



PRODUCTS RANGE EFFECTS ON SAVINGS & CREDIT CO-OPERATIVE SOCIETIES' LOAN APPROACHABILITY BY CONSUMERS IN KISUMU COUNTY, KENYA

Bakker Daniel K

University of Eastern Africa,
Baraton, Kenya

ABSTRACT

The key goal of any Savings and Credit Co-operative Societies (SACCO's) is members' empowerment. Through mobilization on savings, credit payouts and ensuring long-term sustainability through judicious financial practices can this be realized. However, SACCO's encounter challenges in promoting quality financial management practices such as limited capital, credit hazards management, negative liquidity, deprived governance and very low credit approachability. There has been a continuous deterioration in access to credit in SACCO's in the near past years in Kenya. Therefore, this study sought to find out the products range effects on Sacco's credit approachability in Kisumu County, Kenya. The management level employees of SACCO's were the targeted respondents. Descriptive investigation and a Census sample strategy were employed in this study. The findings of this study revealed that credit convenience in SACCO's is positively inclined by product range. These findings were both supported by the rates of the respondent's responses which were presented in the form of percentages and scores' averages. The number of data pairs and of independent variables were accounted for by the model at $R_{adj}^2 = 0.7611$. Therefore, let the SACCO's flinch investing in products revolution in order to ensure that they have a wide range of products which are tailor made that can suit the consumer's needs. An increase in the level of credit accessed by the consumers will be realized and thus increase in the Sacco's key goal.

KEY WORDS: SACCO, Census, Dependent and Independent variables, Adjusted R-Square.

1.0 INTRODUCTION

The objective of starting SACCO's is members' empowerment through savings mobilization, disbursement of credit and ensuring long-term sustainability through prudent financial practices. SACCO's have a solid base of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs. Due to this, Sacco's are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCO's have the ability and opportunity to reach clients in areas that are unattractive to commercial banks. This has made SACCO's more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries. [10] argued that SACCO's have not been efficient in achieving this objective especially in credit disbursement.

In India, for example, [14] on the study of formal and informal credit markets demand found that

SACCO's credit accessibility is affected by inadequate products to meet their customer needs. His recommendation was that there should be a variety of loan products to ensure that SACCO's members are not going for loans to other financial institution and this will enable the SACCO's to build more of institutional capital which ensures permanency, provide cushion to absorb losses and impairment of members' savings. The institutional capital, which comprises the core capital and less share capital, is mainly accumulated from the interest earned on credit advanced to the members and this ensures growth of the SACCO's even in turbulent economic times.

1.1 Problem Statement

SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, lack of enough funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. [9] found that SACCO's offers a competitive lending rates to



their members with an opportunity to borrow up to 3 times their shares contributions. A national survey conducted by Central Bank of Kenya on financial access [8] revealed that SACCO's credit accessibility has reduced from 13.5% in 2009 to 9.1% in 2013 despite the increase in credit demand. This continuous decline in access to credit shows that SACCO members are not able to access the credit from their SACCO's and they seek for credit from other financial institutions.

1.2 Study Objective

To find out the products range effects on Sacco's credit approachability in Kisumu County, Kenya.

2.0 LITERATURE REVIEW

According to a study by [11] on the effect of products innovation on performance of SACCO's in Kenya, they found that product range of SACCO's can only be possible if SACCO's are going to adopt innovation strategies such as product replacement, product repositioning and conformance to variety of products that will contribute to the SACCO's profitability. They also found out that product technological innovation, aggressive competitors marketing campaigns by other credit lenders have contributed to the inaccessibility of credit from SACCO's more. They concluded that adoption of product innovation which would be translated to a wide range of SACCO's credit products would increase profitability of the SACCO's through access to credit.

On financial constraint hindering growth of SME's, [6] argued that the need for credit is a key component that drives man's economic needs. To a large extent man has never been able to meet his needs at particular points in time as income and expenditure can rarely be matched. This has given rise to the need for financial credit in order to fill the gap of individual needs to cover the mismatch between income and expenditure. Members borrowing from SACCO's is sometimes unplanned and is usually driven by emergency situations in the businesses or family matters. Most borrowers would be faced with urgent needs that are unplanned and may have no choice but to obtain credit from either SACCO's or other formal or informal lenders. Thus, the uncertainty in life to an extent sustains demands for credit.

A survey conducted by [4] revealed that majority of SACCO's use lending as one of their principal business activities. The loan portfolio is typically the largest asset and source of revenue for SACCO's. The level of credit accessed from these SACCO's is attributed to the composition of its loan products portfolio. The study also showed that most

SACCO's do not engage in market research to understand the financial needs of current and potential clients as well as the type of loan products they prefer. Thus, SACCO's should conduct a thorough review of the products currently offered and identify features in their design, promotion or delivery that can affect their customers demand for those products or their ability to access them.

Despite the fact that every financial institution has its own loan products to offer, [12] in his study on transformative development and harnessing cooperative entrepreneurship advantage for women and youth in Africa, found out that products that are flexible and meet the customer's needs should be designed by the financial providers. Some clients, he argued, may need long-term housing loans, others may be interested in consumption loans to meet more immediate needs. Thus, his conclusion was that financial institutions should design loan products that are convenient and accessible.

Offering a wide range of products can help the SACCO's minimize risks which will be distributed over a wide range of products. This is according to [2] on his study on risk management in SACCO's that they could be effective if they can diversify their products portfolio.

[13], on credit practices in rural SACCO's in Ghana found out that there were low credit applications in SACCO's due to very limited products they offered that limited the credit decision of the clients. He also found out that SACCO's have no drafted credit policy documents on how to develop and introduce new products in the markets compared with the other financial institutions. These findings were supported by WOCCU that the financial discipline of provisioning for loan has been lagging behind in most SACCO's since they did not innovate and redesign their loan products in such a way that their clients will create interest to access the credit.

A study conducted by [1] on an analysis of the socioeconomic impact of co-operatives in Africa and their institutional context and found out that most SACCO's to a great extent used the number of products they offer determine how well the SACCO's can streamline their credit operations. He also noted that SACCO's need to employ a combination of performance indicators such as profitability, operating efficiency and portfolio quality indicators to measure their overall performance. This study agreed with the findings of [15], where it was stated that very low loan applications are received by SACCO's due to lack of innovativeness, friendly products, and a variety from where the client can choose what fits his/her needs. This have plunged some SACCO's into serious

liquidity problems, culminating in the erosion of public confidence in these SACCO's.

[3] stated that effective access to credit in SACCO's management function for maintaining the SACCO's safety and soundness. Therefore, SACCO's should employ the qualified and competent staff who can identify risks associated with limited types of

product. This study concluded that the credit management staff should possess the fundamental credit handling experience, quantitative analytics skills, marketing skills and experiences in innovating products that will see the SACCO's perform well in the market and increase its and credit accessibility to its customers.

2.1 Conceptual Framework

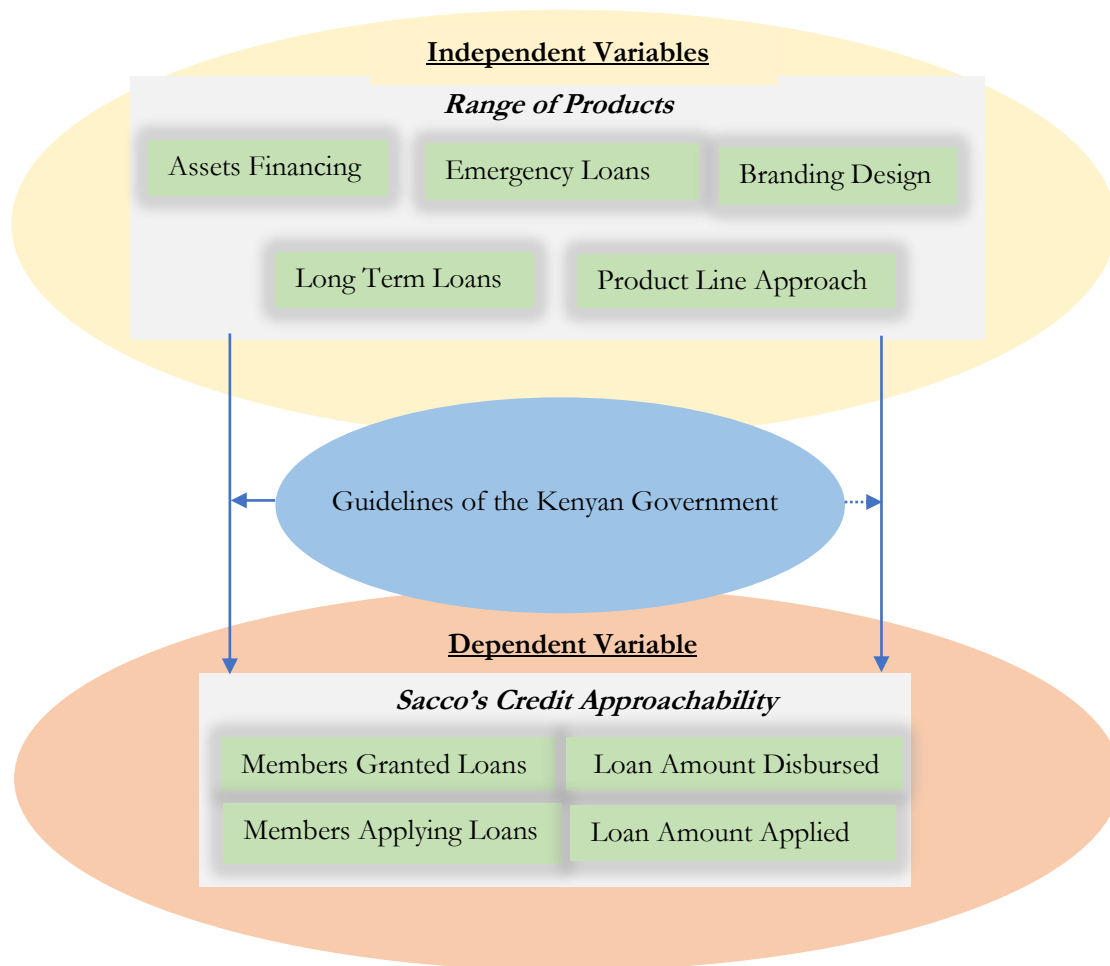


Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

A descriptive research design, which we adopted in this study, is concerned with describing the characteristics of a particular individual, or groups [7]. The target population of the study was 25 SACCO's registered with the Ministry of Cooperatives within the county government of Kisumu, which all offer credits

to their members. The respondents were selected with reference to the critical role they play in designing credit policies and strategies. The credit officers advise the customers on the loan products offered that can suit their needs while the credit manager and the branch managers approve the loans at different levels of the loan processing.



Data was collected through questionnaire which had both open and closed ended questions. The reliability of the questionnaires was tested using the Cronbach's alpha correlation coefficient in Minitab version 18. The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.887. Descriptive statistics which included mean and standard deviations was used to analyze data. The study also used logistic regression analysis to test the hypothesis and the p-value from test statistic was used to determine whether any differences could be attributed to the ordinary random factors or not [5]. Regression was considered the best statistical method since the parameters were of qualitative response in describing the relationship between the dependent variable and independent variable.

4.0 ANALYSIS OF THE FINDINGS

110 questionnaires were issued to the respondents of which 101 were fully returned in response to the questions, a return rate of 91.8%. in

4.2 Product Range

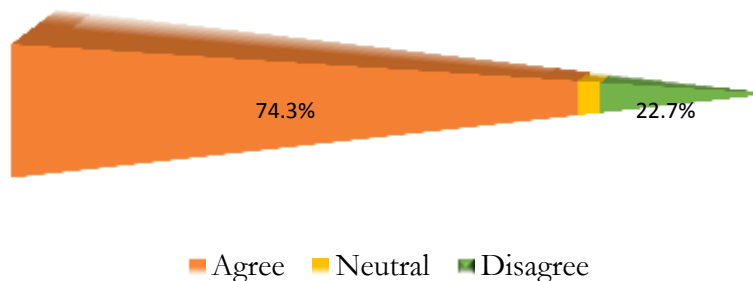


Figure 2: Product Range Response

The respondents were asked whether Sacco's product range determines credit approachability and data results revealed that 74.3% of the respondents agreed that Sacco's product range determines credit approachability in their Sacco's while 22.7% of the

regard to the product range, the following responses were revealed:

4.1 Overall Descriptive Statistics Analysis

Statistic	Product Range
N	101
Mean	3.32
S.E	0.082
Variance	0.721

Table 1: Descriptive Statistics

From Table 1, we see that most Sacco's credit approachability is influenced by their product range as indicated by mean of 3.32. With 0.721 as the level of dispersion showing that very minimum product range is available to ensure that members access credit from their Sacco's. The management therefore, need to ensure there are available range of loan products so that members have a wide range to choose from and this will be well represented by a smaller standard deviation of 0.849.

respondents disagreed with this concept. Only 3% were neutral about the idea. This imply that if there are several products offered by the Sacco's, then more members will approach the Sacco for credits.

4.3 Long Term Loans Product:

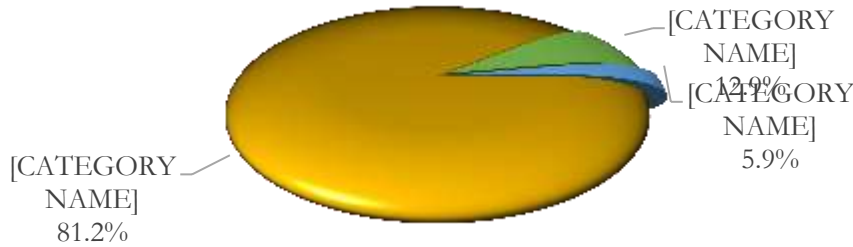


Figure 3: Loan Term Response

As to whether there is long term loan product, 81.2% of the respondents disagreed that their saccos have the long-term products, 12.9 agreed that indeed

their Sacco's have the long-term products while 5.9% neither agreed nor disagreed about the long-term loan products.

4.4 Assets Financing Products

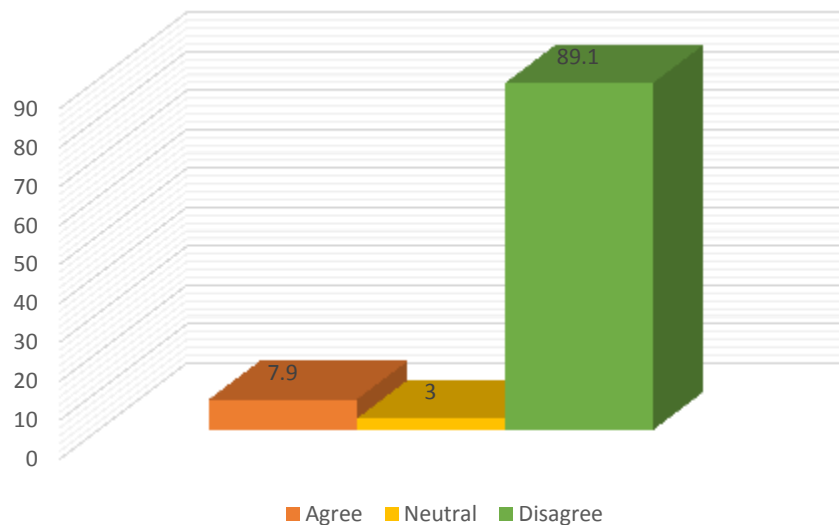


Figure 4: Assets Financing Response

On whether their Sacco's offers assets financing products, 89.1% of the respondents disagreed that they offer assets financing products while 7.9% agreed they

offer assets financing products and 3.0% of the respondents were neutral.

4.5 Product Line Approach

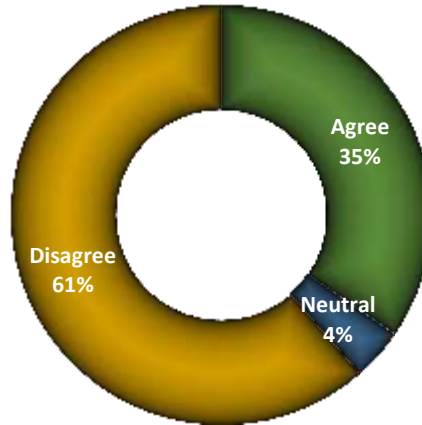


Figure 5: Product line Response

Respondents were asked whether Sacco’s product line approach determines the access of credit by members and the results show that 61.4% of the respondents disagreed with the statement that Sacco’s

product line approach determines the access of credit. 4% were neutral in their response and 34.6% agreed that the products line by the Sacco’s will definitely determine how credit will be approached.

4.6 Product Range Hypothesis Testing

Independent Variable

Credit Approachability

(r)

Sig. (2-tailed)

Product Range

0.748*

0.001

Table 2: Relationship between dependent and independent variables

There was a positive correlation between product range and Credit approachability of 0.748 by SACCO Members. The p-value of 0.001 is less than the acceptable significance α level, hence the H_0 that

there is no correlation between product range and Credit approachability by SACCO Members in Kisumu County, Kenya was rejected. Therefore at 95% C.I, the sampled data can be applied to the general population.

4.7 Credit Approachability Model Estimation

Model	R	R-Square	Adj. R-Square	SE Mean
1	0.879	0.773	0.7611	0.251

Table 3: Model Summary

Since 0.773 is dependent on the number of data pairs and the number of variable, 0.7611 takes into account the fact that when the number of data pairs and number of variables are approximately equal as per the

table, then the value of R is artificially high due to the sampling error rather than a true relationship among the variables. This occurs because the chance variation of all the variables are used in conjunction with one



another to derive the regression equation. Therefore, the model accounted for 76.11% of the total variation and it explained 77.3% of the variations in the credit approachability.

5.0 CONCLUSIONS AND RECOMMENDATIONS

It is true from the results that the product range impacts the Sacco's credit approachability by the consumers. This approachability of the products range was statistically significant with a p-value < 0.05 hence rejecting the H_0 . Sacco's product range can be catalyzed by Saccos adopting innovative strategies like product replacement, relocation and conformance to various products that will contribute to Sacco's profitability as opposed to the revealed lack of innovativeness in terms of the products offered.

Therefore, in line with the aforementioned facts, if the Saccos's yearn to achieve their goal of membership empowerments and profitability, let the product range not be overlooked. The SASRA and the GOK develop policies that enhances the credit approachability by the consumers.

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