there is no Clear guidelines on how the Sacco's operate in extending loans to the borrower regardless of the position one holds in the organization might enhance equality in the organization's set rate of payment and charges rates hence some members may be discouraged to pay back their loans.	5%	17%	8%	34%	36%

The following discussions relates to the details gathered to aid in collecting information regarding the question of fund misappropriation and several statements were made to elaborate more on this statement which sought to investigate whether loan default affect the performance of the Sacco and to deep more on the subject matter, several statements were analysed and the results were as follows; on the statement of Loan default usually occurs when there is no proper records that are used by the organization to follow up the repayments from the members majority of the respondents summing up to 68% stressing that the proper record keeping should be done by the organization to curb the problem, 4% were neither in agreement nor disagreement and 28% of the respondents were in disagreement claiming that loan default occurs based on other factor rather than the record keeping. On the statement of when the organization does not consider the collateral requirements before extending a loan to others in the organization then there is likelihood of borrowers being reluctant from paying back their loan 62%, fewer of the respondents summing up to 7% were neither agree nor disagreed with the statement, 31% were in different opinion. On the statement that when there is no Clear guidelines on how the Sacco's operate in extending loans to the borrower regardless of the position one holds in the organization might enhance equality in the organization's set rate of payment and charges rates hence some members may be discouraged to pay back their loans, different responds were observed, 70% of the respondents were in agreement that their organization does not have the clear guidelines on how they are operating and the owners are not caring that much of the affairs of the sacco, 8% of the respondents neither agreed nor disagreed and not aware of the guidelines in place and 22% of the respondents were in disagreement and further noted that no Sacco can operate without a clear guidelines.

While seeking the opinion of the respondents that Loan default has created a worldwide integration of various investors in saccos and this was observed by different reaction, were 54% of the respondents supports the statement, 44% of the respondents disagreed and the remaining 2% were not sure.

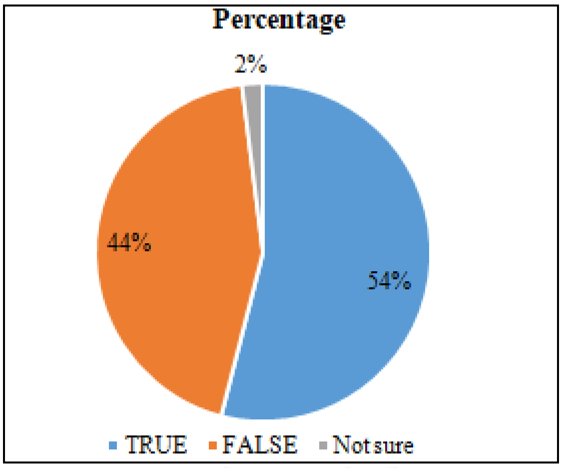

Figure 4.4: Members contribution to the Sacco as per the policy of the organization

6. Summary of the Findings

Loan default affect the performance of the Sacco and to deep more on the subject matter majority noted that Loan default usually occurs when there is no proper records that are used by the organization to follow up the repayments from the members few of the respondents were in disagreement claiming that loan default occurs based on other factor rather than the record keeping. On the statement that when there is no Clear guidelines on how the Sacco's operate in extending loans to the borrower regardless of the position one holds in the organization might enhance equality in the organization's set rate of payment and charges rates hence some members may be discouraged to pay back their loans, different responds were observed, majority of the respondents were in agreement that their organization does not have the clear guidelines on how they are operating and the owners are not caring that much of the affairs of the sacco and few of the respondents were in disagreement and further noted that no Sacco can operate without a clear guidelines

7. Conclusions

The study recommends that there should be a monitoring systems that are being used by the organization in keeping records of those who owes the organization and follow ups be made on time for the recovery of the Sacco's funds

8. Recommendations

The issue of investigating the influence Sacco of loan repayment on Saccos performance had been in the verge of research and upon considering findings from this study it will be of great importance to suggest that a further research should be done specifically on the investigate the financial factors that influence service provides organization other than Saccos as this will boost the GDP of the county.

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