

**FACTORS CONTRIBUTING TO LOAN DEFAULTING AMONG
SAVINGS AND CREDIT SOCIETIES IN KIRINYAGA
COUNTY, KENYA.**

MILLICENT N. MURIITHI

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Technology.**

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DECLARATION

Candidates' Declaration

This is my original work and to my knowledge has not been presented for a degree award in any other University.

Signature.....

Date.....

Millicent Nyaguthii Muriithi,

Student Registration Number: B211-0013/2011

Dedan Kimathi University of Technology

Supervisors' Declaration

The Thesis has been submitted with our approval as University supervisors.

Signature.....

Date.....

Dr. Riro Kamau, PhD

School of Business Management and Economics

Dedan Kimathi University of Technology

Signature.....

Date.....

Dr. Anita Wachira, PhD

School of Business Management and Economics

Dedan Kimathi University of Technology

DEDICATION

This work is dedicated to my dear family particularly to my husband Andrew Mwai for his patience during the long hours he had to endure to allow me put up with my classes and studies. Thank you very much. To my son Collins Mwai, I appreciate your perseverance despite the harsh economic times as we shared the limited resources towards a shared family vision. God be with you all the time and bless you abundantly.

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Table of Contents

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF FIGURES	vii
LIST OF TABLES	ix
ABBREVIATIONS AND ACRONYMS	x
ABSTRACT.....	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Loan Defaulting In Diaspora	2
1.2 Statement of the Problem.....	5
1.3 Purpose of the Study	6
1.4 Objectives of the Study	6
1.5 Research Questions	6
1.6 Significance of the study	7
1.7 Limitations of the study	7
1.8 Scope of the Study	7
1.9 Definition of Key Terms	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Literature Review	9
2.2.1 Theories Related To the Study.....	10
2.3 Empirical Literature Review	17
2.4. Gap Justification	20
2.5 Conceptual Framework.....	21
2.6 Operational Framework	23
2.7 Summary of Literature Review	24
CHAPTER THREE	25
METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design.....	25
3.3 Target Population.....	25
3.4 Sample size	25
3.5. Data Collection Procedures and Instruments	26
3. 6 Validity and reliability.	27
3.7 Data Analysis and Presentation	27
3.8 Ethical Issues	28
3.9 Summary of Methodology	28
CHAPTER FOUR.....	29
DATA ANALYSIS AND PRESENTATION OF FINDINGS	29
4.1: Introduction.....	29

4.2 Results and Discussion	29
4.2.1 Response Rate.....	29
4.2.2: Target Market/Demographic Information	29
CHAPTER FIVE	56
5.1 Introduction.....	56
5.2: Summary of the Major Findings.....	56
5.3 Conclusions.....	57
5.4: Recommendations.....	57
5.4.1: Prudent Financial Management	58
5.4.2: Engaget of Consultants (Outsourcing).....	58
5.4.3: Customers Satisfaction	58
5.5 Suggestions for further Research	58
References.....	59
APPENDICES	61
SAMPLE QUESTIONNAIRE FOR THE CREDIT MANAGER	67
QUESTIONNAIRE FOR CUSTOMERS.....	75

LIST OF FIGURES

Figure 2.1	Conceptual Framework.....	26
Figure 2.2	Operational Framework.....	29
Figure 4.1	Effect of number of customers	30
Figure 4.2	Effect of number years Worked.....	31
Figure 4.3	Effect of Loan Defaulters.....	31
Figure 4.4	Effect of Granting the Loan.....	32
Figure 4.5	Effect of Log Book as Loan Security.....	32
Figure 4.6	Effects of Tea Proceeds	33
Figure 4.7	Effects of Management Committee.....	34
Figure 4.8	Effects of Sacco Management	36
Figure 4.10	Effects of Poor loan use.....	36
Figure 4.11	Effect of Actions Taken on Loan Defaulters	37
Figure 4.12	Effects of Leadership to Loan Defaulting.....	37
Figure 4.13	Effects of Various Loan Mechanisms.....	38
Figure 4.14	Effects on Interest Rates.....	39
Figure 4.15	Effects of Customer’s Loan Insurance Cover.....	40
Figure 4.16	Effects of Loan Purpose.....	41
Figure 4.17	Effects of poor Loan Investment	42
Figure 4.18	Effects of Disclosure of Loan Purpose.....	42
Figure 4.19	Effects of Follow Upon Investment type	43
Figure 4.20	Effects of Loan Borrowing.....	43
Figure 4.21	Effects of Loan Advances	44
Figure 4.22	Effects of Loan Not Paid as agreed.....	45
Figure 4.23	Effects of the Length of Sacco Membership.....	46
Figure 4.24	Effects of Loan Purpose.....	46
Figure 4.25	Effects of Relationship between Customers and Committee.....	48

Figure 4.26	Effects of Over loaning Customers.....	49
Figure 4.27	Effects of Public Relation	49
Figure 4.28	Effects of Customers Investment	51
Figure 4.29	Effect of Challenges Faced by Customers.....,	51
Figure 4.30	Effect of Aggressive Loan Recovery	52

LIST OF TABLES

Table3.1	Target Population.....	32
Table 3.2	Sample size	33
Table4.1	Analysis of the Level of Loan Repayment.....	30
Table4.2	Analysis Title Deed on Loan Granting	33
Table4.3	Analysis of Loan Security.....	34
Table4.4	Analysis of Loan Administrators	35
Table4.5	Analysis of Loan Officers Recruitment.....	38
Table4.6	Analysis of Loan Amount Paid	41
Table4.7	Analysis Loan Amount Paid.....	44
Table4.8	Analysis of Period the Customer Has Been in Business.....	47
Table4.9	Analysis of The Committee Members.....	48
Table4.10	Analysis of Loan Status.....	50
Table4.11	Correlation Analysis of Loan Appraisal.....	52
Table4.12	Correlation Analysis of Management on Loan Default	53
Table4.13	Correlation Analysis of Employee attribute to loan default	54
Table4.14	Correlation Analysis of Loan Use	55

ABBREVIATIONS AND ACRONYMS

SACCO	Savings and Credit Cooperative Organization
KCB	Kenya Commercial Bank
CUNA	Credit Union National Association
MFI	Microfinance Institutions
SPSS	Statistical Package for Social Sciences
DECI	A pyramid scheme
PFF	Private Financial Fund
DC	District Cooperative Officer
MOCDM	Ministry of Cooperative Development and Marketing
PAR	Portfolio at Risk
KRA	Kenya Revenue Authority
HELB	Higher Education Loans Board
NSSF	National Social Security Funds
NHIF	National Health Insurance Fund
SASRA	SACCO Societies Regulatory Authority

ABSTRACT

The overall objective of the research was to assess the factors leading to loan defaulting among Sacco's in Kirinyaga County. Loan appraisal system, the effect of management to loan defaulting, loan policy and loan use were independent variables, while loan default was the dependent variable.

The specific objectives of this study was to establish the effect of loan appraisal system to loan defaulting by SACCO client, to establish the effect of management of the SACCO in relation to loan defaulting, to establish the effect of loan policy in relation to loan defaulting and to establish whether poor loan use contributed to loan defaulting.

A descriptive research design was employed in the study. Random sample were drawn from all credit manager and client in Sacco's from Kirinyaga County strata which formed the sampling frame. A proportional approach to sampling was utilized within the strata. A total of 30 credit managers and 383 SACCO clients were picked through simple random technique for each stratum using a table of random numbers. Qualitative data was collected from the respondents. Data analysis was done through descriptive research design.

Statistical Package for Social Scientists (SPSS) version 19 was utilized to do the regression and correlation analysis with a 0.05 level of significance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Borrowed loan has been classified as the major solution not only to fund the proportional cost of business than to finance working capital and expansion (Pandey, 2004). The biggest puzzle in the loaning policy was the risk of the loss of the finances by defaulting from the customers. With introduction and subsequent collapse of pyramid schemes, Sacco's had changed their loaning policies (Al-Tamimi, 2002).

According to Froot, (2003), during that period of late repayment the Sacco charged some interests to safeguard the loan asset value against inflation. In order to avoid loan defaulting Waweru, (2007), suggested that a proper loan administration policy and procedure should be established which allowed for proper appraisal, prevention of double funding, over-funding, and provided information on investment (Miller,2003).Most Sacco's rated at 79% in Kirinyaga County were founded by the tea and coffee growers, dairy farmers and employees from Kirinyaga District who were driven by the need to save in a pool from where individual members could access funds based on their savings and ability to pay. The loans were to be used for school fees and the excess for development thus eradication of illiteracy and poverty in the district (Al-Tamimi, 2002).

Sacco's usually offered viable financial services to their members within their areas of operation for sustainable economic and social growth (Waweru, 2007). Sacco's mobilized savings and deposits, provided quality, affordable credit and diversified services through prudent management that ensured optimum benefits to their members and other stakeholders. Sacco's in Kirinyaga County operated under certain core values which included transparency, integrity, honesty, focus, accountability, commitment and quality.

The modern co-operatives in Kenya could be traced back to the colonial era in 1908. The production and marketing co-operatives were the first to be established in Lumbwa. The co-operatives only served Europeans and Asians until 1930 when Africans were involved

in co-operative partly ((Robitech, 2001). The growth was too slow and it lacked support from the colonial office and fellow Africans did not trust them. In the initial stage co-operatives were not given maximum support from the government and it was not a department under the Ministry of African affairs (Waweru, 2007). Further it was moved into ministry of agriculture and then to ministry of marketing and co-operatives and in 1974, it was allocated its ministry. Due to hard work by the inspectors by 1950, colonial civil servants started supporting the co-operative movement for accumulation of cash. Before this, institutions were run like money lending institutions motivated by profit making lending to both members and non members alike (Armstrong, 2007).Up to date, the growth of co-operatives has been tremendous and Sasra. By 1991 membership had increased to grad worth of 10.7 million. The current saving and credit societies were first established in U.S.A in 1965(Robitech, 2001).

Kirinyaga County has led to growth of many small scale businesses but the loans have been defaulted to a large extent such that it has become a great concern of the stakeholders within the county. Despite well coordinated member's education in the county, the loan default rate is still creating anxiety. The Sacco's loans defaulter's rate had increased within Kirinyaga County prompting court injunctions to auction the loanees' properties and further hired professional debt collectors who facilitated loan collection. That left many questions unanswered and it made it necessary for the researcher to investigate the reasons for increased loan default rate in Sacco's. The researcher wishes to uncover the actual reasons why customers defaulted the loans granted to them by the Sacco's in Kirinyaga County.

1.1.1 Loan Defaulting In Diaspora

According to (Bradley, 1991) China had \$12 trillion corporate debt which it had defaulted. There were protests against shortages of basic goods, rising crime and the world's fastest inflation that had left more than a dozen dead in China. The government of China worked hard in order to curb loan defaulting. The Grameen Bank that provided credit to the poor of the poorest in rural Bangladesh in India had reported a loan default of ksh. 140 million in the year 2002, (Bradley, 1991).

According to Ringera (2014) the Higher Education Loans Board was targeting Kenyans in the diaspora who received fund to study but were yet to repay the money granted by Higher Education Loans Board before they were prosecuted. Kenyans living abroad had

not been servicing their loans and the agency wanted the money repaid. He addressed the public through the media that the recent waiver on the interest had increased repayment by more than 400 per cent.

Omondi, (2014), stated that the HELB loan defaulters could soon find themselves in court. To accelerate the rate of payment Higher Education Loans Board had partnered with several institutions including NSSF, NHIF, and KRA among others to ensure defaulters paid their loans. Defaulters would have a difficult time in getting loans from credit facilities because of their repayment history. Employers were also taken to court for failing to remit monthly deductions of their employees. In addition Omondi, (2014), explained that harsh economic times, low pay and failure by employers to remit deductions were some of reasons many university graduates had accumulated huge arrears for Higher Education Loans Board (HELB) loans. Interviews with some defaulters revealed that with low pay, family matters and efforts to eke a living, it was difficult to repay loans.

Default on loan repayments posed the greatest risk to stability of the multi-billion shilling Savings and Credit Co-operative (Sacco's) movement. Financial sector regulators had warned Sacco's to be more cautious while advancing loans to their clients to avoid the loan defaulting (Cole, 2004). A joint report released by Sacco Regulatory Authority and the World Bank stated that the risk of defaults on personal loans granted by Sacco's was high, as the debts were secured only by member guarantees. The Sasra also warned that reliance on expensive bank loans, instead of members' share contributions, raised the probability of the Sacco's defaulting on their debt, as indicated by their low liquidity and solvency ratios, especially since borrowing costs had sharply increased over the past three months.

Co-operative Bank, which was the main banker for Sacco's, raised its minimum lending rate to the societies to 17 per cent in October 2014, yet most Sacco's lend to members at 12 per cent. Credit risk was perceived to pose the greatest risk to the SACCO movement and that was largely manifested in high borrowing from commercial banks, which had resulted in low liquidity and solvency margins in many SACCO societies," said the joint report by the Central Bank of Kenya, the SACCO Societies Regulatory Authority

(SASRA), Capital Markets Authority, Insurance Regulatory Authority and the Retirements Benefits Authority (Froot, 2003).

By December 2014 Kenya had 6007 registered Sacco's in Kenya, Data from the Sacco sector's regulator, SASRA, indicated that the total loans to total deposits ratio stood at 99 per cent as at the end of last year 2015, compared to 97 per cent as at the end of 2011. That meant that almost all of the member deposits had been loaned out. Government regulation of Sacco's began to take shape in June this year after SASRA started licensing those that provide retail banking services for their members, otherwise called Front Office Service Activities (FOSAs). SASRA was expected to eventually take over the licensing of all Sacco's.

Of the active Sacco's in the country, 215 out of 3180 represented by 6.7 per cent own assets totaled Sh171 billion as at the end of year 2014 against the sector's total assets of Sh216 billion were operating FOSAs, meaning that they controlled 79.2 per cent of the Sacco industry. A total of 200 Sacco's applied for licensing, 66 of which were licensed and 56 issued with letters of intent meaning that 93 of them were required to stop their FOSA services. Ademba,(2015), the chief executive officer of SASRA, said that while many Sacco's being regulated had mobilized their own funds to lend, those which had been borrowing from banks had to grapple with the current high interest rate environment. They normally lend to their customers at an average of 12 per cent so those Sacco's that had been going to banks were hit hard.

According to Bratanovic, (2009), collateral security was regarded as the most significant consideration. Sacco's asked what their position would have been if the customers failed to make repayment as planned. Security for the lender provided a safety net in case things went wrong. Should the Sacco's decide that security was to be given as a condition for an advance, he had to establish whether there was any security available and whether it could be valued easily. As a general rule the current value of security must have a sufficient margin over the amount of loan advanced to ensure that if the security does not fall in value, the Sacco's position will not be threatened. In the case of commercial property, the maximum valuation of property for security purpose should be allowed 60% of the current market value. The management of SACCO should bear in

mind that the Sacco's would incur legal cost and estate agent in selling the property and it took time to sell off the property.

1.2 Statement of the Problem

Sacco's (Savings and Credit Cooperative Societies) in Kirinyaga County advanced loans to their customers based on the income they generate. Loan administration was virtually very important since loans and advances to customers were most profitable asset of Sacco's. There was however great elements of risk involved with that type of assets as it happened that the customer became insolvent, unemployment, death, and disability among others. The appraisal system should establish the type of business, cash flows of business, market analysis of business and location of business. Double funding could also be dangerous to Sacco's where a customer cannot be able to finance and service several loan facilities. However, there had been a very big problem of the loan defaulting by the customers. According to the information from the Ministry of Cooperative Societies in Kirinyaga County, they recorded a loan default of ksh.204 Million among the Sacco's in the year 2012 and Ksh. 240 Million in the year 2013 respectively (Appendix111). There was relatively little research done in that field thus limited literature on the same. It was against that background that the researcher was investigating the factors that lead to loans defaulting in the Sacco's.

1.3 Purpose of the Study

The purpose of the research study was to assess the factors contributing to loan defaulting among the Sacco's in Kirinyaga County.

1.4 Objectives of the Study

The objectives were:-

- i. To determine the effect of loan appraisal system on loan defaulting in Sacco in Kirinyaga County.
- ii. To assess the effect of management on loan defaulting in Saccos in Kirinyaga County.
- iii. To examine the effect of loan policy on loan defaulting in Saccos in Kirinyaga County.
- iv. To analyze the effect of poor loan use on loan defaulting in Saccos in Kirinyaga County.

1.5 Research Questions

- i) In which ways did loan appraisal system contributed to loan defaulting in Sacco in Kirinyaga County?
- ii) Did the management of the Sacco contributed to loan defaulting in Sacco in Kirinyaga County?
- iii) Did the loan policy contributed to loan defaulting in Sacco in Kirinyaga County?
- iv) Did poor loan use contributed to loan defaulting in Sacco in Kirinyaga County?

1.6 Significance of the study

The result of the study provided an independent view of the factors contributing to loan defaulting among the Sacco's in Kirinyaga County. The findings enabled the Sacco stake holders to explore alternative methods of accessing the risks involved before loan was offered. The study would give the Sacco management an independent evaluation of the general gap existing in the loan administration process and thus explained the impact of the practices on defaulting therefore giving guidelines on the most effective loan management policies and practices. The findings of the study would provide the Sacco's with relevant information and data to establish better appraisal procedures geared towards reduction of loan defaulters. The study would identify defects in loaning policies that would be corrected to improve the profitability margin of the Sacco's.

1.7 Limitations of the study

The financial institutions with high regulations of confidentiality, the respondents might refuse to provide the relevant information required for the study. In addition the Sacco's working structures were so procedural and the researcher might not be accommodated.

1.8 Scope of the Study

The research study assessed the factors contributing to loan defaulting among the Sacco's. The study was conducted in Sacco's operating within Kirinyaga County that offered services to small scale entrepreneurs and had confirmed with the Sacco Regulatory authority SASRA. The population of the study was 85,030 comprising 85000 customers and 30 credit managers from the selected Sacco's in the county. The study was to be conducted between the months of July 2015 to November 2015.

1.9 Definition of Key Terms

Management skills: This refers to ability of those in authority to plan coordinate, control, and command geared towards the desired goals.

Collecting System: Set of detailed methods, procedures and routines established or formulated to collect installments.

Defaulting : This is where a borrower breaks the terms of the contract by failing to honour his or her part in the agreement.

Portfolio : This is a set of investments like stocks and shares owned by a person or a Sacco.

Collateral : This is property pledged by a customer as a guarantee for the repayment of the loan.

Customers : Members of the Sacco's who are either shareholders or partly paid members.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter will highlight and assess available literature relevant to loan defaulting in Sacco's. The literature review will be gotten from library books, journals, internet, and brochures. The chapter aims at acknowledging and appreciating work done by other researchers on the same topic. Literature review will also help in establishing existing gaps, some of which will be addressed in this study.

2.2 Theoretical Literature Review

A Sacco portfolio can be defined as the income generating, outstanding loan balance profile of a section or the whole of a Sacco's institution (Cole, 2004). It is the 'real asset' of a micro lending institution, manifested in a series of activities that include loan tracking or repayment with interest. According to Bratanovic, (2009), every loan issued comes with definite terms and conditions and for as long as it is outstanding, scheduled and periodical payments are tracked using a variety of methods and procedures ranging from cheque issue, clearance of loan, money collection and deposits, reflection on periodical reports that are issued on weekly, monthly, quarterly or other basis depending on the SACCO organization. Administrative fees and the set of activities thereto stated have cost implication over administrative costs upon successful loan application. A Portfolio at Risk (PAR) is one with some or all loans being in arrears or delinquent (Waweru, 2007).

When loan re payment is skipped, that is an alarm raiser, which makes that loan to be labeled as a 'loan at risk' which then makes the portfolio to be at 'risk'. It is realistic indicators of the value of all loans outstanding that have one or more installments overdue (past a specified period), compared to the value of the total loan portfolio. Portfolio at risk is also a measure, a standard and a function of portfolio quality, (Waweru, 2007). This is because the largest source of risk in the Sacco's organization is the loan portfolio, cash flow and cost factors that classify portfolio in terms of loan size, number of loans disbursed, loan term (time loan takes to mature when the interest is fully earned), number of loans maturing and members (clients) lifespan with the program.

2.2.1 Theories Related To the Study

This study is guided by Portfolio Theory and Finance and Lender Liability Theory. According to Pandey, (2007), portfolio Theory is related to investment and stock selections and it has broad applications across corporate finance, including the management of financial institutions. The most basic idea in portfolio theory is that a group of assets held together is less risky than the risks of the individual assets making up the portfolio. That is by holding a portfolio of asset, an investor can diversify away some of the risks of the individual assets. In other words, don't pull all your eggs in one basket. According to Bratanovic, (2009), collateral security is regarded as the most significant consideration. Sacco's must ask what their position would be if the customers fail to make repayment as planned. Therefore assets have to be committed as securities to enable Sacco's maintain a performing portfolio.

Sacco's relationships are immensely valuable to borrowers. Waweru, (2007) attributes part of the Great Depression of the 1930s to the destruction of Sacco's borrower relationships and the subsequent increased real cost of financial intermediation for small firm, farmers, and consumers. Retail grocery business and real estate firms typically cannot service without credit. Automobile dealers depend on floor plan financing, a revolving line of credit to finance their inventories. Finance theory deals with the value of loan relationships. There is also a growing body of legal precedent with regard to lender liability. My focus in this survey article is the value of the intermediation services that Sacco's provide, interpreted from the perspective of breach of contract. In other words, what happens when valuable loan relationships are destroyed through a SACCO's actions? Breach of contract is the most basic area of Sacco's relationships (Jensen D, and Meckling, 2009).

Lender liability deals with the obligations that lenders have to borrowers and the consequences when lending relationships are disrupted. Judgments in lender liability case indicate substantial damages to a business when a SACCO credit line is withdrawn. Sacco's have been sued for breach of contract, fraud, and breach of fiduciary duty, duress, tortious interference in business affairs and corporate governance, and bad faith. (Derban, 2005), describe legal theories of lender liability. It focuses on the area of lender liability case law that deals with breach of contract and that is the most basic area of

lender liability and the one that has the greatest potential to illuminate the value of their relationships. While a large literature on the value of loan relationships exists and there are extensive legal treaties on lender liability, the relationships between the two subjects have rarely, if ever, been explored (Pandey, 2004), Sacco's therefore need to establish a contractual relationship with their members such that each plays its role in the contract thus reducing the default rate.

2.2.2 The Effect of Loan Appraisal Systems

The manner in which loan appraisal system is administered determines the borrowers default rate. The credit manager is supposed to consider some important issues while appraising individual loans like the loaners should be 18 years of age or above, customer should be a sound mind and health. He or she should be a Kenyan citizen holding a national identity card. The loaner should own and operate an income generating business which must be within the business unit's area of operation. He or she should agree to abide by all the rules and regulations as laid down by the SACCO and also abide by all SACCO lending policies and procedures. In a group, credit facilities should be appraised based on business financial statements, balance sheet, account turnover statistics, collateral account balances, character check (through references and guarantors).

However, for repeat borrowers, past loan performance shall determine eligibility of the loan borrower. Proper assessment system should be induced in order to curb loan defaulting. The credit officer should conduct a thorough assessment of the collateral belonging to the loan which includes business assets, land, motor vehicle, household goods and guarantors. Poor assessment system will mean loan defaulting.

Proper assessment of business instrument should be conducted during the loan appraisal. Where land is taken as security, proper valuation and registration of charge will be done at the clients cost. The tenable collateral coverage should be at least 100% of the loan approved excluding stock and cash covers. It is recommended that the credit officer takes enhanced security when processing the first loan so that future borrowing will also be covered. Failure to adhere to proper assessment system will automatically lead to loan defaulting.

2.2.3 The effect of Management to Loan Defaulting Among Sacco's

A manager can be compared to the captain of a ship who has first to set the course to reach the destination and then steer the ship along the course (Derban, 2005). Similarly, a manager has to first of all, set objectives which the firm must achieve. Objectives provide the direction in which the firm must move. Having decided upon the objectives, the manager must constantly monitor the progress and activities of the firm to ensure that it is moving in the desired direction. That is the first and foremost task of every manager (Cole, 2004). If you are a part of the top management team then you will be very actively involved in this task through the process of defining the mission and objectives for the entire organization. If you are a manager reporting to the top manager, it is your task to see that the actions of the people who work for you in your department or division are in the desired direction. It is your task as a manager to prevent all such actions which take your company away from the direction set by the top management (Graham, 2002).

According to Derban,(2005), efficiency is the ratio of output to the input. A manager does not only perform and produce results, but does so in the most efficient manner possible. To produce results a manager requires inputs in the form of money, men, materials and machines. The more output that the manager can produce with the same input, the greater will be the profit generated (Meckling, 2009). Profit is the surplus or difference the manager can generate between the values of inputs and outputs. Profit is essential for the survival and growth of a business. A manager may decide to forego some profit today for the profits which he is seeking tomorrow but in the long run he must understand that no business can survive if it does not make profits (Derban, 2005). Business activity is undertaken to satisfy a need of the society in a manner which yields profits. A business is not a philanthropic or charitable activity which is run merely to provide some goods and services irrespective of whether it is making a profit (Santomero, 2007).

Profit generated can be used for expansion, upgrading of technology, growth or paying dividends. Profits are one of the cheapest sources of neither financing growth, as they involve no interest liability nor putting the freedom at stake by having representatives of financial institutions sit on your board of directors (Ledger, 1999). Profit gives you the

cushion to take risk, think big and venture into relatively unknown areas (Santomero, 2007).

A profitable firm can turn to be unprofitable because of obsolete technology, inability to meet high fixed cost structures, high levels of wastage, or simply because the product is no longer in demand by customers. In today's fast changing world one of the very critical tasks of every manager is to anticipate and prepare for the increasing competition (Ledger, 1999). Competition is increasing in terms of more competitors, more products, wider variety of products, better quality of products and a customer who is today better informed and more aware than ever before (Ledger, 1999). The increasing reach and popularity of television as a means of information has also contributed to the increasing competition. The manager today has more potential customers to sell to and easy access to these customers yet the market is crowded with many competitors wooing the same customers (Meckling, 2009)

This only reinforces the fact that a good worker is a valuable asset to any company and every manager must constantly be on the lookout

for people with potential and attract them to join his company (Derban, 2005). A manager with a competent team has already won half the battle. However, competent or brilliant individuals may be, if they cannot work together with each other they may not be useful to a company. It is up to manager to mesh individuals into a well-knit team. The manager who cannot build his team cannot succeed. Teams should be built on the principles of division of labour, specialization of work and mutual give and take (Armstrong, 2007).

Realizing the importance of creating a team spirit and teamwork for achieving the organizational objectives, progressive companies are trying to build this up in every possible way. Developing a new idea, concept or product can be very creative, challenging and exciting. But, that is only one part of the story (Armstrong, 2007). The other part of the story, and usually the more difficult part, is to translate this idea into a successful business. This requires detailed planning and organizing of finance, marketing, and administration among others (Santomero, 2007). Transforming into a successful business reality involves carrying out relatively more routine and repetitive tasks. Designing a new high-fashion garment can be very chasing for outstanding dues hardly

offers that kind of excitement, but certainly offers the satisfaction of a routine job well done (Meckling ,2009).

A manager is lucky if he can find elements of both creativity and conformity in the same individual. Usually this is not the case, and most organizations have separate Product Development Groups or Research and Development Division. Creativity can flourish best when allowed full freedom with minimum rules and regulations. Thus most firms allow the product development groups to function in a relatively free atmosphere. An advertising agency known for the excellent advertisements it produces, allows its creative people, the copywriters and art-director, the freedom to come into office and leave whenever they please. As long as the work is completed within the deadline, management allows its creative people a great degree of freedom (Pandey, 2004).

According to Armstrong, (2007), the social, political, economic, technical and cultural environment under which the firm operates is always changing. The company must keep pace and change accordingly. Similarly, within the organization, new types of production technology may be introduced, the existing product lines may be phased out, formal procedures and techniques for planning, resource for planning, resource allocation, job appraisal, among others may be introduced. All this implies a change and man by his very nature resists any change (Santomero, 2007), Used to the old system or method of doing a particular job, people perceive change as a threat to their job security. Moreover, change implies learning afresh the new methods or processes and most people resist making this extra effort (Derban, 2005).

There will always be change and it is the manager's task to ensure that the change is introduced and incorporated in a smooth manner with the least disturbance and resistance (Derban ,2005). Sharing information about the impending change, educating the people about the benefits resulting from changes, and building favorable opinion of the key people in the organization by involving them with the change process itself, go a long way in making the manager's task easy (Pandey, 2004).The ideal way of introducing change is that you, as a manager, simply sow the idea of the proposed change in the minds of a few people, and then let the idea grow and build till the people themselves come round asking for the change. This is the way the Japanese make decisions by-consensus. However, it is not always possible to introduce change by having consensus.

There may be limitation of time or money, or pressure of competition which may make the consensus method impractical (Pandey, 2004).

Management and leadership cannot be separated. The commitment of the leaders to loan administration by planning and organizing the resources required, supervising and making appropriate measures plays a big role in curbing loan default. If the manager does not have good leadership style, this will mean loan defaulting. Poor leadership in business results to death of the business. Where partners cannot agree on priority in business, it will result to the collapse of the business (Santomero, 2007),.

Poor planning skills by the management will automatically lead to loan defaulting. The manager should have high level of planning skills in order to avoid loan defaulting. Poor monitoring skills by the management will automatically lead to loan defaulting. The management should monitor the process of loan appraisal and see to it that the loan administration procedures have been adhered to. A manager does not only perform and produce results but should do in the most efficient manner possible in order to produce good results. The manager should review on the past loan performances and advice accordingly on the way forward. Failure to this will automatically lead to loan defaulting.

2.2.4 The Effect of Loan Policies to Loan Defaulting Among Sacco's

Loan policy involves decisions on reposing, criteria of awarding loan, collection criteria and employment of staff in credit department. If the policies are deflectable and out dated, this will result into defaulting (Pandey, 2004).The formulation of loan for an individual Sacco's requires sincere and honest introductive analysis of the Sacco's characteristics, its professional capabilities, the type of depositor and the community it serves and the environment in which it operates. The first consideration is the character of its character base. What is the makeup of its deposits time and demands? What proportions of its deposits come from individual businesses and other sources? Do the Sacco's have a broad deposit base or do relatively few depositor time and demands? What proportions of its deposits come from individual businesses and other sources? Does the Sacco's have a broad deposit base or do relatively few depositors account for a large percentage of total deposits? Are deposits subject to the Sacco's capital? How adequate is the Sacco's capital invested in relation to its deposit, liabilities and risk

assets? These and similar factors will be analyzed with respect to the employment of deposits and capital funds (Churchill, 1997).

In Sacco's or Credit Companies, the evaluation of new credit demands is one of the basic aspects of credit granting (Churchill, 1997). The decision traditionally where to grant loan to an individual is taken by a specialized person who handles each demand individually. This is a time consuming and an expensive process and financial institutions often make use of credit scoring system. It's a computerized procedure, which attributes to the clients a number of points according to a number of relevant characteristics as income profession, age among others (Derban,2005), If the total obtained by summation of the individual score is high than the cut off level, a credit is guaranteed. If it falls below the cut off line it is denied (Churchill, 1997). The two major questions to be answered in the derivation of the credit-scoring model are (i) which characteristics are to be used in the scoring model variable that would discriminate between 'bad' and 'good' loan. (ii) How to obtain a score for each characteristic, ((Robinson, 2001).

The tangible collateral coverage value should be at least 100% of the loan approved. Vehicles taken as security must be in good mechanical condition and should have an insurance cover which is current and Sacco's interest should be noted in the insurance cover. The original log book should be duly signed and original blank transfer forms duly signed. There should also be a copy of pin number certificate, memorandum of deposits and search certificate. Where land is taken as security, proper valuation and registration of charge will be done at the clients cost. If the value of securities is defectable and expired, this will result to loan defaulting.

2.2.5 The Effect of Loan Use to Loan Defaulting

The customer must specify the intended purpose of the loans advance, he is asking for. It is a SACCO requirement that the customer must specify the internal use of the advance. Also inside the prescribed form for the loan application, there is a column whereby a customer is supposed to fill in the purpose for his loan. In case of an advance into business to purchase fixed assets like vehicles, land, machinery, and the credit manager must be satisfied that the business will generate sufficient profit so as to repay the loan.

The purpose of the loan should be related to the lifetime of an asset. If it is a loan to set up new venture, it is viewed in the context that all business ventures are risky and thus security is required (Pandey, 2004).

If it is a school fees loan, the customer has to present school fees form structure and also security is required. If the loan is for illegal business like enhancing drug trafficking or trading with enemies, it will be rejected because the Sacco is likely to face criminal prosecution because of advancing loan for illegal businesses. The Sacco does not give loans for speculative business purposes because of the investment flocks. Also Sacco's do not give loans to company for purposes not permitted by the objective clauses in the memorandum of association. Thus the Sacco's require the company to submit a copy of Memorandum of Association in order for it to be advanced the loan (Meckling, 2009).

Some customers usually invest their loan in businesses which are not income generating hence they are not able to service their loan as was originally agreed. Some clients invest their money in political campaigns hence this will result to loan defaulting. Some customers usually invest their loan in illegal businesses such as enhancing drug trafficking and human trafficking. Investing loan on illegal business is risky because a customer can face criminal prosecution hence will not be able to service his/her loan which will lead to loan defaulting. Customers who invest their money in risky businesses like gambling, politics among others will not be able to service their loan as was originally agreed hence this will result to loan defaulting (Robinson, 2001).

Poor people do not have knowledge on how to spend their loan and thus end up improving household goods like television sets, refrigerators, radios among others other than improving and venturing into an income generating business. This will automatically lead to loan defaulting because he or she will not be able to generate income from the household goods.

2.3 Empirical Literature Review

Wachiuri (2009), in a Study on Why Sacco's need Accountancy Services asserts that Non-performing loans can lead to efficiency problem for Sacco. It is found by a number of economists that failing Sacco tends to be located far from the most-efficient frontier, because Sacco doesn't optimise their portfolio decisions by lending less than demanded.

What's more, there are evidences that even among Sacco that do not fail; there is a negative relationship between the non-performing loans and performance efficiency.

The phenomena that Sacco are reluctant to take new risks and commit new loans is described as the "credit crunch" problem. According to the United States Council of Economic Advisors, credit crunch is "a situation in which the supply of credit is restricted below the range usually identified with prevailing market interest rates and the profitability of investment projects".

A credit crunch is a disequilibrium phenomenon. It is present when Sacco is unwilling to lend, especially when a firm with profitable projects cannot obtain credit in spite of low interest rates (lower than the expected marginal products). Credit crunch results in excess demand for credit and hence credit rationing, where loans are allocated via non-price mechanism. Eventually, it imposes additional pressure on the performance of the monetary policy.

Wachiuri (2009), indicates that the reluctance of Sacco to lend can be caused by several reasons, such as the increased capital adequacy requirement imposed by Basel Accords; impaired debt-servicing capacity, especially small-to-medium enterprises (SMEs); risks of a further fall in collateral value, etc., which make the interest rate not to serve as the main determinant by Sacco in credit approval. Non-performing loans have been viewed to constitute one of the most important factors causing reluctance for the Sacco to provide credit. In a high NPL condition, Sacco increasingly tends to carry out internal consolidation to improve the asset quality rather than distributing credit. Also, the high level of NPLs requires Sacco to raise provision for loan loss that decreases the Sacco' revenue and reduces the funds for new lending.

Wachiuri (2009) indicates that the cutback of loans impairs the corporate sector as they have difficulties in expanding their working capital, blocking their chances of resuming normal operation or growing. Unavailability of credit to finance firm's working capitals and investments might trigger the second round business failure which in turn exacerbates the quality of SACCO loans, resulting in a re-emerging of financial failure. In a worse case, it triggers an endless vicious liquidity spiral: As a result of poor economic condition and the depressed economic growth, the level of NPLs increases the weaker corporate sector makes Sacco more reluctant to provide additional credits with

insufficient capital, the production sector is further weakened, resulting in decreases in aggregate demand again, even worse borrowers' condition creates more NPL

Omondi (2008), in a comparative study of Micro Finance Institutions in West and Central Africa, investigated the relationship between the loan supply and real lending capacity, lending rates, real output, Sacco capital ratio, and non-performing loan. The results of his study show that the coefficients on NPLs are negative and significant, which indicate that bank credit supply declines with the worsening of the NPLs problem. Omondi (2008) compares the cases of Mali after the credit boom of the late 1990s and Ivory Coast aftermath the bubble burst in early 1990s. He argues that even though the Mali Sacco were in a better condition than Ivory coast Sacco were, as the path of Mali's aggregate credit looks so similar to that of Japan, it is at least unlikely that the Mali's credit slowdown was entirely driven by demand, while that of Ivory coast was mostly caused by a lack of supply.

The fields of Sacco's and loans have attracted many scholars like Macharia, a student of Business administration and a Sacco employee evaluated the relationship between loan appraisal and loan defaulting. He realized that the appraisal of the loan determines the performance of the loans whether secured or unsecured. He insisted that Sacco's should employ experts to evaluate borrowers and release the funds in phases depending on the purpose the loan is intended for. Churchill, (1997) asserts that loans can help people to be less poor but the very poorest are usually unable to make good use of loans because other improvements such as better education, health services and good governance are needed as well. Low interest rate encourages slow repayment hence making the loans unprofitable and hence a loans program unsuitable (Churchill, 2013). They prevent lenders to offer good rates on savings and deposits and encourage corruption with loans being taken by those with power to influence the lender Sacco's usually require customers to establish a good record of regular saving before even considering lending them money. It is evident that poor people cannot save and the cooperative and micro finance will establish a program that will enable the poor to borrow without previous records. The stumbling block is that the poor people do not have the knowledge on how to spend their loan and end up improving the household other than improving income-generating projects (Bradley, 2014).

In other countries outside Kenya, such as India, Egypt, Bangladesh, Bolivia, Ethiopia, Indonesia, Peru, Philistine and South Africa, credit institutions have been targeted to finance through loans schemes to small enterprises and significant results have been seen. There is no need for collateral securities and the banking system is created on mutual trust, accountability, participation and creativity. Grameen bank provides credit to the poor of the poorest in rural Bangladesh. The managing director and founder of the Grameen bank professor Muhammad Yunus states “If financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, these million people with a small pursuit can add up to the biggest development wonders, Microfinance regulation in developing countries (Bradley, 1991).

2.4. Gap Justification

There is a strong relationship on the loan appraisal and the default rate by borrowers and so the credit officers of Sacco’s in Kirinyaga County are very keen while advancing loans to their customers. Loan appraisal is a continuous process, which must be practiced, since a slight relaxation may lead to a great loss in the Sacco, (Cole, 2004). In Sacco’s, the factors considered for lending loans to customers are given great consideration and also the procedure of loan appraisal as a way of reducing the default rate by borrowers, (Cole, 2004). The attitude of the loan clerks towards loan appraisal is positive and they are working tirelessly towards its success. Sacco’s enjoys the benefits being increased output to the Sacco, customer satisfaction, and increased profitability and imposed default rate, (Cole, 2004). Loan appraisal is a costly activity to undertake and it requires proper management of resources advanced to customers in a well organized loan administration system, (Cole, 2004). In the Sacco, customers feel secure with their investments and thus motivated hence invest more with the Sacco. This is because the customers wish to be associated with such organizations where their investments are secured. Loan administration is directly related to the default rate of the borrowers in that the well organized loan administration and the rate of borrower loan default is reduced or eliminated (Robinson, 2001).

2.5 Conceptual Framework

The researcher is investigating on the factors contributing to loan defaulting in Sacco's in Kirinyaga County. The independent variables influencing or contributing to loan defaulting are loan appraisal system, management, loan policy and poor loan use among others. A non – performing economy will result to failure of business and rise in the cost of living resulting to loan defaulting. Women shy off while men apply, receive loan and default. The caliber of management is fundamental. A management team that is weak in its work will result to problem. The caliber of management determines the success of that institution. If the use of loan is deviated it will automatically result to defaulting.

Conceptual Framework of the Study

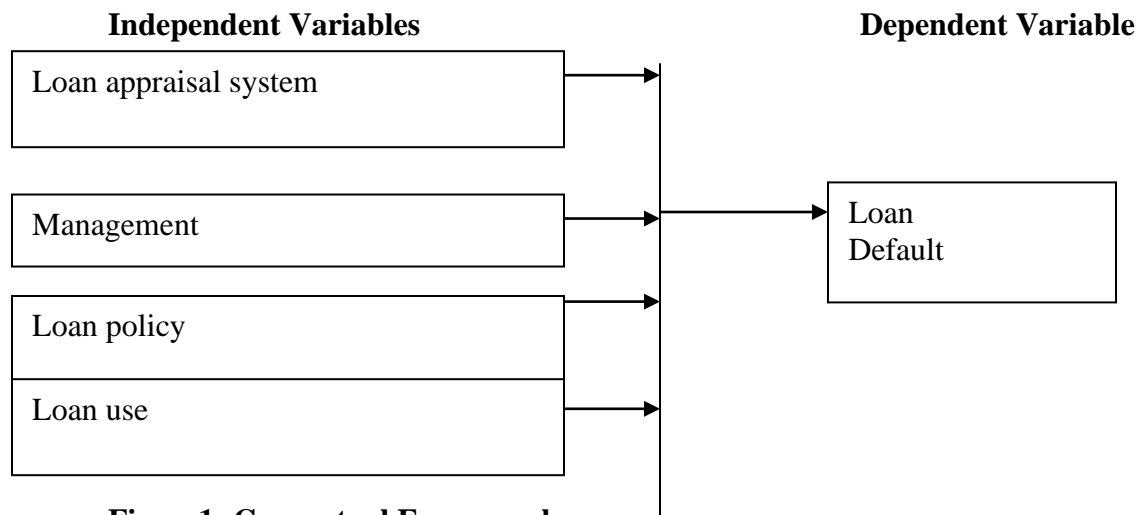


Figure1: Conceptual Framework

Source; Researcher 2016

The dependent variable is identified as loan defaulting among Sacco's, being influenced by independent variables which are loan appraisal system, management, loan policy and loan use.

Loan Appraisal System

The manner in which loan appraisal system is administered determines the borrowers default rate (Pandey, 2004). Where the interview conducted is inadequate and ineffective the loan officer will not collect accurate data that facilitate accurate decision-making in the appraising of the loans. The SACCO ends up giving loans to undeserving person resulting to defaulting. Poor assessment of guarantors and securities leads to loan defaulting among Sacco's (Pandey, 2004).

Management skills

Management and leadership cannot be separated. The commitment of the leaders to loan administration by planning and organizing the resources required for loan administration, supervision, and implementation by quality monitoring and making appropriate corrective measures. In addition the manager must be committed to high-qualified and efficient human resources (Pandey, 2004).The management should educate the credit officers on the methods of debt collection as it significantly influences borrowers default rate.

Loan Policy

Loan policy involves decisions on reposing, criteria of awarding loan, collection criteria and employment of staff in credit department. If the loan policies are defectable and out dated, this will result to loan defaulting (Pandey, 2004).

Loan Use

The customer must specify the purpose of the loans advance, he is asking for. It is a SACCO requirement that the customer must specify the internal use of the advance. Also inside the prescribed form for the loan application, there is a column whereby a customer is supposed to fill in the purpose for his loan. In case of an advance into business to purchase fixed assets like vehicles, land, machinery, the Sacco's must be satisfied that the business will make sufficient profit so as to repay the loan. The purpose of the loan should be related to the lifetime of an asset. If it is a loan to set up new venture, it is viewed in the context that all business ventures are risking and thus security is required (Pandey, 2004).

If it is a school fees loan, the customer has to present school fees form structure and also security is required. If the loan is for illegal business like enhancing drug trafficking or trading with enemies, the Sacco's will reject it because the Sacco's is likely to face criminal prosecution because of advancing loan for illegal businesses. The Sacco's do not give loans for speculative business purposes because of the investment flocks. Also Sacco's do not give loans to company for purposes not permitted by the objective clauses in the memorandum of association. Thus the Sacco's require the company to submit a copy of Memorandum of Association in order for it is advanced the loan, (Cole, 2004).

2.6 Operational Framework

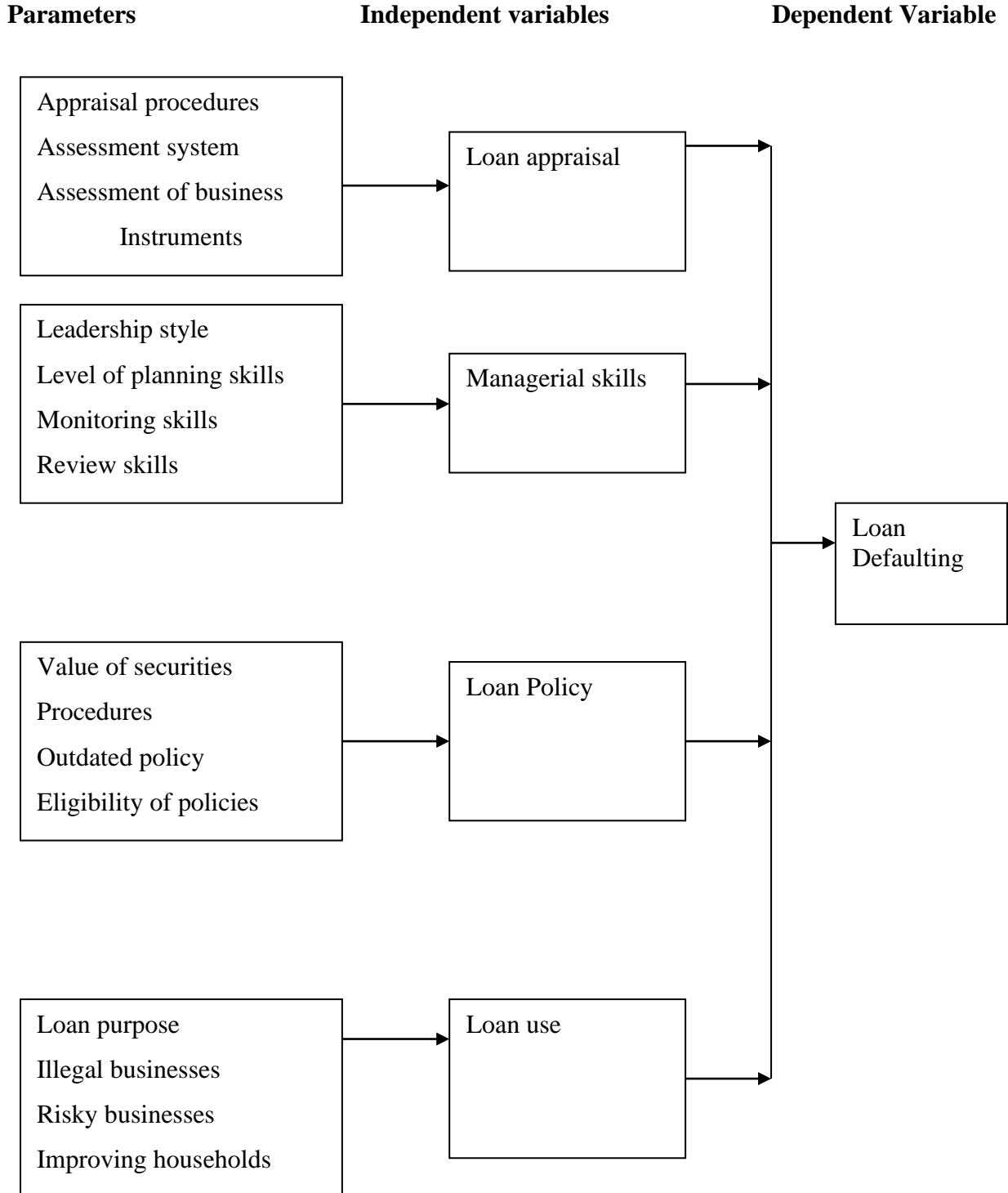


Figure 2: Operational Framework

Source: Reseacher 2016

Loan administration has an impact on borrowers default rate depending on its administration. The variables measured are loan appraisal system, loan policy, management and loan use. The effectiveness of appraisal system is to reduce borrowers default rate or it may increase it if the appraisal interview is bias and the securities and guarantors are not sufficient. The effectiveness of management is to reduce borrowers default rate through planning and organizing the resources required for loan administration. The management must also be committed to high qualified and efficient human resources in order to avoid loan defaulting. Loan policy influences the borrowers default rate particularly if it is outdated and does not allow for random response in imposing correlated securities. Debt collection procedure influences the rate of defaulter's rate through corrupt officers, inadequate debt collection skills and experiences, poor collection procedures and evaluation of the overall collection process. Loan purpose or loan use influences the borrowers default rate in case a customer borrows a loan in the SACCO and invest it in the wrong activity which will not generate income to enable him repay his loan.

2.7 Summary of Literature Review

According to the research study carried out on the assessment of factors contributing to loan defaulting among Sacco's in Kirinyaga County it has been noted that loan administration is a very important activity in SACCO'S and it determines whether the client will be able to service his or her loan or whether he or her will default the loan. The researcher has come up with four objectives which includes loan appraisal system, the effect of management of SACCO in relation to loan defaulting, the effect of loan policy in relation to loan defaulting and the effect of loan use in relation to loan defaulting. The researcher has generated several factors which will act as a guideline to reducing loan default rates among SACCO'S. The researcher has shed some light towards curbing of loan defaulting and concluded that where there is poor loan administration there is increased number of borrowers default rate and thus low productivity and low profits. Loan administration is a costly activity to undertake and it therefore requires proper management of resources advanced to customers in a well organized loan administration system.

CHAPTER THREE METHODOLOGY

3.1 Introduction

The chapter described and explained the research instruments that was used in the study. The chapter was thus outlined into research design, target population and sampling design, description of research instrument, data collection procedure and data analysis technique.

3.2 Research Design

The research design that was adopted in this research study was the descriptive survey design. Descriptive design involves collecting information by interviewing or through administering a questionnaire to a sample of respondents (Orodho, 2005). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Mugenda Mugenda, 2008). The design was selected because the data to be collected would be qualitative in nature. The study was appropriate for this study since the variables could be studied the way they occurred or had been occurring and the researcher had no control over the variables.

3.3 Target Population

The targeted population was 85030 comprising of 85000 customers and 30 credit managers from the registered Sacco's operating within Kirinyaga County.

Table 3.1 Study population

Category	Population
Credit manager	30
Customers	85,000
Total	85,030

Sacco's records 2015

3.4 Sample size

Since the credit managers target population was a manageable number in the study, the researcher employed saturated census for the study for the population category. Hence all the credit managers of the 30 Sacco's were to be considered in the study. The purpose of using the study population was to enable the researcher obtain reliable and accurate information from all the levels of credit risk management and to avoid bias. Proportional

sampling was done followed by random sampling to establish the sample per each sampling frame (Appendix IV).

Table 3.2 Sample size

Category	Sample size
Sample size (Among credit managers)	30
Sample size among clients	383
Total Sample Size	413

Own source 2016

3.5. Data Collection Procedures and Instruments

The researcher would seek permission from the relevant authorities in SACCO institutions in Kirinyaga County to be allowed to collect data. After the permission was granted the researcher would obtain appointment from the respondent prior to the actual data collection. It was possible in this study to identify the respondent since purposively the credit officers would receive the questionnaire. Data was collected mainly by use of questionnaire method. The questionnaire had both open ended and close ended questions. In this study a questionnaire was chosen as the method of collecting data for it allows interaction with researcher. Secondary data was also obtained from the financial statements of the institutions. That would assist in measuring the defaulting rate of the Sacco and was administered personally by the researcher.

Before using the questionnaire for generating data for the study a pilot study was conducted in two Sacco's in Embu town which is outside the study sample. The purpose of pre-testing the research instrument was to:-

- (i) Verify whether the questionnaire was clear to the respondents.
- (ii) Establish whether the questionnaire effectively provided data needed for the study.
- (iii) Assess and identify any problems respondents would encounter in completing the questionnaire that may not have been foreseen when constructing the questionnaire.

The researcher administered the questionnaire and collected them after they were filled on the same day. Corrections were effected in the final draft of the questionnaire after

expert suggestions from the supervisors. The research instruments were found reliable to collect the data required for the study.

3.6 Validity and reliability.

Validity concerns the crucial relationship between the concept and indicator (Carmines, 1979). To determine the validity a pilot study was conducted in Taifa Sacco which was outside the sample area in Nyeri County. Questions were numbered carefully to avoid ambiguity, misinterpretation and confusion to the respondent. An instrument is said to be reliable when it can measure a variable accurately and consistently and obtain the same results under the same conditions. The more consistent the results given by repeated measurement the more reliable the instrument is.

Reliability is the ability of a research instrument to consistently measure the characteristics of interest over time. According to Mulusa (1998), a reliability test of research instruments is one that consistently produces the expected results. Further he pointed out that instrument reliability referred to the level of internal consistency or the stability of the measuring devices. They said that because of economy in time and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test. They added that split half-technique was simple and convenient hence more successful approach for approximating the equivalent of the total test. The split half- technique would be adopted because of the impracticality of retesting and the concern that other factors may influence the retest scores. The questionnaire would be discussed with the supervisor to establish the content and reliability and then the final draft was distributed to the respondents.

3.7 Data Analysis and Presentation

Once the questionnaires were collected, they would be scrutinized to ensure they were duly completed and were consistent, after which they would be numbered. That would be followed by checking that all questions had been answered according to instructions to reduce errors and maintain the validity of the data. The researcher analyzed all data by use of SPSS (Statistical Package for Social Sciences). The data was presented in form of tables, pie charts, cross tabulations, correlations and figures.

3.8 Ethical Issues

Consent from the respondents was sought and the purpose of conducting the research explained in detail. The respondents were assured that the data collected would solely be meant for academic purpose and would not be availed to third parties without the consent of the respondents. The rights of the respondents were duly protected.

3.9 Summary of Methodology

The research study utilized descriptive design with the target population being both credit manager and clients within 30 SACCO'S. Sampling was concentrated among credit managers while proportional sampling and random sampling was concentrated among clients. The pilot study indicated that the questionnaire was clear to the respondents, establish whether the questionnaire effectively address the data needed for the study, assess and identify any problems respondents would encounter in completing the questionnaire that may not have been foreseen when constructing the questionnaire and this will be used to test the correctness of the data collection tools.

CHAPTER FOUR DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1: Introduction

This chapter presents the findings of the data that was collected from sampled members including customers and managers of the Sacco's selected. The study was on assessment of factors contributing to loan defaulting among savings and credit societies. The data collected is analyzed presented and interpreted. The analysis was presented in form of graphs, tables, charts and qualitative statement after proper and essential editing and examination of the data from the respondent was done.

There were 380 respondents out of the total sample targeted of 413 people. This is equivalent to 92% of the target group. The discussion found in this chapter is based on the results or the output of the SPSS.

4.2 Results and Discussion

This part provides the results and discussion of the outcome and data analysis of this study. This is based on the questions and research objectives of the study which is to assess the factors contributing to loan default in the Sacco's.

4.2.1 Response Rate

Out of the sample size of 413 comprising of SACCO members' and managers, 30 managers responded, 383 members also responded. This composition of respondents is important since it represent all categories that deal with the SACCO.

4.2.2: Target Market/Demographic Information

The target market or clientele at inception of the Sacco's was the agro-based farming. These include tea farmers, coffee farmers and dairy farmers, as well as the pyrethrum farmers. However this has changed and other categories of members have been incorporated. These are salaried persons, business persons, and self help groups among others. The incorporation of these other groups has made Sacco's cope with the liberalization whereby the market is open to competition.

Table 4.1: Analysis of the level of loan repayment in percentage

		Frequency	Percent
Valid	below 20%	20	5.3
	21-40%	130	34.2
	41-60%	150	39.5
	61-80%	30	7.9
	81-100%	50	13.2
	Total	380	100.0

Source Author (2016)

Most of the respondents stated that the level of loan repayment is between 41-60%. This constitutes 39.5% of the respondents. This shows that there is still low loan repayment by the Sacco members. The study also shows that 34.2% of the respondents stated that the loan repayment lies between 21-40%, this shows that the rate of loan repayment is low.

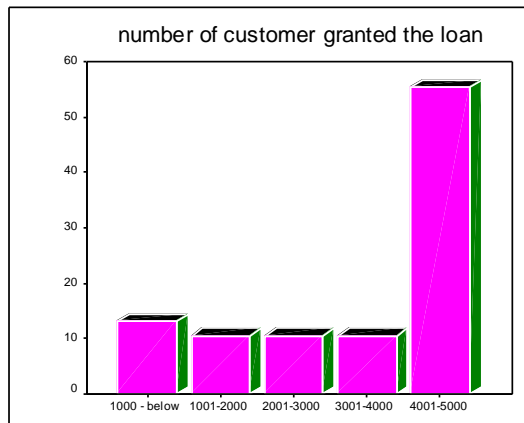


Figure 4.1:Effect of the number of customers

The study shows that majority of the members have been given loans. This is supported by 75% of the respondents. Another 14 % states that there are few members who are granted loan. This implies that the loan default may be associated with the granting of loans to many members.

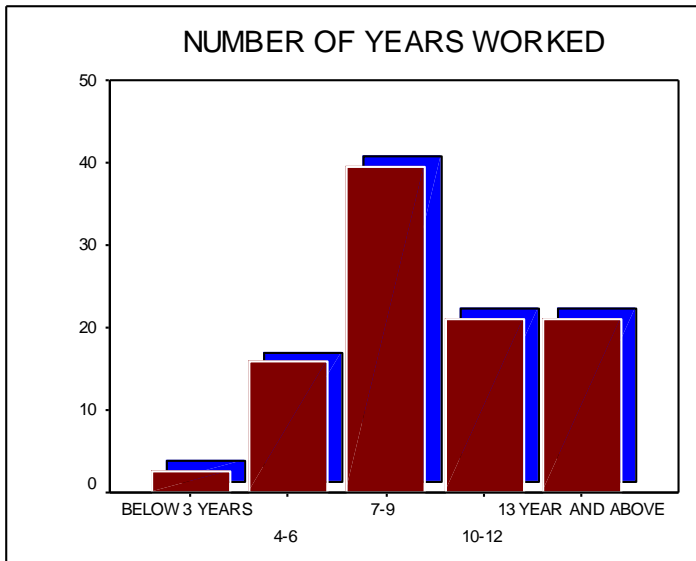


Figure 4.2:Effect of the number of Years Worked

From the study it is clear that most of the respondents' have worked in the Sacco between 7-9 years. This is supported by 35.4% while a relatively small number of respondents being 2.6% stated that they have worked in then Sacco for a period of less than two years. Thus having worked at the Sacco for a long period could have an effect on loan default.

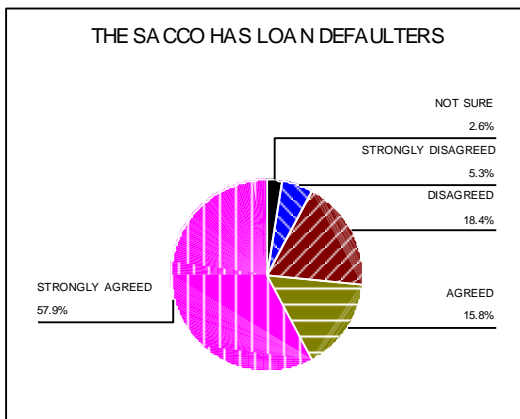


Figure 4.3:Effect of Loan Defaulters

The study shows that most of the respondents believe that there is loan default and this is represented by 57.9% of the respondents while 15.8% also believe that there are defaulters. Only a small number didn't agree that there are loan defaulters. This can be attributed to the size of loan granted.

WHAT IS CONSIDERED WHEN GRANTING LOANS

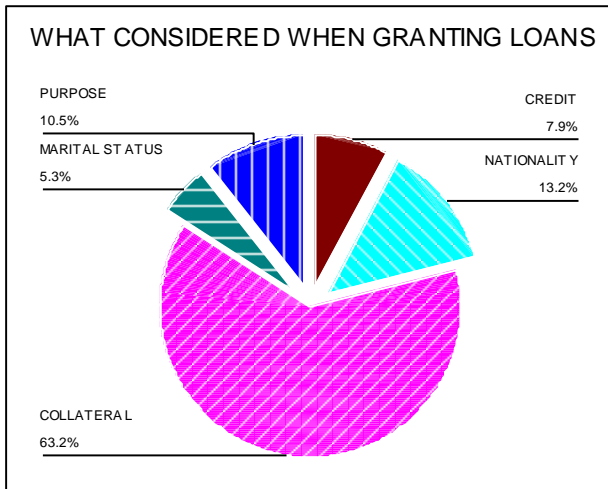


Figure: 4.4: Effect of Granting of loans

The study shows that most of the respondents stated that collateral is being considered when granting loan, while 7.8% agreed that the credit history is considered when granting loan and only 13.2% stated that nationality is considered.

LOGO BOOK IS CONSIDERED IN LOAN GRANTING

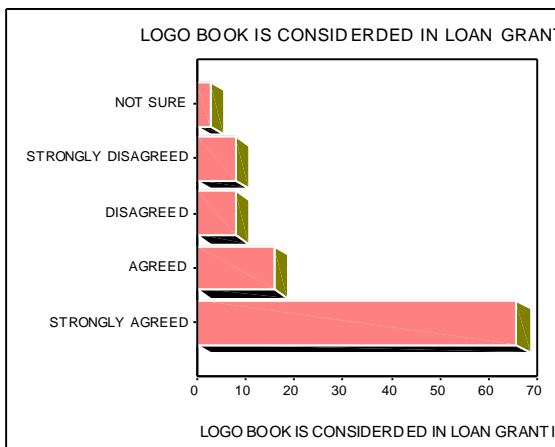


Figure: 4.5: Effect Of Logo Book

From the study, it is clear that most of the respondents strongly agreed that logo book is considered when granting loan. This is supported by 65.8% of the respondents. Only 7.5% disagreed that the logo book is considered when granting loan. Thus the log book serves as a security of the loans.

TITLE DEED IS CONSIDERED IN LOAN GRANTING

Table: 4.2:Analysis of Title deed on loan granting

		Frequency	Percent
Valid	NOT SURE	30	7.9
	STRONGLY DISAGREED	10	2.6
	DISAGREED	40	10.5
	AGREED	40	10.5
	STRONGLY AGREED	260	68.4
	Total	380	100.0

Source; Author (2016)

From the study it is clear that most of the respondents’ strongly agreed that title deed is considered when granting loan. This is supported by 68.4% of the respondents. Only 7.9% disagreed that the title deed is considered when granting loan. Thus the log book serves as a security for loans.

TEA PROCEEDS IS CONSIDERED IN LOAN GRANTING

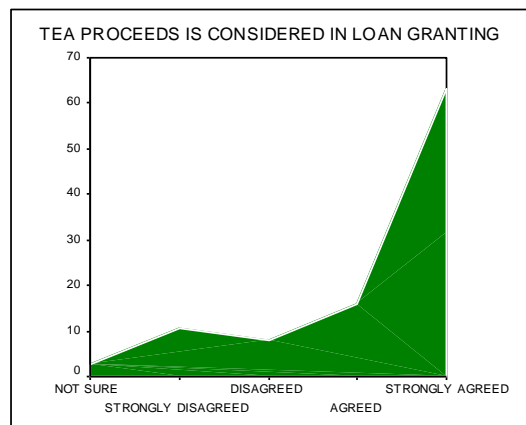


Figure 4.6:Effect of Tea proceeds

The study shows that most of the respondents’ strongly agreed that tea proceeds are considered when granting loan. This is supported by 63.2% of the respondents. The 15.8% of the respondents agreed that tea proceeds are considered. Only 10.5% disagreed

that the tea proceeds is considered when granting loan. Thus the log book serves as a security of r loans.

LENGTH OF BEING IN MANAGMENT COMMITEE

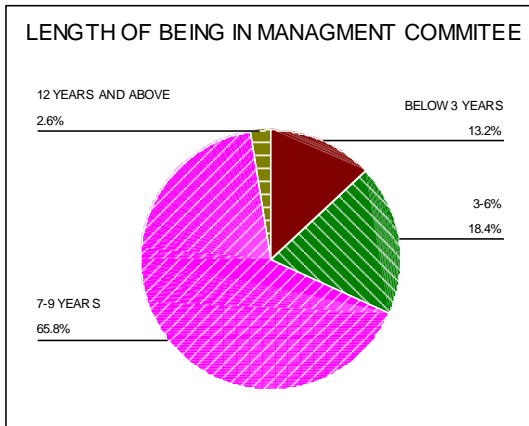


Figure 4.7:Effect of Management Committee

From the study it is clear that most of the respondents’ strongly agreed they have been in management committee for a period between 7-9 years. This is supported by 65.8%. Only 2.6 % disagreed that they have been in the committee for long.

WHAT DETERMINES THE LOAN SECURITY

TABLE: 4.3:Analysis of Loan security

	Frequency	Percent
AMOUNT	10	2.6
CONSISTENCY	30	7.9
INSURANCE COVER	40	10.5
LEGAL POSSESSION OF ASSETS	80	21.1
DEPRECIATION OF FIXED ASSETS	220	57.9
Total	380	100.0

Source Author (2016)

It’s clear from the study that most of the respondents’ strongly agreed that depreciation of fixed assets is considered when granting loan. This is supported by 57.9% of the respondents. The 21.1% of the respondents agreed that legal procession of the assets is considered. Only 10.5% stated that the insurance is considered when granting loan. Thus the asset value is important in consideration of loan.

ECONOMIC FACTOR CONTRIBUTE TO DEFAULT

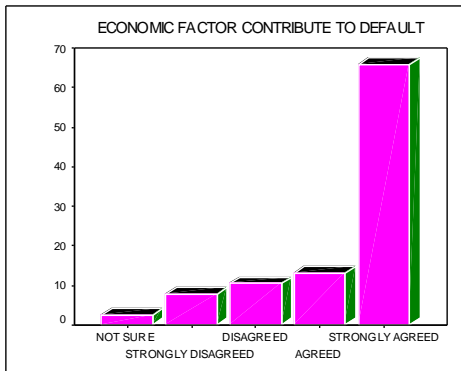


Figure 4.8:Effect of Economic Factors

The study reveals that majority of the respondents believed that the economic factors contribute to loan default as per.68.8%. The 18% of the respondents agree that economic factor contribute to default of loans.

POOR LOAN ADMINISTRATION CONTRIBUTE TO LOAN DEFAULT

TABLE 4.4:Analysis of Loan Administrators

		Frequency	Percent
Valid	NOT SURE	10	2.6
	STRONGLY DISAGREED	40	10.5
	DISAGREED	40	10.5
	AGREED	40	10.5
	STRONGLY AGREED	250	65.8
Total		380	100.0

Source Author (2016)

From above data majority of the respondents agreed that the loan administration contribute to loan default. It is clear that 65.8% of the respondents agreed that the loan administrator contribute to loan default. It is clear that 10.5% of the respondents contribute to loan default.

MANAGEMENT CONTRIBUTE TO LOAN DEFAULT

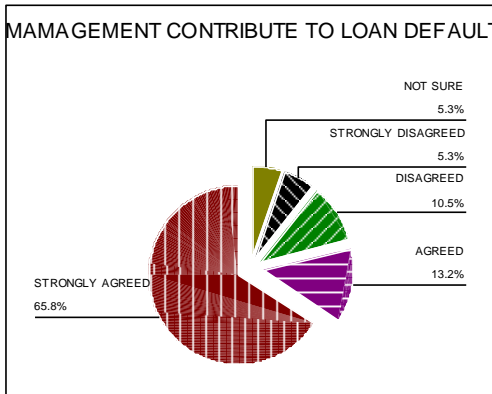


FIGURE 4.9:Effect of Sacco Management

From above study majority of the respondents agreed that the management contribute to loan. It is clear 65.82% of the respondents agreed that the management very pertinent in loan default in a SACCO. It is clear that 5.3% disagree that management play a great role in loan default.

POOR LOAN USE CONTRIBUTE TO LOAN DEFAULTING

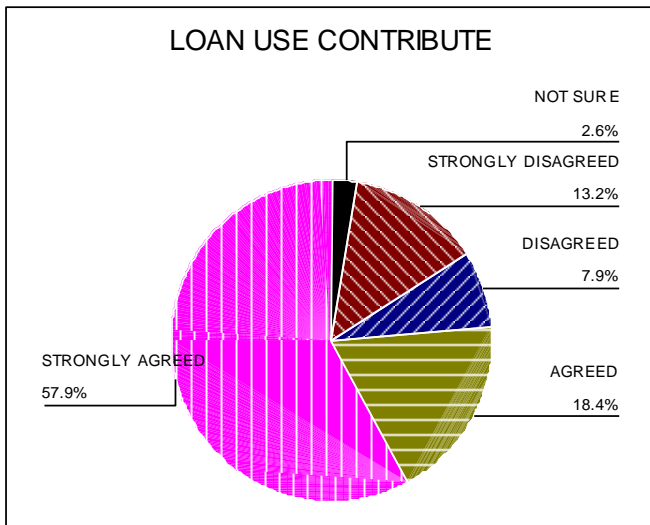


Figure 4.10:Effect of poor loan use

The study shows that most of the respondents are in agreement that the loan use contribute to loan use.57.9% of the respondents believe that the loan use contribute to loan default. Other respondent strongly disagree that loan use contribute to loan default. This is 13.2% of the respondent.

ACTION TAKEN WHEN CLIENT DEFAULT

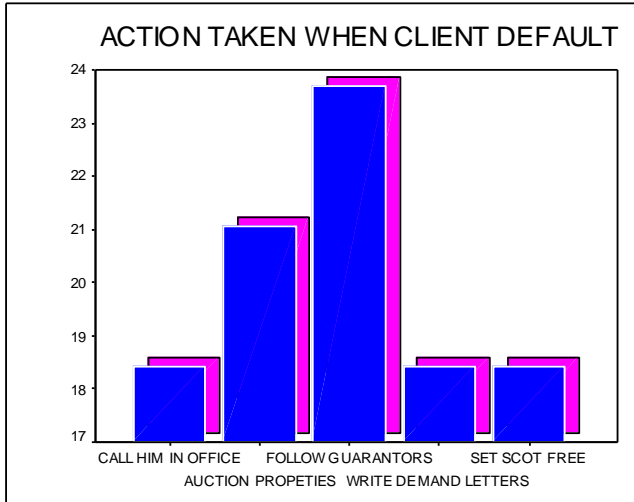


Figure 4.11: Effect of Action Taken on Loan Defaulters

Majority of the respondents stated that the action is taken when there is loan default those is supported by 23.7%. The relatively big proportion of the respondent being 22.8% stated that there is connection between the action taken and default, while 16.1% felt that the t6he action is not taken on default.

LEADERSHIP DETERMINES LOAN DEFAULT

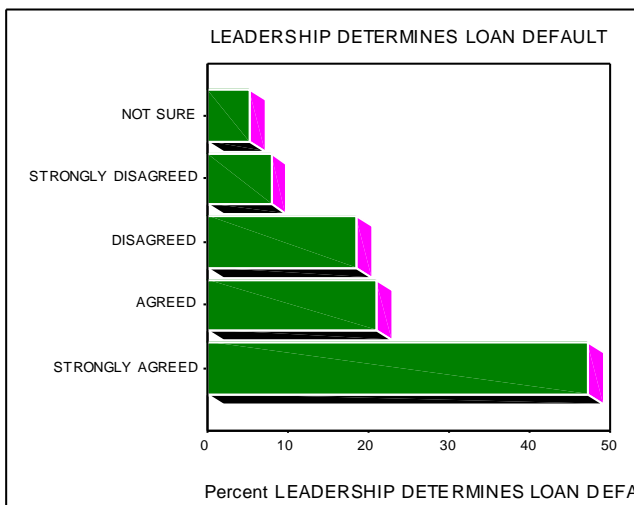


Figure 4.12: Effect Of Leadership

From the study it is observed that 45.7% of the respondents agree that leaders determine loan default. A proportion of the respondent which is 20.3% agreed that leadership determines loan default. This shows that in total 76% strongly agreed that the leadership determines the loan default.

SACCO HAS VARIOUS MECHANISMS OF REDUCING LOAN DEFAULT

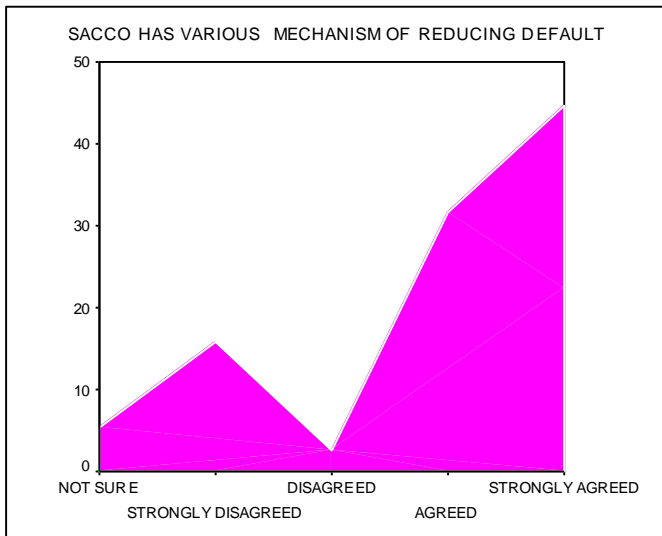


Figure 4.13:Effect of Various Mechanisms of Reducing loan Default

The majority of respondents agreed that Sacco have no strong mechanism of loan follow up. This is represented by 48.8% of the respondents. A proportion of 16.7% of the respondents' states that the Sacco's have mechanisms of reducing loan default. It is clear that 10.7% of the respondents believe otherwise.

MANAGEMENT CONDUCT CREDIBLE LOAN OFFICER RECRUITMENT

Table 4.5: Analysis of Loan Officers Recruitment

		Frequency	Percent
Valid	DISAGREED	3	7.9
	AGREED	8	21.1
	STRONGLY AGREED	27	71.1
Total		38	100.0

Source Author (2016)

The data above shows that the respondents believe that there are positive effects on the credit officer recruitment. There are few officers who are recruited.71.1% of the respondent stated that there is positive effect on recruitment of the loan officers while 7.9% disagree.

INTEREST RATE FOR YOUR LOAN

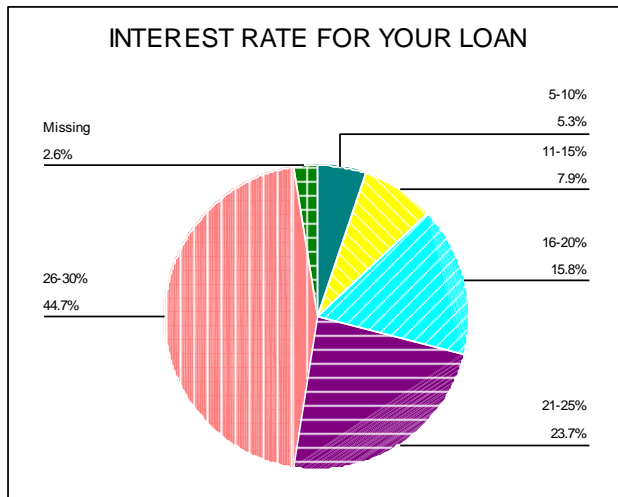


Figure 4.14:Effect of Interest Rate

The above data shows that the interest rate has effect on loan default. The majority of the respondent had these feelings. This was supported by 44.7% % of the respondents. It's also shown that 15.8% of the respondents believe that the interest rate on loan contribute to loan default.

SACCO HAS CUSTOMER LOAN INSURANCE COVER

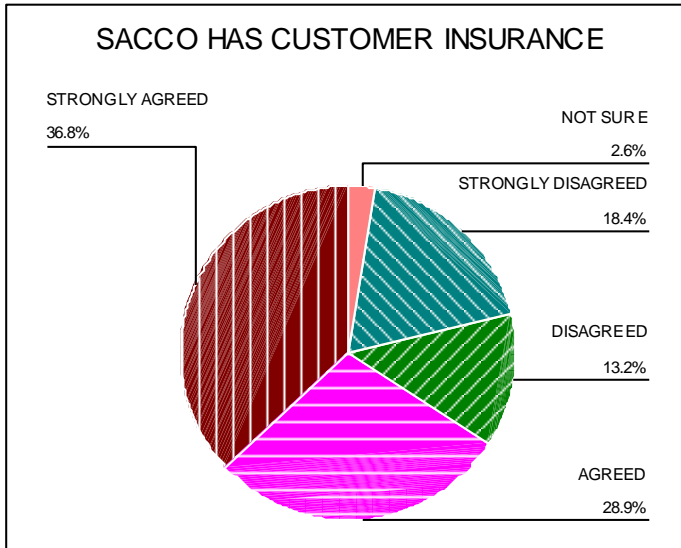


Figure 4.15: Effect of Customers Insurance Cover

The above data shows that the Sacco has insurance. The majority of the respondent strongly agreed. This was supported by 58.3% of the respondents. It's also shown that 33.3% of the respondents believe that the speed was as a result of efficiency of the machine.

THE LENGTH OF LOAN PROCESS

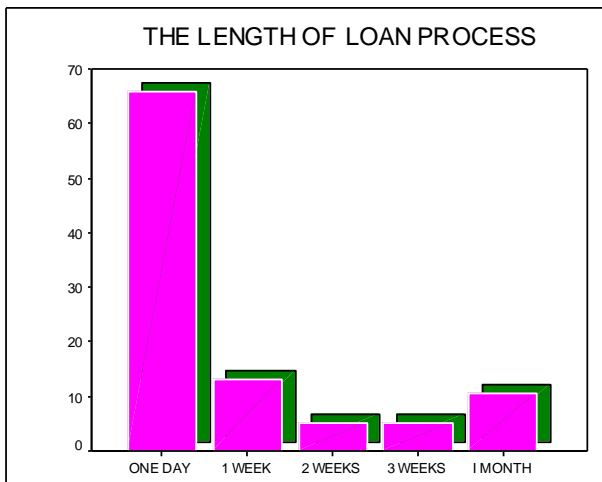


Figure 4.15: Loan Processing

From the study it is clear that most of the respondents' verdict on the loan processing period is that the loan takes one day. This is as per 65.8% of the respondents. Meanwhile 10.5% of the respondent stated that the loan takes one month. The faster speed of granting may leads to high default.

THE LOAN REPAYMENT PERIOD

Table: 4.6:Analysis of Loan Repayment Period

	Frequency	Percent
Valid 3 MONTH	90	23.7
6 MONTHS	120	31.6
9 MONTHS	120	31.6
1 YEAR	50	13.2
Total	380	100.0

The study is clear that most of the respondents stated that the loan repayment period for is 6 months and 9 months. This is supported by 31.6% of the respondents while 23.7% of the respondents stated that the period is 3 months.

SACCO CONSIDER LOAN PURPOSE WHEN GRANTING LOAN

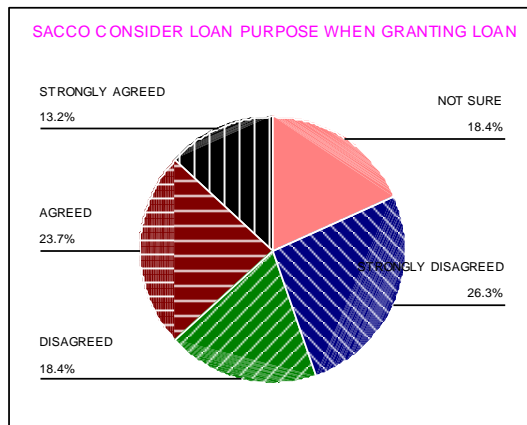


Figure 4.16:Effect of Loan Purpose

The study is clear that most of the respondents supported that Sacco's consider the loan purpose when granting loan. This is as per 25.5% of the respondent. Another 14.5% of the respondents stated that the loan purpose is not considered just as 26.5% of the respondent. Thus failure to consider the loan purpose results to loan default.

CUSTOMERS DO NOT INVEST THEIR LOANS WISELY

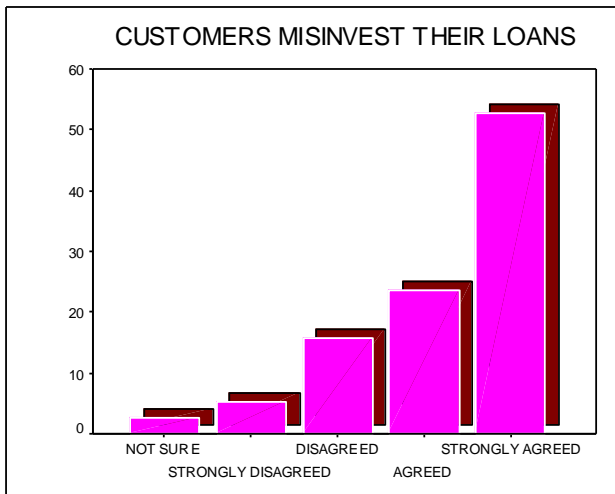


Figure 4.17: Effect of Poor Loan Investment

From the study it is clear that most of the respondents’ agrees that the loan is diverted to other uses. This is represented by 57.4% of the respondents. 27% of the respondents believed that the loan is diverted to other uses. This may cause loan default.

CUSTOMERS DISCLOSES LOAN PURPOSE

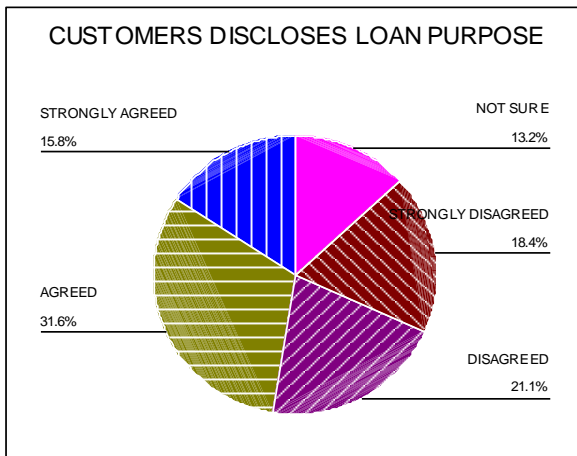


Figure 4.18: Effect of Disclosure of Loan Use

The study shows that most of the respondents’ stated that the customer discloses the loan purpose. This is supported by 21.1% of the respondent while another 18.4% of the

respondent disagree that there is loan purpose disclosure. Thus lack of disclosure results to loan default.

SACCO MAKES FOLLOW UP ON TYPE OF INVESTMENT

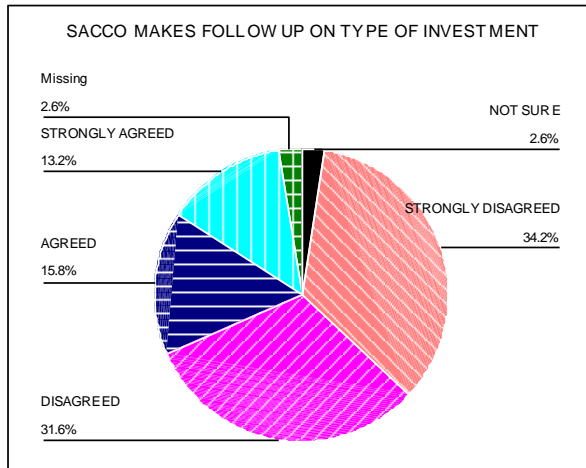


Figure 4.19:Effect of Follow Up On Investment Type

The study shows that the Sacco’s do not make follow up on loans. This is as per 34.2% of the respondents who strongly disagree while 31.6% of the respondents agree that there is no follow up.

HAVE BORROWED LOAN FROM SACCO

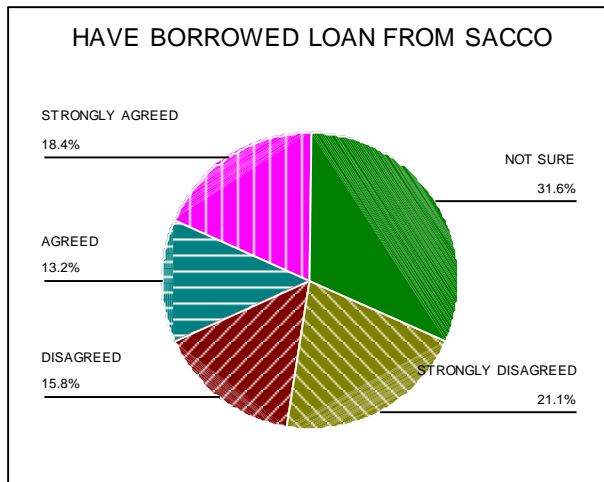


FIGURE 4.20:Effect Of Loan Borrowing

The study reveals that majority of the respondents have not borrowed loans from the Sacco. This is as per 21.5% of the respondents. Also 15.3% of the respondents stated that they have not borrowed from the Sacco.

HOW MUCH LOAN AMOUNT WERE YOU ADVANCED?

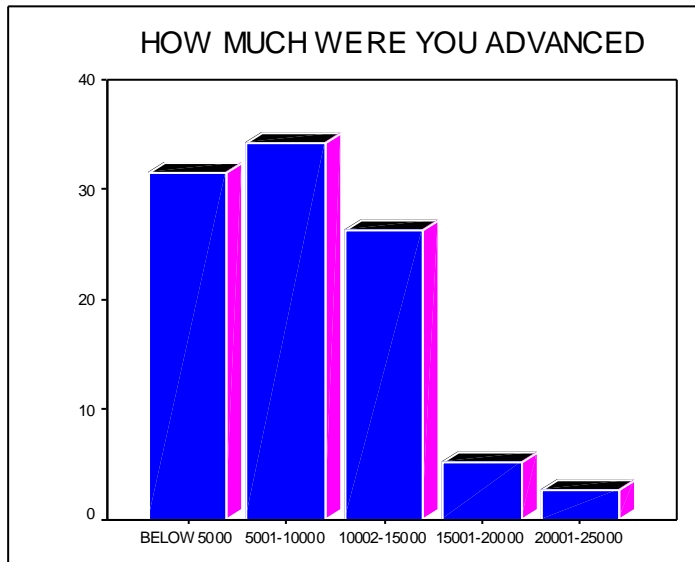


FIGURE 4.21:Effect of Loan advances

The study reveals that majority of the respondents had borrowed loan of between ksh. 5000 and below up to ksh.10,000.This is represented by35.5% of the respondents. Also 28% of the respondents stated that the amount borrowed is between ksh. 10001 and ksh. 15000.

HAVE PAID ALL LOAN AMOUNT

Table 4.7:Analysis of Loan Amount Paid

		Frequenc y	Percent
Valid	NOT SURE	10	2.6
	STRONGLY DISAGREED	160	42.1
	DISAGREED	90	23.7
	AGREED	70	18.4
	STRONGLY AGREED	50	13.2
Total		380	100.0

Sources Author (2016)

The study reveals that majority of the respondents stated that they have not paid their loans, this is as per 42.1% of the respondents. 23.7% of the respondents disagreed that they have paid their loans. Meanwhile 18.4% of the respondents stated that they agree they pay loans

PERCENTAGE OF LOAN NOT PAID AS AGREED

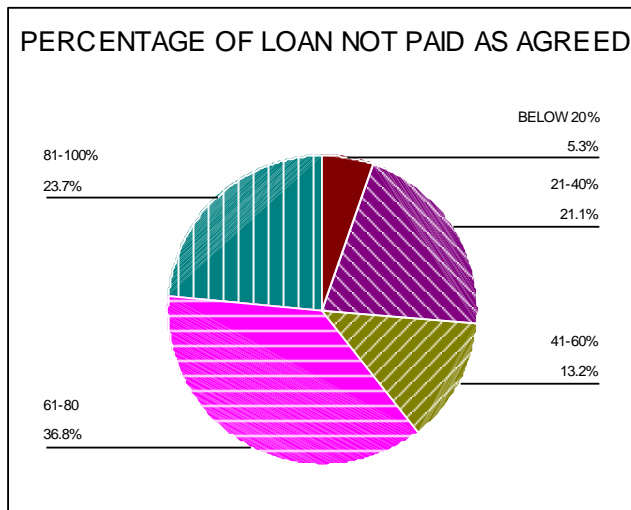


Figure 4.22: Effect of Loan percentage Not Paid As Agreed

The study reveals that 61-80% of the loans were not paid as agreed. This is represented by 36.8% of the respondents while 13.2% of the respondents stated that they paid less loan amount than they were supposed to pay.

LENGTH OF SACCO MEMEBRSHIP

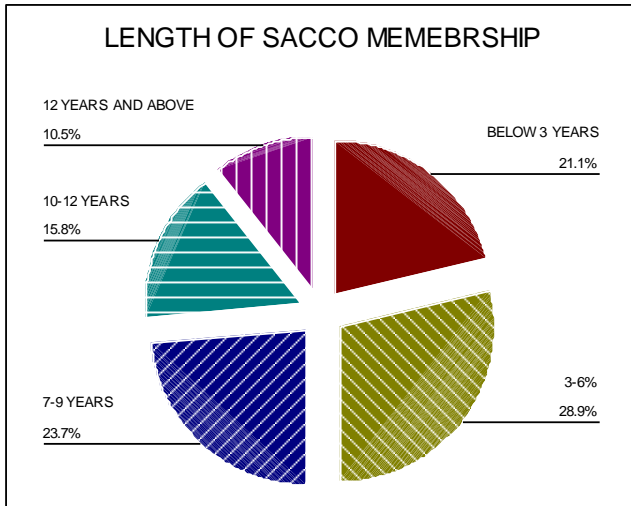


Figure 4.23:Effect Of Length of Sacco Membership

The study reveals that many of the respondents believed that they have been in the Sacco for long period. This is as per 28.9% of the respondents. 23.7% stated that they have been members of between 7-9 years. Thus the length of stay has an effect on default.

LOAN PURPOSE

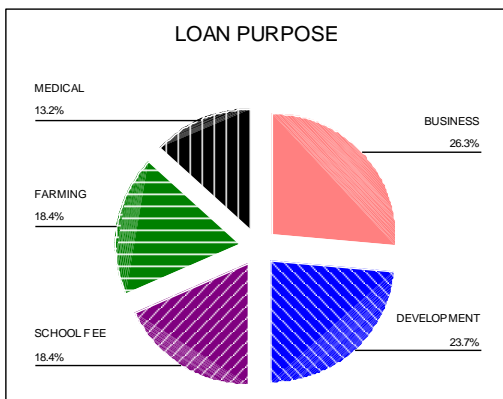


Figure 4.24:Effect of loan purpose

The study reveals that majority of the respondents invest in business. This is as per 34% of the respondents. Another 31% of the respondents stated that they pay fees

PERIOD YOU HAVE BEEN IN THE BUSINESS

Table 4.8: Analysis of the period in business

		Frequency	Percent
Valid	BELOW 3 YEARS	10	2.6
	3-6%	110	28.9
	7-9 YEARS	100	26.3
	10-12 YEARS	130	34.2
	12 YEARS AND ABOVE	30	7.9
	Total	380	100.0

Source Author (2016)

The study reveals that majority of the respondents have been in the business for between 10-12 years. This is as per 34.2%.the other respondents stated that26.3% of the respondents have been in business for between 7-9 years. The length of being in business affects the loan default.

RELATIONSHIP BETWEEN CREDIT MANAGERS AND COMMITTEE MEMBERS

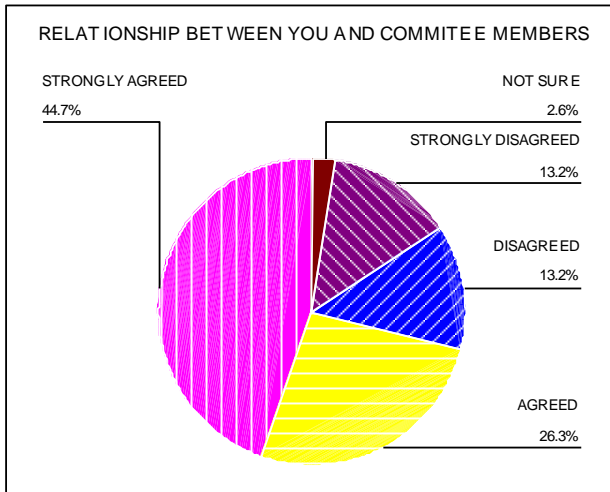


Figure 4.25: Effect Of the Relationship Between Officers and Committee Members

The study reveals that majority of the respondents stated that there is good relationship with the committee. This was as per 26.3% of the respondents. However 13.2% of the respondents stated that there is no good relationship. This may affect default.

THERE IS COMMITMENT BY COMMITTEE MEMBERS

Table 4. 9: Analysis of commitments By The Committee Members

		Frequency	Percent
Valid	NOT SURE	10	2.6
	STRONGLY DISAGREED	240	63.2
	DISAGREED	40	10.5
	AGREED	70	18.4
	STRONGLY AGREED	20	5.3
Total		380	100.0

Sources Author (2016)

The study reveals that majority of the respondents believed that there is no commitment by the committee members. This is as per 63.2% of the respondents while 5.3% strongly agreed that there is commitment. Lack of commitment has an effect on default.

THERE IS OVERLOADING DUE TO PRESSURE FROM COMMITTEE MEMBERS

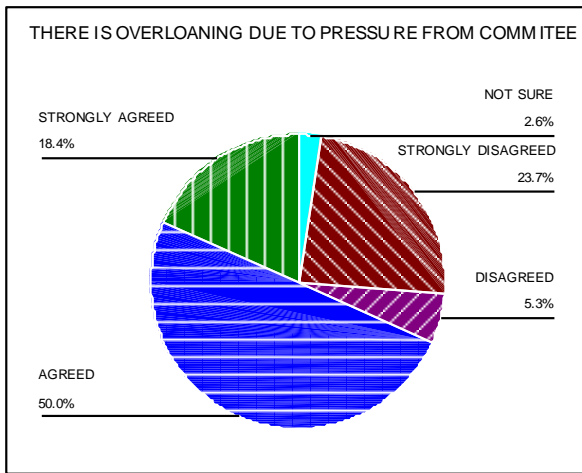


Figure 4.26:Effect of Over loaning Of Customers

The study reveals that majority of the respondents believed that there is over loaning due to pressure from committee. This is as per 50% of the respondents 5.3% disagree that there is pressure.

MANAGEMENT HAS GOOD PUBLIC RELATION

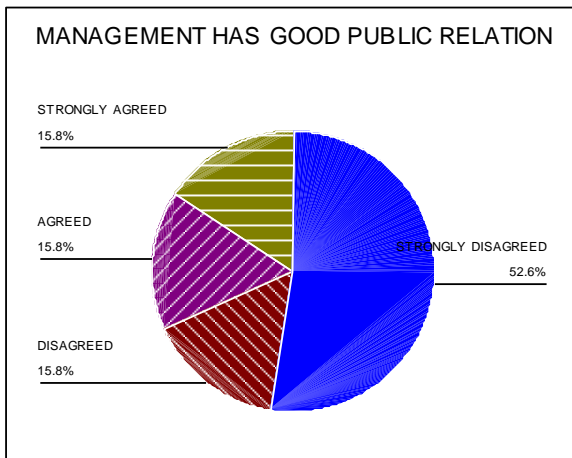


Figure 4.27:Effect Of Public Relation

The study reveals that majority of the respondents stated that there is no good public relation with the members. This is as per 52.6% of the respondents while 15.8% of respondents disagree that the public relation is good.

STATUS OF LOAN INTEREST

Table 4.10: Analysis of Loan Status

		Frequency	Percent
Valid	NOT SURE	10	2.6
	VERY LOW	40	10.5
	LOW	180	47.4
	HIGH	90	23.7
	VERY HIGH	60	15.8
	Total		380

Source author (2016)

The study reveals that majority of the respondents stated that the loan interest charged is low. This is supported by 47.4% of the respondents while 23.7% of the respondents stated that it's high.

STATUS OF LOAN POLICY

Table 4.11: Analysis Of Loan Policy

		Frequency	Percent
Valid	NOT GOOD	20	5.3
	FAIR	170	44.7
	GOOD	120	31.6
	VERY GOOD	70	18.4
	Total		380

Source author (2016)

The study reveals that majority of the respondents believed that the status of the loan policy is fair. This is represented by 44.7% of the respondents. Also 31% of the respondents stated that the loan policy is good.

CUSTOMER INVEST IN INCOME GENERATING ACTIVITY

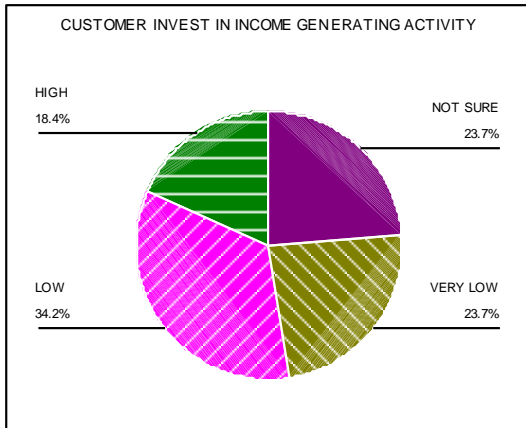


Figure 4.28: Effect Of Customer Investment

The study reveals that majority of the respondents believed that the customers invest in income generating activities. This is represented by 23.7% who stated that the income is very low. Also 34.2% stated that the income is low.

CUSTOMERS FACES CHALLENGES

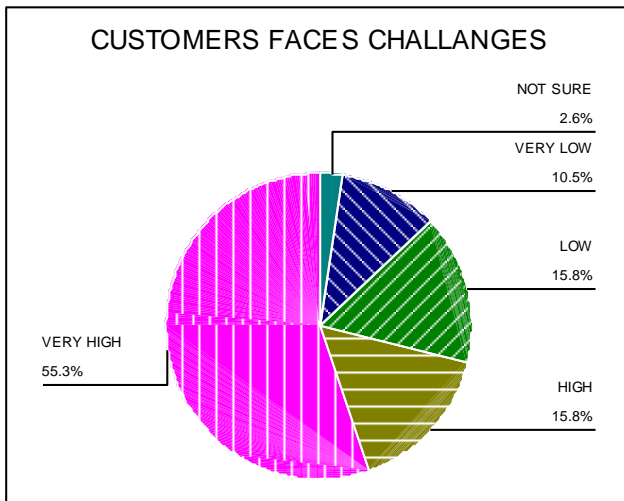


Figure 4.29:Effect Of Challenges Faced By Customers

The study reveals that respondents the customers faces challenges. This is as per 55.3% of the respondents. But 10.5% of the respondents believe that there are challenges by customers

AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT

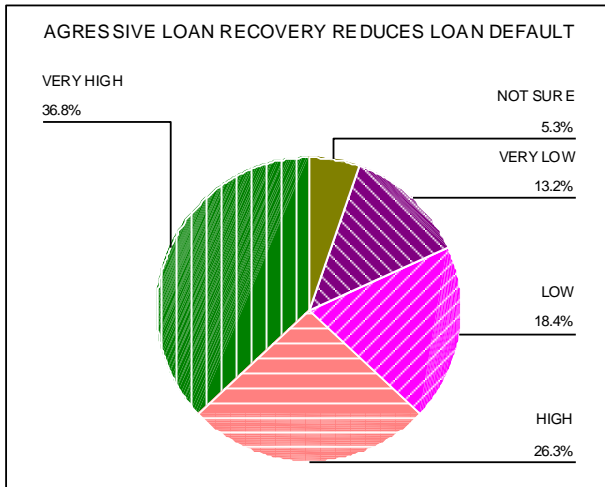


Figure 4.30:Effect Of Aggressive Loan Recovery

The study shows that if there is aggressive loan recovery the rate of default will lower. This is as per 26.3%, also 36.8% of the respondents are in agreement of the same fact.

FURTHER ANALYSIS

Table 4.11: Correlation Analysis of loan appraisal on loan default

		AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	THE SACCO HAS LOAN DEFAULTERS	WHAT CONSIDERED WHEN GRANTING LOANS	LOGO BOOK IS CONSIDERDED IN LOAN GRANTING
AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	Pearson Correlation	1	.856(*)	.760	o.543(*)
	p-value		.028	0,012	.019
THE SACCO HAS LOAN DEFAULTERS	Pearson Correlation	.856(*)	1	-.426	.861
	p-value	.028	.	.008	.000
WHAT CONSIDERED WHEN GRANTING LOANS	Pearson Correlation	.760	-.426	1	-.473
	p-value	.012	.008	.	.003
LOGO BOOK IS CONSIDERDED IN LOAN GRANTING	Pearson Correlation	.543(*)	.861	-.473	1
	p-value	.019	.000	.003	.

Correlation is significant at the 0.05 level (2-tailed).

The above correlation table shows the effect of the loan appraisal on the loan default . It was established that the way the loan has been appraised determine the loan default. The loan appraisal is related to loan default Pearson correlation coefficient =0.856, p=0.028 the table also shows that what is considered when granting loan is also important Pearson correlation coefficient =0.760 p=0.012. It is also established consideration of logo book when appraising also affects default correlation coefficient =0.543,p= 0.019 hence we conclude that the there is correlation between loan appraisal and the loan default in the Sacco's.

Table 4.12: Correlation Analysis of management on loan default

		AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	WHAT IS DETERMINES THE LOAN SECURITY	ACTION TAKEN WHEN CLIENT DEFAULT	LEADERSHIP DETERMINES LOAN DEFAULT
AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	Pearson Correlation	1	.678(*)	.689	.790
	p-value	.	.027	.002	.192
WHAT IS DETERMINES THE LOAN SECURITY	Pearson Correlation	.678(*)	1	-.829	.589
	p-value	.027	.	.000	.000
ACTION TAKEN WHEN CLIENT DEFAULT	Pearson Correlation	.689	-.829	1	-.225
	p-value	.002	.000	.	.175
LEADERSHIP DETERMINES LOAN DEFAULT	Pearson Correlation	.790	.589	-.225	1
	p-value	.032	.000	.175	.

* Correlation is significant at the 0.05 level (2-tailed).

The above correlation table shows the effect of the management on the loan default . It was established that what the management consider and how the default is managed determines the default rate, Pearson correlation coefficient =0.678, p=0.027 the table also shows that the action taken after default is also important Pearson correlation coefficient =0.689 p=0.002. It is also established Sacco leadership is a factor in the loan default

correlation coefficient =0.790, p= 0.032. Hence we conclude that the there is correlation between the management of the Sacco and the loan default in the Sacco's.

Table 4.13: Correlation Analysis employees attribute on loan default

		AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	INTEREST RATE FOR YOUR LOAN	THE REPYMENT PERIOD	THE LENGTH OF LOAN PROCESS
AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	Pearson Correlation	1	.687(*)	.897	.786(*)
	Sig. (2-tailed)	.	.012	.043	.044
INTEREST RATE FOR YOUR LOAN	Pearson Correlation	.687(*)	1	-.750	-.915
	Sig. (2-tailed)	.012	.	.000	.000
THE REPYMENT PERIOD	Pearson Correlation	.897	-.750	1	.780
	Sig. (2-tailed)	.043	.000	.	.000
				38	
THE LENGTH OF LOAN PROCESS	Pearson Correlation	.786(*)	-.915	.780	1
	Sig. (2-tailed)	.044	.000	.000	.

* Correlation is significant at the 0.05 level (2-tailed).

The above correlation table shows the effect of employees attributes in setting the loan interest rates on the loan default. It was established that the interest rate charged determine the loan default. The interest rate is related to loan default Pearson correlation coefficient =0.687, p=0.012 the table also shows that the repayment period is also important Pearson correlation coefficient =0.897p=0.043. It is also established that the length of loan processing affects default correlation coefficient =0.786,p= 0.044 hence we conclude that the there is correlation between the staff attribute and the loan default in the Sacco's.

Table 4.14: Correlation Analysis of loan policy on loan default

		AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	SACCO CONSIDER LOAN PURPOSE WHEN GRANTING LOAN	CUSTOMERS MISINVEST THEIR LOANS	SACCO MAKES FOLLOW UP ON TYPE OF INVESTMENT
AGRESSIVE LOAN RECOVERY REDUCES LOAN DEFAULT	Pearson Correlation	1	.654	.724(**)	.865(*)
	Sig. (2-tailed)	.	.034	.008	.034
SACCO CONSIDER LOAN PURPOSE WHEN GRANTING LOAN	Pearson Correlation	.654	1	-.059	.134
	Sig. (2-tailed)	.034	.	.727	.429
CUSTOMERS MISINVEST THEIR LOANS	Pearson Correlation	.724(**)	-.059	1	-.798(**)
	Sig. (2-tailed)	.008	.727	.	.000
SACCO MAKES FOLLOW UP ON TYPE OF INVESTMENT	Pearson Correlation	.867(*)	.134	-.798(**)	1
	Sig. (2-tailed)	.034	.429	.000	.

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

The above correlation table shows the effect of the loan policy on the loan default . It was established that the loan purpose determine the loan default. The loan purpose is related to loan default Pearson correlation coefficient =0.654, p=0.034. The table also shows that whether the loan is used for the intended purpose is important, Pearson correlation coefficient =0.724 p=0.008. It is also established that follow up on loans affects default correlation coefficient =0.867,p= 0.034. Hence we conclude that the there is correlation between loan policy and the loan default in the Sacco's.

CHAPTER FIVE SUMMARY OF MAJOR FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

The chapter discusses the summary of the findings. Included are conclusions and recommendations. The loan default is a challenge to the Sacco.

The management has to strategize on how to reduce the loan default in the Sacco's. Considering the fact that some Sacco's have well established categories of members; they should formulate proper strategies on loan appraisal, management, staff attributes and the loan policy so as to reduce the loan default.

5.2: Summary of the Major Findings

The study was an investigation of the factors contributing to loan default in the Sacco's in Kirinyaga County. Data collection instrument which was questionnaires were distributed to the credit managers and the members and the response rate was 92%.

The study showed that the loan security offered related well with the loan default. Where security offered was of high value the rate of loan default was low.

From the study it is clear that the method of loan appraisal was a major factor in loan default. The respondents who were in agreement were 42%. The staff loan appraisal method determined whether they had considered all the factors such as the ability to pay apart from loan securities.

The study revealed that the major effect on loan default is the management of the Sacco. This is as per 65.8% of the respondents.. It is clear that this variable correlate well with the dependent variable which is the loan default. From the table it was shown that the main reason this occurs according to the respondent is the way the management make the policies, follow up of the loans and the action taken after loan default.

The other variable that also explains the dependent variable which is the loan default is employees attributes. The data shows that the loan default can be explained by the customers investing in the wrong projects at 57.4%. Then 68.8% of the respondents stated that economic factors of the customer determines the default. 57.9% % of the respondents felt that depreciation of the fixed assets contribute highly in the loan default. The respondents stated that there has been an increase in usage of fixed assets as security. From the tables the study loan default occurs due to failure of follow up. The information

got related well with the expected outcome whereby failure of proper follow up results to higher default.

There was a moderate correlation between various independent variables, and a strong correlation between the poor loan appraisal and loan default. This corresponds with the expected results. It shows that all the independent variables, loan appraisal, management, employees' commitments and loan policy correlate well with the dependent variable which is the loan default. From the study it is clear that all the four variables in the study which were showing the related to loan default are significant. These are loan appraisal, management, employees' commitments and loan policy.

5.3 Conclusions

The results from this study have shown that loan appraisal, management, employee's commitments and loan policy have a bearing on the loan default. The Pearson correlation has established that there exists a correlation between the various aspects loan default which are loan appraisal, management, employees commitments and loan policy have the strongest relationship as per their coefficient.

Sacco's faces a lot of challenges in the loan default. They were considered to have ragged behind in loan default management. But loan appraisal, management, employees commitments and loan policy plays a greater role regulating the loan default in the Sacco's. However the above variables the Sacco's will be able to manage loan default. The products offered in the Sacco are now differentiated thus the Sacco's need to be very keen on loan appraisal and granting.

Enactment of the Sacco ACT in 2008 and gazettelement of the rules and regulations governing Sacco's a big step forward since Sacco's will be serious in the strategies which will enable them reduces loan default. Loan appraisal has played a great role in its endeavor and it is necessary for all Sacco's. Professionals should be employed in the Sacco's to enable them strategize on how to reduce loan default, in a vibrant economy such as Kenya.

5.4: Recommendations

Based on the results of the study the researcher recommends various ways that Sacco's can use to gain competitive advantage over others through reduction of loan default

5.4.1: Prudent Financial Management

The Sacco's need to evaluate all the avenues through which they can generate revenue. This could be establishment of a training/ consultancy department whereby these services can be extended to primary cooperative societies. This will increase the loyalty of members who could be tempted to shift to financial institutions and run away with the loan they were granted.

5.4.2: Engagement of Consultants (Outsourcing)

The consultants will assist the Sacco's on strategizing, thus becoming more competitive

The outsourcing enables the Sacco management to think out of the box. This means that they change their way of thinking after they are made aware of other external factors they had not encountered including the adoption of the recent technology which emerges in the market and joining Credit Referrals Bureau (CRB).

5.4.3: Customers Satisfaction

The main objective of the Sacco should be customer satisfaction. This raises their confidence and makes customers stay in the Sacco. The Sacco has an established category of membership. Hence if these members are well served it is possible to retain them since they identify themselves with the Sacco. This could be through minimum harassment when demanding loans.

5.5 Suggestions for further Research

The researcher suggests that the research on the impact of enactment of the Sacco Act 2008 on strategic plans formulation and implementation in the Sacco's to be done. This is to establish whether the Sacco's can be more profitable, get higher market share and be more competitive. The findings would complement findings of this research. The researcher recommends this research to be done specifically on the Sacco's and particularly those with front office services (Banking Services). There is also need to conduct more research on the factors that would reduce the chances of Sacco's collapsing due to loan default. This could have been due to stiff competition from the Banks yet they have established market through specific group members. The main focus should be why are Sacco's losing their traditional members such as farmers, teachers, civil servants yet it is like a rule that when they are newly employed they should be automatic members of a certain Sacco.

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APPENDICES

APPENDIX 111: Statistics Showing Loan Defaulting Among Sacco's in Kirinyaga County

TABLE 1 YEAR 2012

	Name of the SACCO	Amount of loan defaulted	Divided Payout	Interest on savings	Surplus
1	Muhigia SACCO	10 million	7%	2%	5 million
2	Bingwa SACCO	5 million	7%	4%	7 million
3	Farmers SACCO	8 million	8%	4%	7 million
4	Jamii Mboru SACCO	9 million	7%	3%	5 million
5	Mwediwega SACCO	10 million	7%	6%	6 million
6	Fortune SACCO	7 million	6 %	4 %	5 million
7	Pamoja Women SACCO	3 million	5 %	5 %	5 million
8	Fanaka SACCO	6 million	7 %	6 %	5 million
9	Faulu SACCO	7 million	6 %	5 %	6 million
10	Taifa SACCO	9 million	7 %	5 %	6 million
11	Kukena SACCO	8 million	9 %	6 %	5 million
12	Mwiteithia SACCO	5 million	9 %	5%	7 million
13	Greenland Fedha SACCO	5 million	8 %	5 %	4 million
14	Bodaboda SACCO	3 million	10%	7%	6million
15	Waumini SACCO	6 million	11%	7%	8million
16	Wakulima SACCO	6 million	6 %	5 %	7 million
17	Chai SACCO	6 million	9 %	5 %	7 million

Source(MOCDM2012)

	Name of the SACCO	Amount of loan defaulted	Divided Payout	Interest on savings	Surplus
18	Maisha Bora SACCO	3 million	11%	6%	5 million
19	Bidii SACCO	6 million	9%	6%	8 million
20	Kahawa SACCO	8 million	8%	5%	9 million
21	Podago SACCO	8 million	6%	5%	6 million
22	Biashara SACCO	7 million	8%	7%	8 million
23	Kimmi Housing SACCO	4 million	9%	5%	5 million
24	Mwea Rice SACCO	9 million	4%	5%	10 million
25	Wafugaji SACCO	8 million	5%	5%	7 million
26	Msafiri SACCO	6 million	9%	4%	5 million
27	Maranatha SACCO	6 million	10%	5%	7 million
28	Baraka SACCO	8 million	7%	5%	7 million
29	Four NTE SACCO	8 million	6%	5%	7 million
30	Maendeleo SACCO	10 million	6%	6%	7 million

Source (MOCDM2012)

TABLE 2 YEAR 2013

	Name of the SACCO	Amount of loan defaulted	Divided Payout	Interest on savings	Surplus
1	Muhigia SACCO	5 million	11%	6%	9 million
2	Bingwa SACCO	10 million	10%	4%	8 million
3	Fortune SACCO	7 million	10%	4%	8 million
4	Farmers SACCO	8 million	12%	6%	10 million
5	Jamii Mbori SACCO	7 million	11%	5%	8 million
6	Mwediwega SACCO	9 million	11%	6%	8 million
7	Pamoja Women SACCO	8 million	12%	7%	10 million
8	Fanaka SACCO	6 million	10%	7%	7 million
9	Faulu SACCO	8 million	7%	6%	6 million
10	Taifa SACCO	9 million	8%	6%	6 million
11	Kukena SACCO	10 million	11%	7%	6 million
12	Mwiteithia SACCO	7 million	10%	6%	8 million
13	Bodaboda SACCO	6 million	12%	8%	7 million
14	Maendeleo SACCO	9 million	7%	3%	8 million
15	Waumini SACCO	8 million	7%	6%	6 million
16	Wakulima SACCO	7 million	6%	5%	5 million
17	Chai SACCO	5 million	10%	4%	8 million
18	Maisha Bora SACCO	6 million	11%	5%	8 million
19	Greenland Fedha SACCO	8 million	10%	6%	5 million
20	Bidii SACCO	5 million	10%	5%	7 million
21	Kahawa SACCO	9 million	7%	3%	5 million
22	Podago SACCO	7 million	6%	5%	5 million

Source(MOCDM2012)

	Name of the SACCO	Amount of loan defaulted	Divided Payout	Interest on savings	Surplus
23	Biashara SACCO	9 million	7%	6%	6 million
24	Kimmi Housing SACCO	8 million	10%	6%	8 million
25	Mwea Rice SACCO	10 million	6%	5%	6 million
26	Wafugaji SACCO	7 million	6%	3%	8 million
27	Msafiri SACCO	10 million	10%	4%	4 million
28	Maranatha SACCO	10 million	11%	5%	7 million
29	Baraka SACCO	8 million	8%	6%	6 million
30	Four NTE SACCO	9 million	7%	6%	5 million

Source (MOCDM2013)

APPENDIX1V: Table Showing Random Sampling of Membership in SACCO'S in Kirinyaga County

	Name of the SACCO	The Number of Customers	Proportional Sampling	Sample size
1	Muhigia SACCO	5 thousand	5/85x365	22
2	Bingwa SACCO	8 thousand	8/85x383	36
3	Fortune SACCO	5 thousand	5/85x383	22
4	Farmers SACCO	2 thousand	2/85x383	9
5	Jamii Mboru SACCO	3 thousand	3/85x383	14
6	Mwediwega SACCO	5 thousand	3/85x383	22
7	Pamoja Women SACCO	2 thousand	2/85x383	9
8	Fanaka SACCO	3 thousand	3/85x383	914
9	Faulu SACCO	4 thousand	4/85x383	18
10	Taifa SACCO	5 thousand	5/85x383	22
11	Kukena SACCO	2 thousand	2/85x383	9
12	Mwiteithia SACCO	2 thousand	2/85x383	9
13	Bodaboda SACCO	1 thousand	1/85x383	4
14	Maendeleo SACCO	1 thousand	1/85x383	4
15	Waumini SACCO	2 thousand	2/85x383	9
16	Wakulima SACCO	3 thousand	3/85x383	13
17	Chai SACCO	4 thousand	4/85x383	18
18	Maisha Bora SACCO	3 thousand	3/85x383	14
19	Greenland Fedha SACCO	2 thousand	2/85x383	9
20	Bidii SACCO	2 thousand	2/85x383	9
21	Kahawa SACCO	1 thousand	1/85x383	5
22	Podago SACCO	2 thousand	2/85x383	9

Source(MOCDM2013)

	Name of the SACCO	The Number of Customers	Proportional Sampling	Sample size
23	Biashara SACCO	3 thousand	3/85 x 383	14
24	Kimmi Housing SACCO	2 thousand	2/85 x 383	9
25	Mwea Rice SACCO	3 thousand	3/85 x 383	14
26	Wafugaji SACCO	2 thousand	2/85 x 383	9
27	Msafiri SACCO	1 thousand	1/85 x 383	5
28	Maranatha SACCO	2 thousand	2/85 x 383	9
29	Baraka SACCO	3 thousand	3/85 x 383	14
30	Four NTE SACCO	2 thousand	2/85 x 383	9

Source (MOCDM2013)

The sample design used formula which has been used to calculate the sample size is Coopers and Schlinder, 2011. A 95% confidence level is assumed.

The formula:

For undefined population beyond 10,000 the formula is:

$$n = p \times q (z/e)^2$$

Where $p = 0.5$

$$q = 0.5$$

$$z = 1.96$$

$$e = 0.05$$

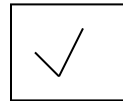
$$n = 384$$

SAMPLE QUESTIONNAIRE FOR THE CREDIT MANAGER

Dear respondent

You are hereby provided with a questionnaire for collecting the data on the factors contributing to loan defaulting by customers in Sacco's in Kirinyaga County to enable the student meet the requirement for the award of a Masters degree of Dedan Kimathi University of Technology. The information collected will be strictly used for the said purpose and will be held confidential.

Tick appropriately in the areas required.



Part A, Personal details

1. Your name (optional)
2. How many customers have you granted loan in the last two years?

0-1000 customers	<input type="text"/>
1001-2000 customers	<input type="text"/>
2001-3000 customers	<input type="text"/>
3001-4000 customers	<input type="text"/>
4001-5000 customers	<input type="text"/>

2. What is the level of loan repayment in percentage as compared to the number of customers?

0-20%	<input type="text"/>
21-40%	<input type="text"/>
41-60%	<input type="text"/>
61-80%	<input type="text"/>
81-100%	<input type="text"/>

3. For how long have you worked in a SACCO?

- 0-3 Years
- 3-6 Years
- 7-9 Years
- 9-12 Years
- 12 years and above

PART B LOAN APPRAISAL

1. Your SACCO has loan defaulters.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

2. What factors do you consider when granting a loan to a customer?

- Credit history
- Nationality
- Collateral security
- Marital status
- Purpose of the loan

3. In your SACCO all the items listed below are used as securities when granting loan to a customer.

Item	Strongly agreed	agreed	Not sure	disagreed	Strongly disagreed
Log book					
Title deed					
Shares/deposits					
Tea/coffee proceeds					

4. What factors do you consider when looking for the loan security?

- The amount of the loan versus the collateral value
- The consistency of tea / coffee proceeds
- Insurance cover of the security
- Legal possession of assets
- The rate of depreciation or appreciation of fixed assets

PART C MANAGEMENT SKILLS

1. For how long have you been in the management committee team?

- 0-3 years
- 3-6 years
- 6-9 years
- 9- 12 years
- Over 12 years

2. What action does the management team takes when a client defaults a loan?

- Call him/her in the office
- Auction his/properties
- Follow his/her guarantors
- Write a demand letter to her/him
- Set him/her Scot free

3. Leadership in Sacco's determines the loan default

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

4. The SACCO has various mechanisms to reduce the loan default rate.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

5. The SACCO management usually conducts a thorough recruitment process when employing credit officers.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

PART D LOAN POLICY

1. What is the interest rate for your loans?

5%-10%	<input type="checkbox"/>
11%-15%	<input type="checkbox"/>
16%-20%	<input type="checkbox"/>
21%-25%	<input type="checkbox"/>
26%-30%	<input type="checkbox"/>

2. The SACCO customers have insurance cover for their loans.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>

3. How long does the SACCO take to process customer's loans?

- 1 day
- 1 week
- 2 weeks
- 3 weeks
- 1 month

4. What is the repayment period for your loans?

- 3 months
- 6 months
- 9 months
- 1 year
- 2 years

5. The SACCO usually consider the following securities as the loan collateral, log book, title deed, salary, tea or coffee proceeds ,shares and deposits.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

PART E LOAN USE

1. The SACCO considers the loan purpose before advancing a loan to customer.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

2. Customers invest their loans in illegal businesses like drug trafficking, human trafficking.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

3. The customers usually disclose their intended loan purpose to you.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

4. The SACCO usually makes a follow up to a customer to check whether he has invested his money in an income generating project

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

5. The SACCO grant school fees loan or development loans to a customer which are not income generating.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

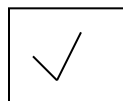
Thank you for your time and sincere response

QUESTIONNAIRE FOR CUSTOMERS

Dear respondent

You are hereby provided with a questionnaire for collecting the data on the factors contributing to loan defaulting by customers at Sacco's in Kirinyaga County to enable the student meet the requirement for the award of a Masters degree of Dedan Kimathi University of Technology. The information collected will be strictly used for the said purpose and will be held confidential.

Tick appropriately in the areas required.



1. Your name (optional)

2. Have you borrowed a loan from the SACCO for the last two years?

- | | |
|--------------------|--------------------------|
| Strongly agreed | <input type="checkbox"/> |
| Agreed | <input type="checkbox"/> |
| Not sure | <input type="checkbox"/> |
| Disagreed | <input type="checkbox"/> |
| Strongly disagreed | <input type="checkbox"/> |

3. How much were you advanced?

- | | |
|-------------|--------------------------|
| 0-5000 | <input type="checkbox"/> |
| 5001-10000 | <input type="checkbox"/> |
| 10001-15000 | <input type="checkbox"/> |
| 15001-20000 | <input type="checkbox"/> |
| 20001-25000 | <input type="checkbox"/> |

4. Did you paid all the amount loaned as per the loan agreement?

Strongly agreed

Agreed

Not sure

Disagreed

Strongly disagreed

5. What percentage of the loan was not paid as agreed?

0-20%

21-40%

41-60%

61-80%

81-100%

6. How did you learn about SACCO Loans?

Radio

Television

Newspaper

Friends

SACCO manuals

PART B LOAN APPRAISAL

1. How long have you been a member in the SACCO society?

0 – 3years

3 – 6years

7 – 9 years

10 – 12years

12 years and above

2. What was the purpose for your loan?

- Business expansion
- Development
- School fee
- Farming
- Medical purposes

3. If the loan is for business, for how long have been in the business?

- 0 – 3years
- 3 – 6years
- 7 – 9 years
- 10 – 12years
- 12 years and above

4.The SACCO usually consider the following securities as the loan collateral, log book, title deed, salary, tea or coffee proceeds ,shares and deposits.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

5. How long did the SACCO take to process your loan?

- 1day
- 3day
- 1week
- 2weeks
- 3weeks
-

PART C MANAGEMENT

1. The relationship between you and the committee members is good.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

2. The management team of the SACCO is strong and fully committed to its work.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

3. What action does the management team take on you in case you fail to repay your loan as was originally agreed?

- Call you in the office
- Auction your properties
- Follow your guarantors
- Write a demand letter to you
- Take you to prison

4. The management team contributes to loan defaulting through making a customer to be over loaned by the loan officers.

- Very true
- True
- Not sure
- Slightly true
- Not true at all

5. The management team is fully committed to its work.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

PART D LOAN POLICY

1. How is the interest rate for your loan?

- Very high
- High
- Not sure
- Low
- Very low

2. Sacco's usually have an insurance cover for their loan.

- Strongly agreed
- Agreed
- Not sure
- Disagreed
- Strongly disagreed

3. What is the repayment period for your loan?

- 3months
- 6months
- 9months
- 1year
- 2years

4. How would you rate SACCO lending policy as compared to those of other financial institutions?

Excellent

Very good

Good

Fair

Not good

5. How often does the SACCO train you regarding the credit requirements and how you can invest your money wisely?

After 2 weeks

After 1 month

After 2 months

After 3 months

After 1 year

PART E LOAN USE

1. What was the purpose for your loan?

Business expansion

Development

School fee

Dairy farming

Horticulture

2. Some customers invest their money in an illegal business such as drug trafficking.

Strongly agreed

Agreed

Not sure

Disagreed

Strongly disagreed

3. Customers usually invest their loan in an income generating activity to enable them repay their loan.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

4. Some customers usually face challenges in the course of repaying their loan especially when they invest their loan in a risky business.

Strongly agreed	<input type="checkbox"/>
Agreed	<input type="checkbox"/>
Not sure	<input type="checkbox"/>
Disagreed	<input type="checkbox"/>
Strongly disagreed	<input type="checkbox"/>

Thank you for your time and sincere response