

**Influence of Interest Rate on the choice of Loan Packages by SACCOS in
Kakamega Central Sub County, Kenya**

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Abstract

The purpose of this paper was to establish influence of interest rate on the choice of loan package by SACCOs in Kakamega Central Sub-County, Kenya. The study adopted the agency, Financial, Stewardship and Stewardship theories in explaining the study variables. This study adopted a descriptive survey design. Since all SACCOs in Kakamega Central Sub County registered under the Ministry of Cooperative Development and Marketing as at 31st December 2016 and were categorized as active were studied then this was a census study. The study used both primary and secondary data. Both the questionnaire and the measurement process were guided by the conceptual framework in order to isolate and focus on the key elements of interest rate, loan packages choice and the member factors and ensure construct validity because they reflect the key components of the study variables. Cronbach's alpha coefficient was used to measure the reliability of the 0.816 which also was used to assess the interval consistency among the research instrument items. Validity was ensured by getting research instruments reviewed by experts from the department of Finance and accounting (MMUST). Both descriptive and inferential statistics (correlation and regression) were used in this study. The study results showed that thirty point five percent of choice of loan packages by Sacco members in Kakamega Central Sub County can be explained by interest rate (R squared =0 .305). Based on the study findings therefore, the study concluded that interest rate helps in improving the choice of loan packages by SACCO in Kakamega Central Sub County. Saccos in Kakamega Central Sub County should therefore strive to improve on their loan interest rates because it has been determined this study to have a positive effect on choice of loan packages by Sacco members in Kakamega Central Sub County. The study therefore concluded that all factors under study were significant in management of loans by SACCOs as each of them had a positive and significant effect on various loan packages offered by SACCOs in Kakamega Central Sub County. It is therefore imperative that managers of SACCOs take into account interest rate as a factor to maximize on profits and increase capital base. The findings form basis of studies in future.

Keywords: Interest rate, Choice of loan packages, Sacco in Kakamega Central Sub-county, Kenya.

Introduction

Globally, Savings and Credit Co-operative Society (SACCOs) system encompasses a mutual membership organization involving pooling voluntary savings together from cooperators in form of

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shares. SACCOs are user-owned institutions with savings accumulated to act as SACCOs' wealth. The shareholders share a common bond based on a common area of interest or purpose, namely; their geographical area, employment, community or any other affiliation. The principal services of SACCOs include savings and credit but other services such as money transfers, payment services, insurance and member development are also offered (Maina, 2007). Indeed, in the words of (Branch, 2005), SACCO societies are playing a very key role on savings mobilization for the benefit of the members. The prime concern of a SACCO Society is to build the financial strength that would ensure continued service to members. Apparently, the SACCOs' wealth needs to be well-managed for the achievement of the SACCOs' objectives. In fact, the concern of this study was that the growth of SACCOs' wealth is grounded on financial stewardship (decision-making aspect), capital structure and funds allocation strategy.

Savings and credit societies are known as credit unions in Canada and other parts of the world and thrifts in United States and the United Kingdom. They differ from other financial institutions in that members who have accounts in the SACCO's are the owners of the SACCO's and they elect their board of directors in a democratic manner in that one person one vote system applies regardless of the amount of money invested in the Sacco. SACCO's perform three major functions for their members and for general economic development of the country. These functions include; collecting savings from its members, giving loans to its members and giving financial and non-financial advice to its members.

SACCOs in Africa are intended to offer an alternative to improving the desirable situation in low income countries. SACCOs are community membership based financial institutions that are formed and owned by their members in promotion of their members economic interests. It can also contribute favorably to Human Integrated Development (Annas, 2003). In Uganda, SACCOs are not governed by dedicated legislation. They operate under a variety of legal regimes, including the Cooperatives, Companies, and NGO Acts adding that some of regulators like the MTTI are widely acknowledged to lack the capacity to supervise the over 1400 SACCOs registered. Were,(2009) concurs with (Deshpande,2006) stating that the current financial sector regulatory framework provides for tier one to tier three institutions leaving out SACCOs which are vital in provision of financial services to low income people but whose activities, unless regulated, could also disrupt people's economic lives adding that absence of clear regulation for SACCOs has resulted into huge losses to the poor who use these institutions to cumulatively build their savings and access credit for future investments.

In Kenya, Savings and credit cooperative societies (SACCOs) are registered and regulated under the Co-operative Societies Act. SACCOs are accorded the same treatment as producer or marketing cooperatives, and to qualify for registration they are not required to raise any capital. Also, a SACCO needs no license to commence trading, whether offering back-office or front office services (banking services). Once registered, the SACCO has to operate according to the following aspects of prudential management of societies as provided for in the Act (New constitution of Kenya, 2010).

The government through the ministry of Cooperative Development has set up By-laws to guide societies formulate policies to guide their operations. This is the reason why the government has been keen on ensuring Saccos are run professionally by setting up the Sacco Regulatory Authority (SASRA) in September 2009,(Republic of Kenya,2008).Access to financial services by the informal sector is normally as one of the constraints limiting their benefits from credit facilities. However in most cases

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the access problem especially from formal financial institutions is mainly created by their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Ngaira, 2008). For small scale enterprises reliable access to short-term and small amounts of credit is more valuable to their businesses.

The type of financial institutions and their policies will often determine the amount of credit accessed. Where credit duration, terms of payment required, security and the provision of supplementary services do not meet the needs of the target group, potential borrowers will not apply for credit even where it exists according to (Nyagah, 2012). On the issue of interest rates and collateral the banks also support the view that high interest rates credit can help to keep away the influential non target group from a targeted credit programme. This further demonstrates the need to develop appropriate institutions for small scale borrowers thus making the Saccos very essential (Ngaira, 2008).

Notably Saccos are able to advance loans at interest rates lower than those charged by other financial providers. In addition Saccos have the ability and opportunity to reach clients in areas that are unattractive to banks and other financial institutions such rural and poor areas (Khalayi et al, 2014). Co-operative lending requires little collateral. It is based on character references and co-signing for loans between members although nowadays they also require substantial collateral security (Ahimbisiwe, 2007). Chamboet al, (2010) examined that to attract the savings; Saccos offer attractive savings while promising affordable interest on borrowing. Saccos offer a range of products for instance the loan products which cater for the diverse needs of the members while also generating sufficient revenue for their operations. The products are differentiated using loan policies to support differential interest rates.

Problem Statement

Khalayi, et al (2014) did a research on a comparative study of Effects of Interest Rates on deposit Mobilization among Sacco members in Kakamega County. The study found out that interest rates affect the growth of SACCOs deposit positively but negligibly. This result suggests that trying to influence the Sacco deposits by manipulating interest rates is not likely to be practical policy option in Kakamega County. (Olando et al, 2013) researched on contribution of Sacco financial stewardship in Kenya where he noted that the growth of SACCOs wealth depended on loan management, institutional strengths and innovativeness of the Sacco products. They further found out that SACCOs inadequately complied with the Sacco By-laws and incomes from their investments inadequately covered their costs. (Njeru et al, 2015) researched on the effect of loan repayment on financial performance on deposit taking SACCOs in the Mt Kenya region. The researcher concluded that there was need for the regulator to introduce credit policy for the sector to help in controlling credit risks among Sacco section to reduce on credit exposure on guarantors. Banks have generally raised their interest rates and yet some members still prefer to go to the bank to get loans yet Normal and Development loans given by the SACCOs are given at a low interest as low as 1% reducing balance. This raises a question; what is the influence of interest rate on the choice of loan packages by members in SACCS? This study therefore sought to answer these question by investigating the influence of interest rate on loan packages by Saccos in Kakamega Central Sub- County, Kenya .

Specific Objectives

To establish the influence of interest rate on the choice of loan packages by Saccos in Kakamega Central Sub County.

Conceptual Framework.

The study was guided by the conceptual framework Fig 1.

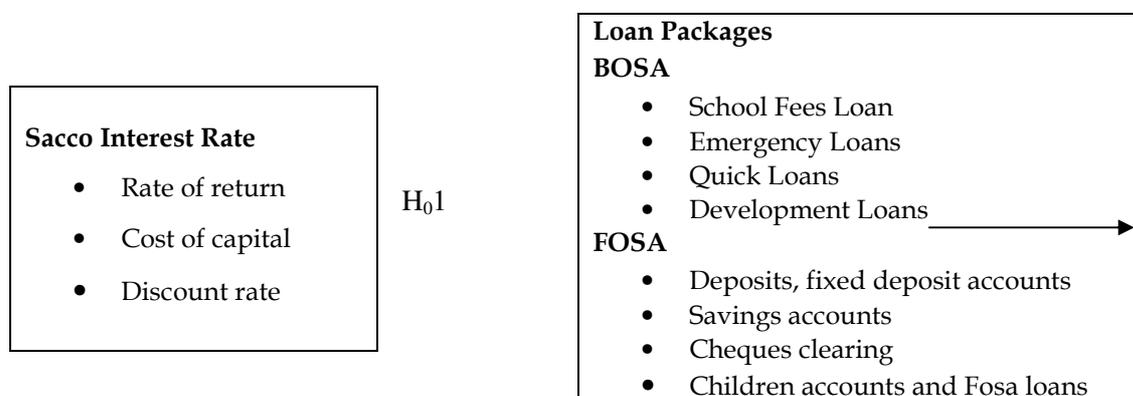


Figure 1: Conceptual Framework

Research Methodology

This study adopted a descriptive survey research design. According to Kothari, (2010), descriptive design allows the researcher to describe record, analyze and report conditions that exist or existed. The author observes that this research design helps to gather data from a relatively large number of cases at a particular time. It is not concerned with characteristics of individuals but generalizations that result when data is abstracted from a number of individual cases. The survey design has the advantage of being quick, cost effective and efficient in accessing information about a population (O’ Leary, 2006). This method was suitable for this study because information was collected by interviewing a sample of individuals, investigating population by selecting samples to analyze and discover occurrences and it’s suitability for extensive research.

According to the Ministry of Cooperative Development and Marketing (2016), there are fourteen (14) Saccos operating in Kakamega central sub-County with a total membership of 9758 members as shown in Table 3.1. Members of the Sacco were the target population of the study and the sampling unit was one member.

Table 1: Target Population

S/N	Name of Sacco	Total members (Population)
1	Invest and Grow	3600
2	Wevarcity	1010
3	KakamegaVuma Daima	393
4	CCSWR	253
5	KRRW	496
6	Golf Hotel	139
7	Western Shuttles	92

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8	Bukhungu	398
9	Disciples of Action	1442
10	Kakamega Entrepreneurs	510
11	Kakamega County Bunge	1221
12	Kakamega Light	90
13	Megastone	15
14	Kakamega County Women	99
TOTAL		9758

Source: Ministry of Cooperative Development and Marketing (2016)

The sample size for this study was determined using the Fisher’s formula for large population:

$$n = Z^2pqD / d^2$$

Where n= the desired sample size of the target

Z = The standard normal deviate which is 1.96 at 95% confidence level

p = The proportion in the population estimated to be at risk (0.58) which is the 58% of Sacco members

q= 1- p (The proportion in the population not at risk)

d = The level of significance set at 0.05

D= The desired effect which is 1.

$$\text{Therefore } N = 1.962 \times 0.58 \times 0.42 / 0.052 = 374.$$

To arrive at 374 respondents who participated in the study, simple random sampling was adopted in choice of study respondents who were stratified sampled on the basis of the Sacco they belong to ensure homogeneity of the selected sample in ensuring that samples are drawn from Saccos encompassed in the target population. Through stratified random sampling, every unit in the population had the same probability of being included in the sample.

Research Results and Discussions

In order to assess how long the respondent has been a member of a Sacco, respondents were required to state for how long have you been a member and their responses recorded. The study reveals that 33.3 percent of the respondents have been members in their SACCOS for less than 5 years, 22.2 percent have been members in their SACCOS between 6 and 10 years while 44.5 were have been members in their SACCOS between 11 and 15 years. The results on the membership of the respondents was useful in this study since it brought out the element of time taken by a member before acquiring a credit facility from the Sacco. To determine the qualifications of the respondents, the respondents were required to state the category that best describes your academic qualifications and their responses were captured. The results show 56.9 percent of the respondents had acquired degree level of education, 22.4 percent had diploma level, 17.2 had secondary education and 3.5 percent had primary education. This means that majority of the respondents had diploma and degree qualifications. This was important since it informed the study that there was something else affecting the relationship between Sacco factors and loan packages other than the level of education.

Descriptive statistics of Interest Rate

Descriptive statistics of interest rate on the choice of loan packages by Saccos in Kakamega Central Sub County is shown below. Respondents were asked to fill in questionnaires indicating their opinion on the influence of interest rate on the choice of loan packages by Saccos. The findings were as shown on table Table.2.

Table 2: Descriptive statistics of Sacco Factors

	Mean	Standard deviation
Members participate in setting loan interest rates	3.423	0.001
Management closely advices members on the changes in interest rates	3.024	0.002
Management provides us with policies regarding interest rates	3.084	0.065
Interest rates increase without our knowledge	3.391	0.033
Management benefits a lot than us from increased rates	3.754	0.049
Interest rates affects the pattern of borrowing	3.982	0.004
Interest rate affects loan borrowed	3.029	0.000
Overall mean score=2.384		

Source: Research Data, 2017

Members participate in setting loan interest rates had a mean 3.423 and standard deviation 0.001, management closely advices members on the changes in interest rate had mean 3.024, standard deviation 0.002. Management provides us with policies regarding interest rates had 3.084, standard deviation 0.065, Interest rates increase without our knowledge had mean 3.391, standard deviation 0.033, interest rates affects the pattern of borrowing had mean 3.982 and standard deviation 0.004 while interest rate affects loan borrowed had mean 3.029 with standard deviation 0.000. The overall mean was 3.384. Overall, the intensity of interest rate on the choice of loan packages by SACCOS in Kakamega Central Sub County is considerably above average with the overall mean registered of 3.384. This is because the overall score is more than 2.5 which is the half of the maximum score of 5 (strongly agree).

Interest Rate on choice of Loan packages by SACCOS

The study’s objective was to establish the influence of interest rate on the choice of loan packages by SACCOS in Kakamega Central Sub County. In order to establish the influence of interest rate on the choice of loan packages by SACCOS, the study had set the following null hypothesis;

H₀₁: There is no statistically significant relationship between interest rate and the choice of loan packages by Sacco members in Kakamega Central Sub County.

Against Alternative Hypothesis

H₁: There is statistically significant relationship between interest rate and the choice of loan packages by Sacco members in Kakamega Central Sub County

In order to test the hypothesis, the researcher used regression coefficients (beta β). All the questions in the questionnaire answered by the respondents had scores and scored marks depending on the

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response of the respondents. The marks were then added up and finally divided by number of respondents answering the questionnaire to enable the researcher attain the mean score of every question measuring the independent and dependent variables. The aggregate mean score of interest rate measures were regressed against the mean score of measures of choice of loan packages by Sacco members and results presented in Table 4.5(a).

Table 3: Regression Results for Interest Rate and Choice of Loan Packages

Goodness of fit analysis				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
0.552	0.305	0.768	0.382	

Source: Research Data, 2017

The regression results shows that 30.5 percent of choice of loan packages by Sacco members in Kakamega Central Sub County can be explained by interest rate (R squared = 0.305) Table 4.5 (a). The study therefore found out that there was an influence of interest rate on choice of loan packages by SACCO members in Kakamega Central Sub County.

Table 4: Regression Results for Interest Rate and Choice of Loan Packages

Overall significance: ANOVA (F-test)

	Sum of Squares	DF	Mean Square	F	Sign.(p-value)
Regression	2.018	1	2.218	39.018	0.006
Residual	1.640	231	0.124		
Total	3.368	232			

Source: Research Data, 2017

The influence of interest rate on choice of loan packages by Sacco members in Kakamega Central Sub County was positive and significant in that its R was 0.552 (Table 4.5a). From the above regression analysis, the study found out that there is an influence of interest rate on choice of loan packages by Sacco members in Kakamega Central Sub County. The study therefore rejects the null hypothesis since the p-value is less than .05 (.006).

Table 5: Regression Results for Interest Rate and Choice of Loan Packages

Individual significance (T-test)

	Unstandardized Coefficients		Standardized Coefficients	T	Sign. (p-value)
	B	Std. Error	Beta (β)		
(Constant)	1.634	2.482		1.432	0.083
Interest rate	0.342	0.402	0.328	1.162	0.024

Source: Research Data, 2017

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The regression results in Table 4.5 (c) shows that at individual significance, there was a statistically significant and positive influence of interest rate on choice of loan packages by Sacco members in Kakamega Central Sub County ($\beta = .342$, p-value .024) in that the p-value is less than α ($0.024 < 0.05$). The relationship between interest rate and choice of loan packages in Kakamega Central Sub County followed a simple regression model of the nature:

$$CLP = 1.634 + 0.342IR + \varepsilon$$

Where: CLP is choice of loan packages in Kakamega Central Sub County

1.634 is the y- intercept constant, 0.342 is the beta ($\beta = 0.484$) or the slope coefficient.

IR is interest rate and ε is the error term

Conclusion

The regression results showed that thirty point five percent of choice of loan packages by Sacco members in Kakamega Central Sub County can be explained by interest rate (R squared = 0.305). The study therefore found out that there was an influence of interest rate on choice of loan packages by Sacco members in Kakamega Central Sub County. Based on the study findings therefore, the study concluded that interest rate helps in improving the choice of loan packages by Sacco in Kakamega Central Sub County. Sacco in Kakamega Central Sub County should therefore stiff to improve on their loan interest rates because it has been found by this study to have a positive effect on choice of loan packages by Sacco members in Kakamega Central Sub County and the null hypothesis was rejected.

Recommendations

Given that interest rates influence choice of loan packages in SACCOS, the managements advised to be very keen on the regulation of the interest rates applied on credit facilities. This is supported by the findings from this study which show that interest rate helps in improving the choice of loan packages by SACCO in Kakamega Central Sub County.

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