AN ANALYSIS OF CREDIT UPTAKE FACTORS ON PERFORMANCE OF SAVING AND CREDIT CO-OPERATIVE SOCIETIES – A CASE OF KENYA POLICE SAVING AND CREDIT CO-OPERATIVE SOCIETY

BY

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DECLARATION

This research project is my original work and has not been submitted for any award of degree in any university or institution.

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APPROVAL

This research project has been submitted with my approval as University Supervisor.

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DEDICATION

Dedicated to my beloved wife Edith Njeri, and our children: Our daughter Hope Blessings and son Emmanuel Muturi.

ABSTRACT

Credit uptake levels, is the volume of loans given by the credit providers to client within a given time. SACCOs being financial institutions, whose financial credit services focus on low to middle-level income groups, depend on credit uptake among other factors, for their growth and sustainability. The 1990 liberalization of the financial sector led to increased competition from other financial service providers, hence the need strategic management of credit uptake factors to enhance credit demand among SACCOs clients. Whereas SACCOs have given significant attention to such credit uptake factors as credit diversification, cost variation and customer services as critical in determining credit uptake levels; with the expectation of increased uptake levels and market share, their effect on credit uptake to specific SACCOs remains unknown. Kenya Police SACCO has approximately 40,101 members, having similar income structures, which requires attention. 2015 Economic survey reveals that commercial banks loans hit excess of 2.799 trillion while SACCOs with its wide network only issued approximately 0.18 trillion indicating a 6% market share for loans; which is below expectation. This study, therefore, sought to analyze the credit uptake factors on performance of Kenya Police saving and credit co-operative society, with specific attention to establishing the effect of customer information on uptake credit level, analyzing the effect of a variety of credit products on credit uptake level, examining the cost of credit products on credit uptake level, and to analyzing customers' service orientation on credit uptake level. The study was guided by a conceptual framework depicting credit performance as the dependant variable and credit uptake factors as the independent variables. The study was based on demand theory and consumer choice theory, providing a platform for demand based relationship constructs. The study adopted a mixed descriptive and inferential research design. The target population of the study comprised 40,101 SACCO borrowers. A sample of 380 members was obtained using stratified random sampling. Pilot study using 50 units of analysis, which were not further included in the main study, generated a Cronbach Alpha coefficient of 0.721. The study established that autonomous credit uptake mean was 3.125; indicating that much of credit uptake is not influenced by credit uptake factor such that even if the credit uptake factors are at point zero, credit uptake in the SACCOs will be above average. The coefficient for customer information was 0.141, meaning an increase in the level of customer information by one unit contributes to 0.141 increases in credit uptake. Credit variety had a coefficient of 0.214, implying that a unit increase in level of product variety leads to 0.214 unit increase in credit uptake level. The coefficient for cost of credit is -0.312, implying that increase in cost of credit by one unit will result to a fall in credit uptake level by 0.312. The level of customer service has a coefficient of 0.121 implying that a unit change in level of customer service will lead to a 0.121 increase in level of credit uptake. The outcome of the study will provide more empirical information on credit uptake factors in Kenya. Moreover, it will provide a basis for which the policy will be formulated to solve the problem of low credit uptake in SACCO Societies in Kenya. In addition, the findings may be used to assess the extent to which the current financial market strategy will be effective in addressing demand for credit in Kenya.

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ABBREVIATIONS AND ACRONYMS

ACCOSCA - African Confederation of Cooperative Savings and Credit Associations

ACCOSSCA - Africa Confederation of Cooperative Society Savings and Credit Association

EVA -Economic Value added

IMF -International Monetary Fund

KNFC - Kenya National Federation of Cooperatives

KUSCCO - Kenya Union of Saving and Credit Co-operatives

MOCD& M - Ministry of Co-operative Development and Marketing

MVA -Market value Added

OCDC - Overseas Co- operative Development Council,

ROE -Return on Equity

ROI -Return on Investment

SACCO - Savings and credit Cooperative

SADC - Southern African Development Community

SASRA - SACCO Society Regulatory Authority

WOCCU -World Council of Credit Unions

CDs - Credit Deposits

ANOVA - Analysis of Variances

OPERATIONAL DEFINATION OF TERMS

Credit Uptake – Demand level for credit facility from a financial institution.

Cost of Credit – The total cost of credit, usually the amount paid above the loan offered.

Tailor made – facility credit facility designed to suit the needs of particular clients.

Customer Information – What the clients is aware of, in terms of requirement for credit and repayment plan.

Customer Service –How a customer is handled by the SACCO when seeking credit, it is how the SACCO treats their client.

Credit uptake level - It's the amount of loan that financial institutions give out to its members in a given time.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Credit uptake is the actual demand for loan facilities by members and non members of a financial institution. It is referred to the borrowing capacity advanced or provided by a bank system in form of credit or loan to an individual, firm, or organization with a clear arrangement of the terms of repayment and the repayment period (Liang & Zhou, 2010). Therefore, Credit uptake may be refers to the process of taking, absorption, consumption or demand for credit from financial institutions such as, banks, SACCO's and microfinance institutions and other financial institutions. Credit uptake is a form of debt, often with interest. Credit is an important instrument that can enable an individual, to overcome their liquidity constrains. Its level is determined by how frequent an individual demand a facility and the total loan facility issued. It is a function of the level of collaterals, the ability to pay (earnings), availability of liquidity, the rate of charge able interest rates, capacity to handle the varying challenges of the lending institutions (Micah and Gibbs 2013). The credit uptake in SACCO's is not different from other financial institutions and is subject to the above conditions. Credit has been used as a selling tool, to bind customers to a particular vendor and allow them to acquire more substantial goods or services for which they do not have the necessary and adequate capital (Brown & Mandell, 2007)

Credit uptake from financial institutions has an increasing role for corporate activities. In most countries, credit uptakes are the main source of financing for small and medium-sized enterprises (Purda, Sonmez, & Zhong, 2015). Financial institutions basically make money by lending money at rates higher than the cost of the money they lend. More specifically, financial institutions collect interest on loans and interest payments from the debt securities they own, and pay interest

on deposits, and short-term borrowings. The difference is known as the "spread," or the net interest income, and when that net interest income is divided by the financial institutions earning assets, it is known as the net interest margin. For most financial institutions, credit uptake by their customers is the primary use of their funds and the principal way in which they earn income. Credit uptake helps individuals afford an expensive purchase i.e. every individual wish to acquire a property (Davies, 2010). However, financial institutions lend money so that their customers can finally afford desired property. Credit uptake payment is staggered, which makes it affordable (Söderberg, 2013). This enables the customer to pay off the loan gradually, if a customer has chosen a good deal, then the customer should be able to finish paying off the credit in the time specified.

The credit markets are greatly influenced by credit uptake which has the major role in determining the liquidity levels of the financial institution and the credit worthiness of the economy (Lopes, 2011). Moreover, it determines the market interest rates such that when the uptake is high, the liquidity drops and interest rates rises and the vice versa. Moreover, it helps a person afford an expensive purchase (Marshall, 2014)**.** People desire to acquire properties but are limited by the availability of funds; credit provides the much needed funds. Financial institutions lend money at a fee to finance purchases. The loan repayment is staggered, making it affordable. Primary sources of credit to individuals and SMEs in Kenya include the formal and informal financial institutions. (Wehinger, 2014) formulated an econometric model which helps to investigate the propensity of different classes of households to borrow in relation to changing rates of interest on cash loans, certain expenditures, etc. The broad conclusions of his analysis based on the Reserve Bank of India (RBI) district level were that the average household's

demand for credit is not wholly inelastic (this is responsiveness of demand to a change in price where with change in price, demand remains the same). Demand for credit is attributed to almost everything and not limited to purchase assets, finance consumption, and meeting emergency need.

Commercial banks, Microfinance institutions, and SACCO Societies control the highest market share. Emphasis on credit could be attributed to the prolonged and persistent call for credit by both local and international researchers ever since the ILO's landmark report advocating small-enterprise development (ILO, 1972). Of the Twenty million Kenyan bankable population, 22.5% are served by MFIs and commercial banks and while SACCO serves 17.6%; making SACCO significant sole player in the credit market. Sources of credit to small-scale investments in Kenya currently include the formal credit institutions which include commercial banks, development finance institutions (DFIs). Participation in credit market is a self choice process, and given that most of the general conclusions of the Central Bureau of Statistics/ICEG/K-Rep (1999), Ministry of Labour and Human Resource Development Government of Kenya (2004).

Market liberalization gave room for easy entry into the prestigious financial sector that was previously controlled by a few local and multinationals. The sub-sector comprises of large SACCO s, some of which have a total asset base of over Kshs.15 billion and the very small SACCO s having asset base of under Kshs.10 million and are well spread across the country from the large cities to the rural Kenya (Francois & Wooton, 2010). According to the International Cooperative Alliance (2011) a cooperative is an autonomous association of persons voluntarily united to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. According to the Worldwide

Credit Unions (2013), Credit Unions evolved from the cooperative activities of early 19th century Europe from simple idea that people could pool their money and make loans to each other.

Credit unions pool their members' savings deposits and shares to finance their own loan portfolios rather than rely on outside capital(Purda, Sonmez, & Zhong, 2015).. Members then benefit from higher returns on savings, lower rates on loans and fewer fees on average among many other benefits. This now brings us to the definition of a Sacco. SACCO is the acronym for Savings and Credit Co-operative. There is no difference between a credit union and a Sacco and the term "credit union" is generally not used in Africa avoid confusion with various other movements. A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help co-operative (Sathyamoorthi, Mbekomize, Radikoko, & Wally-Dima, 2016). It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community (Savings and Credit Co-operative League of South Africa, 2013).

The first of these cooperatives were seen in England and Germany in 1844 before spreading to communities around the world in the early 1900s. Credit unions as defined by Worldwide Credit Unions (2013), and as called by various names around the world, are member-owned, not-for-profit financial cooperatives that provide savings, credit and other financial services to their members. The membership is based on a common uniting bond shared by savers and borrowers such as belonging to a specific community, organization, religion or place of employment (Damar & Hunnicutt, 2010).

There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010). In Kenya, the first Co-operative Society was Lumbwa Co-operative Society formed in 1908 by the European Farmers with the main objective of supporting agricultural activities and products to take advantage of economies of scale (Kenya Union of Saving and Credit Co-operatives [KUSCCO], 2006). Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation. In 1945, the Co-operative Ordinance Act was passed where the Government of Kenya legally controlled the co-operatives. The act was amended in 1997 removing much of the control from the government through the Commissioner of Co-operatives under the Co-operative Societies Act 1997. This Act was enacted to provide a policy framework for co-operative development in Kenya therefore delineating these co-operatives from the control of the Government by necessitating the withdrawal of state control over the co-operative movement. However lack of a compulsive regulatory regime has also opened doors for financial mismanagement in big SACCOs (Ringe, 2016).

The set of financial soundness indicators developed by the SASRA and WOCCU including liquidity, asset quality and capital adequacy are some of the main factors affecting the financial performance of a SACCO. The SACCO Societies Regulatory Authority (SASRA) is a creation of the SACCO Societies Act, 2008. It establishment falls within the broad Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of SACCO members and ensuring public confidence towards the SACCO subsector. This ultimately will spur economic growth through mobilization of domestic savings, deepening financial access and affordable credit to SACCO members (Ademba, 2010).

According to The Sacco Supervision Report from SASRA (2011), the Sacco sub-sectors in the country forms a significant part of the cooperative movement in Kenya. These cooperatives interestingly are comprised two major groups of bodies, Financial Cooperatives and Non-Financial Cooperatives. Financial Cooperatives comprise of Savings & Credit Cooperative Societies while and Non-Financial Cooperatives comprise of housing, transport, produce marketing and investment cooperatives. Sacco societies have witnessed faster growth than the other types of cooperatives. It is this growth that indeed brought attention to it as a development vehicle and as well as the need for the establishment of regulations such as the Sacco Societies Act 2008 to legislate the use of prudential guidelines to protect the savings of the members of the society. This act places the licensing, supervision and regulation of deposit taking under the office of the Sacco Societies Regulatory Authority (SASRA). Through this new legal framework, guidelines and regulations have been introduced to guide Sacco societies' growth and development.

The Sacco Supervision Report (2010) describes how in the early 1990s, Kenya experienced difficult economic times that forced commercial banks to demand higher minimum operating balances for individual accounts to sustain their businesses. This resulted in many middle and low income people unable to operate bank these accounts. It was during this period that Saccos became popular among employed persons who had been unable to maintain or operate those commercial bank accounts. This was as a result of Saccos being formed by individual members with the primary purpose of pooling savings and lending to each other. The Saccos responded by introducing Front Office Service Activity (FOSA) services which offered semi banking services at competitive rates. Saccos further comprise both deposit and non-deposit taking. In the current

legal framework a Deposit Taking Sacco is that Sacco operating a front office savings activity (FOSA). A FOSA activity is a semi-banking activity undertaken by licensed Saccos (Misha, 2015).

SASRA through the SACCO societies Act 2008 and the guidelines has customized some of the WOCCU standards and applies them to SACCOs with core capital of Shs. 10 million and above. Since the SASRA requirements are intended to enhance financial stability, performance and controls, there is need to investigate the rationale behind this cut off of Kshs. 10 million with regard to size and capitalization as well as establish a link between size and financial performance of SACCOs in general. This research considered using the financial institution variables which Ab-Rahim et al (2012) used in his study on determinants of financial performance in Malaysian banking which were capital, size and liquidity. Capital was measured as the ratio of equity to total assets. Size refers to the total assets of the SACCO and since other dependent variables under consideration are standardized by using total assets, then size was measured as logarithm of total assets.

In Kenya, there are approximately 2,959 active SACCO's accounts for approximately 45 percent of all cooperative societies in the country (Kinyuira, 2014). However, beside their massive number and large network, they only account for 39 percent of total loan accounts. Yet they mobilize over Kshs.200 billion in savings, which accounts for over 30% of the National Domestic Saving ("A saving to the national purse?", 2014). This shows underperformance of the SACCOs in credit uptake market compared to other institutions although they are owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members. SACCO's are distributed

widely across the counties in the country and therefore in a better position to serve more Kenyans**.** They adopt prudential and non-prudential regulations as envisioned by the SACCO Societies Act of 2008 to achieve their objectives. SACCOs Societies are playing a crucial role in savings mobilization and investments for the members. The SACCO Society aims at building the financial strength for a continued services to members. Savings in the SACCO should be well-managed to enable members achieve their objectives (Branch, 2005).

The principal services of SACCO s 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 SACCO s' wealth needs to be well-managed for the achievement of the SACCO s' 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.

Kenya Police Staff SACCO Society Limited was registered on 20th November 1972 and was issued with a registration certificate number CS/2092. The Society has seen growth in its membership from a few hundred's currently stands at 40,101. It has 9 elected members who form the Board of Directors of the SACCO and 3 members of the Supervisory Committee. Kenya Police Sacco offers Back Office Service Activity (BOSA) a wide range of products. This is where members' personal accounts are maintained. Currently each member has minimum of 200 Shares valued at Ksh. 100. Monthly deposits are pegged at 10% of Basic salary. Kenya Police Sacco Front Office Service Activity (POFOSA) is a service that promotes priorities of bringing

services closer to members. POFOSA allow Members to be given a chance to open an account where they can make deposits and accrue saving, that will be available to their convenience. More so, Account holders at the POFOSA can deposit cheques from other banks. Cheques take a maximum of 4 days to clear and have the money available to the account holder. All SACCO payments relating to members are processed through their POFOSA accounts (Okibo & Chepkwei, 2013).

Kenya Police Sacco Clearing of internal and external loans attracts a 10% interest of the balance to cater for unclaimed future interest which the member could have paid if the loan had been paid through the normal check off process. The account holder accesses his/her salary through the POFOSA account. The salaries are processed much faster than in other financial institutions. The SACCO benefits by charging Ksh100 for salary processing which is lower compared to what other financial institutions charge. Salary advances are available to members whose salary is processed through the POFOSA. More so Kenya Police Sacco Share Boosting enables the members to boost their deposits in order to qualify for bigger loans. The SACCO charges 10% of the advance. The member instantly enhances their deposits through this product and enjoys dividends at the end of the year on these amounts boosted (Victor Omollo, 2016).

Customer Information is the level at which the members and non members are informed about services of an organization including products cost, diversification, and flexibility (Hussein & Makame, 2008). The Kenya Police SACCO Society has seen growth in its membership from a few hundred's currently stands at 40,101. It is committed to provide sufficient information to its members including deposit rates, types of products available, interest rate, and other necessary information. The level of available information influence potential customers' decision on credit

uptake. Information about credit, allows financial institutions to better distinguish between good and bad borrowers. Someone who has failed to pay their loan at one bank will not simply be able to walk to another bank to get another loan without the banks knowing about it. Over time, potential borrowers with a "Good Credit Report" or "Good Credit History" should be able to access loans more cheaply and easily than high risk defaulters. Credit information plays a great role in making it easier for customers to get credit using their "track record "rather than physical security such as land, vehicles, shares. In addition, it lowers interest rates as customers can use their "track record" to negotiate favourable credit terms; and to help maintain good repayment behaviour and good borrowing practices (Magali, 2014); However, despite the society greatly investing its resources to provide credit information, it still remains unknown on its influence to credit uptake level in Kenya Police SACCO.

Types of products, different financial institution have different types of credit products that they offer to their customers at different cost. For example different banks offer different types of loan facilities to their customers that either have long term or short term repayment period. The Product type refers to credit diversification in the Kenya credit sector (Ascheberg, Bick, & Kraft, 2013). It involves customized loans that suits specific use such as emergency loans, education loans among others. The product diversification at the Kenya police SACCO have a wide spectrum to enable the members acquire facility customized according to individual needs. The product type's influence the level of credit uptake such that the more diversified the products are the higher the level of credit uptake (Kim & Subramanian, 2006). Despite wide product diversification and many customized products, its influence to credit uptake level at Kenya Police SACCO remains unknown.

The cost of the product is the total amount paid minus the principle amount (Kimberly, 2012). Interest rate it's the cost incurred as a result credit uptakes from financial institutions. It is charged when the money is being borrowed, and paid when it is being loaned. The interest rate that the lender charges is a percent of the total amount of credit uptake. In the financial market, the cost of products is mostly judged by the interest rate charged by the financial providers on the facility borrowed (Ascheberg, Bick, & Kraft, 2013). The interest rate offered at Kenya Police SACCO is below the market average pegged between 10 and 15 percent. In regard to that, it's expected to plays a crucial part in deciding whether to take a loan based on expected returns and the interest paid. However beside the fact that the cost of credit is lower in Keya Police SACCO than other major financial institutions, it's not yet known on the impact it has on credit uptake level at Kenya Police SACCO.

Customer service is the manner in which an organization handles and addressed its clients in terms of communication, attention, and the value attached to the customer (Babbar & Aspelin, 1996). It is the process of ensuring customer satisfaction with a product or service. Often, customer service takes place while performing a transaction for the customer, such as making a sale or returning an item. Customer service can take the form of an in-person interaction, a phone call, self-service systems, or by other means. Customer service is the provision of service to customers before, during and after a purchase. It concerns the priority an organization assigns to customer service relative to components such as product innovation and pricing (Shannon, 1996). It has a significant role in establishing a relationship between the organization and the customer. In regard to this it is expected that the more Kenya Police SACCO society invest in this, the more the increase in credit uptake level. More so, studies show that there is a close

relationship between customer service and return customer. However, beside the fact that Kenya Police SACCO society has invested heavily on customer service, its influence to the level of credit uptake is yet to be known.

1.2 Statement of the Problem

Financial reforms of the 1990 lead to liberalization which resulted in increased competition from other financial service providers, thereby posing reasonable market share credit threat to SACCO s including Kenya police SACCO. According to the Kenya economic report 2009, of the 20 million Kenyan adult population 22.5% are served by commercial banks and MFIs while 17.6% are served by SACCOs. Kenya Police SACCOs have been gradually responding to the fast changes in the financial environment and adopting new approaches to increase clients, so as to increase the level of credit uptake. For this reasons Kenya Police SACCO have taken into considerations common factors that influence the level of credit uptake in financial institutions such as; Customer Information about credit uptake, this is to ensure that customers are fully informed about their services. In this regard, information is expected to enables the customers to make informed choices. Rational customers will get credit from the institution they have all informing need. Secondly it has considered Variety of credit product to suit various customers' needs. Moreover, SACCOs have been very innovative in terms of the products design to suit their customers' needs. In Kenya Police SACCO, a client can get credit for almost everything with a repayment schedule that suits the customer. It is also expected that customers would go for a particular loan product that suits their needs. In addition, the Kenya Police SACCO has lowered the cost of credit below the market average cost so as to ensure that more customers are taking their product. It is believed that customers will go for the cheapest offer of credit product

in the market. More so, Kenya Police SACCO Customer services are very efficient. The clients have all information on the spot and do not have to travel to seek the services from elsewhere. This is because customers consider customer service in every situation before up taking credit. Information available reveals that Kenya Police SACCO has given significant attention to credit uptake factors such as; increased provision of Customer Information, diversifying credit product, credit cost variation and improved Customer services; for the period 2009 to 2014; with expected increase in their credit uptake level. Whereas the Kenya Police SACCO has given significant attention to credit uptake factors, with the expectation of increased uptake levels, it remains unknown the actual outcome of the effort, in light of liberalization competition. The study, therefore, sought to analyze the credit uptake factor on the performance of Kenya Police Saving and Credit co-operative society.

1.3 Objective of the Study

The main objective of the study is the analysis of credit uptake factor on the performance of Kenya Police Saving and Credit co-operative society.

1.3.1 Specific Objectives of the Study

The study sort to;

1. Establish the Customer Information on credit uptake levels by the SACCOs members.
2. Analyse the effect of variety of credit product on credit uptake level by the SACCOs members.
3. Examine the cost of credit product on credit uptake level by the SACCOs members.
4. Analyse the effect of customers' service on credit uptake level by the SACCOs members.

1.4 Research Hypotheses

Ho_1

There is no significant relationship between customer information and level of credit uptake in SACCOs.

Ho_2

There is no significant relationship between variety of credit product and the level of credit uptake in SACCOs.

Ho_3

There is no significant relationship between cost of credit product and the level of credit uptake in SACCOs.

Ho_4

There is no significant relationship between customer service and the level of credit uptake in SACCOs.

1.5 Justification for the Study

This study will provide more empirical literature on credit uptake factors in Kenya. It will expressly give more knowledge on the effect of each of the four factors on credit absorption in SACCO Societies. It will also explore the relationship between credit absorption factors and demand for credit in SACCO Societies in Kenya and hence provide the basis on which credit uptake factors influence demand for credit in Kenya. The study will provide the basis for which the policy was formulated to solve the problem low credit uptake in SACCO Societies in Kenya. Thus, the findings are useful in policy review toward SACCO Societies policy reforms. The

results will also be used to access the extent to which the current financial market strategy was effective in addressing demand for credit in Kenya.

1.6 Scope of the Study

The study targeted the Kenya Police SACCO the information obtained was used to generalize the situation in all registered SACCOs in Nairobi. A sample size of 380 respondents was used to collect data this represented the whole membership of Kenya Police SACCO. The data was analyzed, and the finding for this sample was considered to represent registered SACCOs.

1.7 Conceptual Framework

The study adopted the conceptual framework below to depict the relationship between dependent and independent variable.

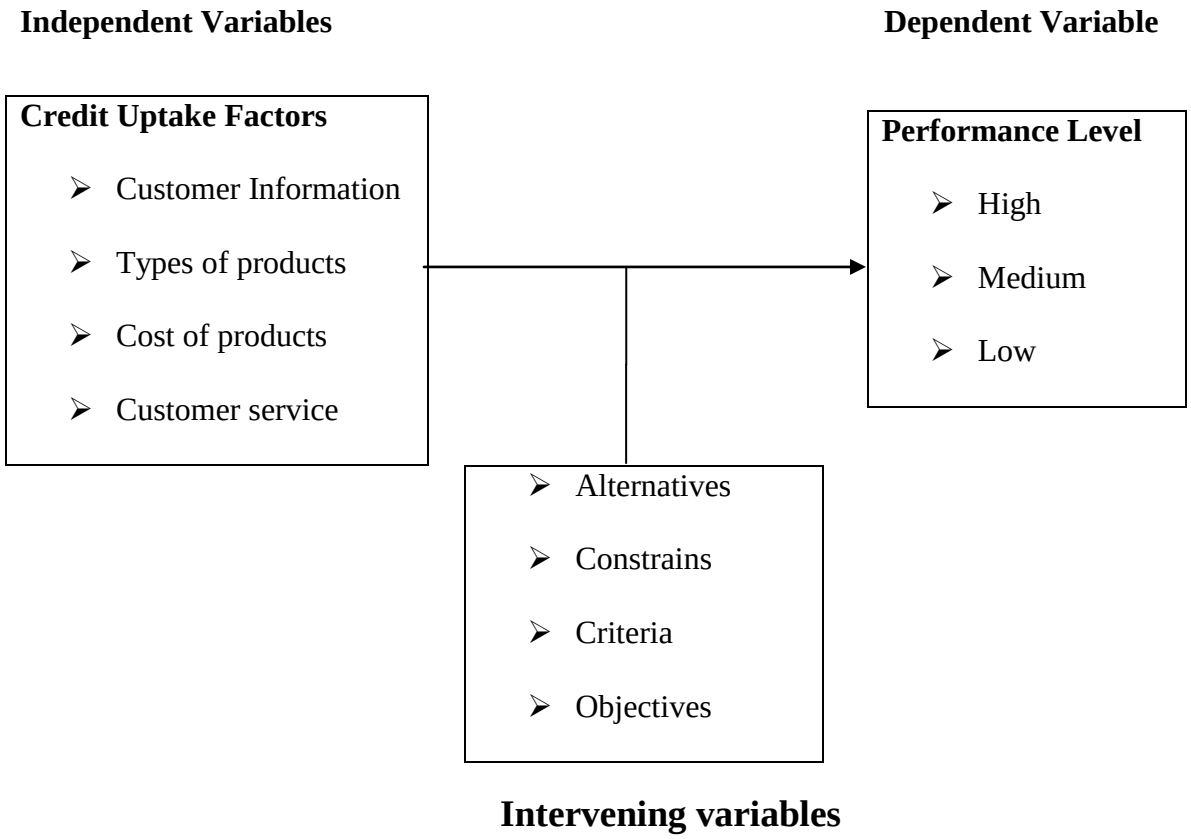

Figure 1: Conceptual Framework (Kimberly, 2012)

Credit uptake in SACCO's is determined by various factors that influence an individual to take credit. According to the consumer choice model the numbers of alternatives that the individual has for credit will influence the amount of credit and the facility to commit. In addition, individual are also faced with constraints on how to repay the loan, the amount to committing for debt servicing, income stream, and the benefit that to be derived from the loan. To achieve the objective an individual will make a decision based on a given criteria. In selecting a criterion, the

individual evaluates every option available for him to maximize utility from the credit taken. This conceptual framework presents; Customer Information, Types of products, Cost of products and Customer service as independent variables and credit uptake as the dependent variable. In addition to that, the research presents Alternatives, Constrains, Criteria and Objectives of an individual. Therefore, an individual decision to uptake credit based on the dependent variable was influence by intervening variables.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter deals with the review of the literature in the areas of credit uptake factors. The first part of this chapter has theoretical literature while the second part deals with the empirical literature. The last part will have the overview of the literature.

2.2. Theoretical Literature Review

The theories reviewed in this section include:

2.1.1 Demand Theory

Demand theory was developed by Adam Smith is his book the wealth of nations in 1776. It provides the relationship between price and demand for goods and services. Demand for credit in a similar to that any other service. The price of the credit, which, in this case, is the interest rate, is a prime determinant of demand (Ben-Akiva & Lerman, 1985). If the interest rate increases, demand for credit services falls. The financial market in Kenya is perfectly competitive; this means that the market forces determine the interest rate. The interest rate offered is at the point where demand for credit equals the supply (McConnel, 2008). There are four basic laws of supply and demand. If demand increases and holding supply constant, a shortage occurs, and the equilibrium price rises. If demand decreases and supply is held constant, a surplus occurs, and the equilibrium price falls. If demand is held constant and supply rises, a surplus occurs, and the equilibrium price fall. If demand is held constant and supply rises, a shortage occurs, and the equilibrium price will rise. Just like demand for normalgood, the demand curve for the interest rate is downward sloping (Hildenbrand, 1994).

In the credit market, the interest rate represents it represents the credit that the market demand, given the information available, customer service, and available alternatives in the credit market. In the Kenyan credit market, other factors that affect demand for credit include customer service, varieties, and customer information (Ben-Akiva & Lerman, 1985). Just like normal goods, the supply curve of credit by the SACCO society is the marginal cost of credit and demand curve is determined by the marginal utility curve (McConnel, 2008). SACCO members are willing to take credit, given the interest rate if the marginal utility of additional credit is equal to the opportunity cost. The opportunity cost is determined by the price that is the marginal utility of alternative credit sources like banks and microfinance institutions (Hildenbrand, 1994).

Thus, in this case, demand schedule is the willingness and ability of a SACCO member to take credit at a given time from the SACCO. The demand for credit is determined by interest rate, customer service, customer information, and varieties of credit options. According to demand theory, credit uptake can be expressed by modifying the demand theory to form the following model. $C = f(\varphi)$ Where φ is a vector of credit uptake factors. According to the World Bank (2013), the cost of credit as being the major stumbling block in getting access to credit. The high cost of borrowing or interest rate in the economy keeps them away from formal financial instructions.

2.2.2 Consumer Choice Theory

The concept of consumer choices was conceived by the philosopher Adam Smith and late developed by Friedrich Hayek, Ludwi Von Mises, and Israel Kirzner in 1940. Consumer choice theory for this case relates preferences to members credit demand; ultimately, this relationship between preferences and demand for credit is used to relate preferences to credit demand curves (McConnel, 2008). The theory analyzes how consumers may achieve equilibrium between

preferences and expenditures by maximizing utility subject to consumer budget constraints (Sigurdsson, 2013). Relating this theory to demand; the rate of consumption falls as the price of the good rises. Clearly, for the purpose of this study, if one does not have the ability to repay the loan and the interest, then they cannot access credit. As the price of money rises, credit seekers will substitute credit options that charge high interest for those with less interest. As the individual wealth of the individual rises, SACCO members are capable of repaying higher installment and can access high credit. Economists have devised a modern solution to the problem of mapping consumer choices by analyzing credit uptake factors (Binger, 1998).

In this study, the SACCO members have constant repayment ability, and a fixed interest rates and the credit seeker can choose to access credit at any point that is within the repayment ability or lower. In this case, the budget line represents the repayment ability and the price is the interest rate. In other words, the repayment installments are equal or less than the repayment ability. The SACCO members will take credit option that they will derive the highest benefit at within repayment ability. The repayment ability is the budget line for repaying the paying for the credit. Income effect and price effect deal with how the change in interest rate changes the demand for cred (McConnel, 2008). The graphical representation of such utility curves can be used to predict the effect of changes in the repayment ability. If the interest rateof a certain credit facility rises, the repayment budget constraint will pivot/ rotate such that the credit demanded is the less expensive product. A product that is demanded, the interest affected facility reduces such that the SACCO members maintain a utility level similar to the previous subject to his repayment ability (McConnel, 2008). The consumer choice theory examines the trade-offs and decisions credit

seekers make in their role as borrowers as interest rate and their credit worthiness changes (Binger, 1998).

2.2 Empirical Literature

Several studies have been conducted in respect to the credit uptake factors and the demand for credit in financia institutions and SACCOs. This section we will review studies conducted on the main variables of study.

2.2.1 Credit Uptake

Iqbal (1983) analysed demand and supply of funds and investment and consumption using a household model to explain demand and supply of funds for investment and consumption. In the study, he found that the interest rate charged on loans affects individual decision to take a loan. In addition, the study also revealed that customer services in terms of convenience to the credit institutions were an important factor in deciding where to seek credit. Zeller (1994) used a probit regression model to estimate factors that determine an individual's credit borrowing decision in terms of their participation in the formal or informal credit markets in Madagascar. He divided the factors into individual characteristics, labor, and assets, household events that affect credit demand and reasons for participation. This approach assumed that internal factors only influence credit demand. Zeller's (1994) findings reveal that the probability of applying for credit significantly increases with the number of years of schoolin g, increase in age and income that is the poor significantly rely on short-term credits. Zeller's (1994) also identified that when borrowing credit is perceived as a decision-making process, then it starts with the decision of the individual to apply for the credit or not. This depends on whether the individual has demand for credit.In this study, the researcher did not point out to the factors that influence the individual

decision to take credit in a particular institution. Atieno (2001) pointed out that access to credit by borrowers can be explained in terms of the credit rationing behavior of lending institutions. The study used mainly descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs in rural Kenya.The study found that clients tailor made product influenced clients decision. In addition, availability of information was also an impediment to securing credit.

The researchers has eveluated common factors that influence credit uptake. The study used various analysis and research methods to arrive at the same results. However, the study literature does not reveal analysis of credit uptake factors on performance of SACCOs.

2.2.2 Customer Information

Atieno (2001) pointed out that access to credit by borrowers can be explained in terms of the credit rationing behavior of lending institutions. The study used mainly descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs in rural Kenya. The study found that availability of information was also an impediment to securing credit. Kimuyu and Omiti (2000) found that low levels of credit demand by enterprises in rural Kenya is a response to a credit supply constraint and an outcome of the spatial structure of the credit market. It is true that the concentration of enterprises in rural trading centers is not adequate for sustaining branches of the formal financial institutions. As a result, formal financial institutions tend to be limited to large urban centers. The study showed that even in some of the relatively large urban centers such as Mwatate in Coast Province of Kenya, entrepreneurs had not heard of

some of the more popular microfinance institutions. However, it overlooked the presence of SACCO Societies and whether the problem was the absence of financial institution or lack of information on the community about the existing institutions and products available. Masoud and Mwirigi (2015), Utilizing the descriptive research design and a sample size of 150 manufacturing SMEs from Kariobangi's Light Industry in Kenya, this study analyzes the relationship between borrower's characteristics, business characteristics and uptake of credit products by the SMEs. Using primary data collected by administering a structured questionnaire and analysis of the data with the aid of the Statistical Package for Social Sciences (SPSS), the study finds that among the borrower's characteristics, there are positive correlations between sex, level of education and uptake of credit products, but negative correlation between the borrower's age and uptake of credit products. Business characteristics that correlate positively with uptake of credit among SMEs were business size and age of business. Individual education is an important factor that determined ability to access and process information. However the researchers did not analyze the extent to which customer information affect credit uptake in SACCOs.

2.2.3 Product Variety

Atieno (2001) pointed out that access to credit by borrowers can be explained in terms of the credit rationing behavior of lending institutions. The study used mainly descriptive statistics to analyze the role of institutional lending policies of formal and informal credit institutions in determining access to and uses of credit facilities by small-scale entrepreneurs in rural Kenya.The study found that clients tailor made product influenced clients decision. Once credit is rationed, the institution cannot offer variety of products. Swain (2002) hypothesized that some of the households with positive demand for credit are not rationed at all, whereas, others are

either quantity rationed or loan size rationed. Using a theoretical model, Swain takes households as the unit of analysis and measures demand for credit variable as a dummy. The research findings show that in addition to household characteristics, interest rate, land ownership and the area of business operation are also significant determinants of demand for credit.The study did not indicate whether, the clients are fully informed about what they can qualify for given their creditworthiness. The study fails to show the role of information asymmetry in credit rationing. More so, the researcher did not analyze the extent on which variety of credit affect the level of credit uptake in SACCOs.

2.2.4 Cost of Credit

Nagarajan, Meyer, Hushak (1995) investigated factors affecting loan demand using 1989 – 90 data from the Philippines. The estimation an OLS model with credit uptake as the dependent variable and interest rate as the independent variable. It considered multiple loans in the industry and how the interest rate affected credit uptake. The study established that loan demand is more elastic with respect to the interest rate. The study also identified interest rate as a major factor determining credit uptake. However, the study gave much attention to interest as the single factor determining borrowing, leaving out other factors such as customer information, type of products on offer and customer service (Okurut (2004). The research focused on identifying factors that influence credit demand and also those that result in the poor being rationed by lenders in Uganda. Using logit regressions, analysis of credit demand was performed at individual levels with a dataset containing social, economic characteristics of households. The study found that the cost of credit and requirement ware major impediment to securing credit in Uganda. The costs of acquiring relevant information are very high both in terms of time and financial

resources.To compensate for the high cost of information gathering or reliability, lenders consider it logical to increase interest rates.

The research positions the interest rate as the prime factor that determine credit uptake. The increase in interest reduces credit demand. In addition, credit seekers rely on information available to make choices on where to seek credit. The study does not indicate the magnitude and the direction of effect. Therefore, the researchers did not analyze the extent to which cost of credit affect the level of credit uptake.

2.2.5 Customer Service

Customer service process starts with what customer thinks and what will happen or what he is to expect. It is has been generally accepted that quality means total and continuous customer satisfaction while using a product or service (Ouma, 2011). As the customer uses the service or product, this dimension changes and after the encounter becomes past experience. The customer past experience will affect what the customer expects to happen on a particular encounter. Service quality and customer satisfaction are the two core pillars in any business organization. The service and product has be right, reliable and delivered timely. In today‟s fast-pace world with intense competition, the key to sustainable competitive advantage lies in delivering high quality service or product that will in turn result in satisfied customers. When a customer feels there is something special and valuable in his contact, a relationship may develop (Develtere and Pollet, 2009). This positive first time encounters with customers make them repeat customers based on past experience. According to Olanda (2006), achieving high levels of customer satisfaction requires that organizations continually monitor and examine the experiences, opinions, and suggestions of their customers and other people who are likely to be potential

customers. Improving service quality to meet customer's standards is an ongoing part of doing business. In this way, customers drive the organization. Service products are a crucial component of service quality and can be a component of physical environment quality, interaction quality and outcome quality in a hierarchical context (Chaichi, 2012). Hence, managing relationships with customers is a profitable approach to service firms providing service.

The authors of these studies agree that customer service is an important component in driving products into the market. The same criteria are applicable to the demand for loans. However the researchers did not analyze the extent to which customer service affect credit uptake. Moreover, the study was not specific for the Sacco societies markets.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides methods that were used to address the objectives and the research problem. It also elaborate research design that was used, target population, sample and sampling techniques used, data collection techniques and procedures and finally data analysis techniques used.

3.2 Research Design

The study adopted a mixed design; a combination of quantitative descriptive and inferential research design suitable for determining the strength of the relationships between the independent and dependent variables (Hopkins, 2000). The study analyzed credit uptake factors; the interest rate, customer information, product varieties, and customer service on credit uptake in SACCO societies in Kenya.

3.3 Study Area

The study area for this research was the Kenya Police SACCO. It is located in the Republic of Kenya. It has its geographic location in Eastern Africa with latitude of 1°00'N and a longitude of 38°00'E.

3.4 Population of the Study

The target population of this study was 40,101 members, the population focused on all the members of Kenya Police SACCO that uptake credit from their Sacco. From the population a random sample of 380 respondents was selected and used for analysis. The sample was a good

representative for the population and ensures that the results are valid. The sample was determined using the table below:

3.5 Sampling Techniques

The study used a sample size of 380 members of SACCO according to Krejcie and Morgan (1970). The study adopted a random sampling approach to draw respondent from the population of the study. In random sampling each element of the population has an equal chance of being selected into the sample (Cooper and Schindler, 2003). This sampling method was adopted because it helps in preventing biasness and it is simple to understand and use.

3.6 Data Type and Source

The study used primary data, which was collected using questionnaire attached in Appendix II.

3.7 Instrumentation

The study used intensively researcher administered questionnaires as the main instrument for data collection. The questionnaires was preferred because: questionnaires act as a source of reference hence can be used at a later time for prove that the research was carried out, a large number of sampled population can be realized within a short time and it is a cheaper way of conducting a research and anonymity of the respondents filling the questionnaire may help them to be honest. The research conducted a pilot study by the use of questionnaires so as to minimize random errors and hence increase reliability of data collected. Pre-testing the questionnaires was done and necessary improvements done. Data collected was edited and coded to spot any inconsistencies or errors associated with data collection, and to minimize errors that occur during data entry and processing respectively.

3.8 Data Collection Methods

Structural questionnaires were administered to the respondents to obtain information on customer information, product varieties, and customer service. Questionnaires are appropriate for the study as they allow much information to be gathered over a short period of time (Krejcie and Morgan, 1970). Data was obtained from SACCO members as they sought services at their SACCO.

3.9 Data Analysis and Presentation Techniques

Data was edited and coded into the computer system and then OLS analysis was conducted. The results are presented in the form of figures tables and a regression analysis output. The study estimates the relationship between dependant variable and the independent variables.

3.10 Model Specification

Considering the presented theoretical arguments, model specification takes the form of demand function as:

$$Credit\ Uptake = \beta_0 + \beta_1 W + \beta_2 X + \beta_3 Y + \beta_4 Z + \mu \quad \text{.....3.1}$$

Where W= Interest rate

X = Customer Information

Y = Product Varieties

Z = Customer Service

μ = is the error term

3.11 Reliability and Validity

Prior to the actual study, the researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. To ensure that the model and tools of research are reliable, the researcher conducted a pilot study using 50 questionnaires that were submitted and filled by members of Kenya Police Sacco, however, the members that participated in the pilot study were not part of the final study. The results of the study revealed that the research tools (questioners and the analysis method) were reliable in providing statistically significant information that is viable for forecasting. The pilot study was necessary to testing how reliable the research instrument was. The research tool for this study was found to be reliable according to Cronbach's Alpha. This method was usually used to test the internal consistency of the questionnaire that was used for this study. According to the results, all variables have a value high that 0.721, meaning that all variables have a high internal consistent and the results that will be made will be reliable and consistent. (Mugenda and Mugenda, 2003).

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents results of data analysis and discussions of the study as stipulated in the research objectives. The study results and discussions presents the analysis of credit uptake factors on the performance of saving and Credit Co-operative Society a case of Kenya Police SACCO. The study targeted a total of 500 respondents. However, only 401 respondents responded and returned their questionnaires contributing to 80.2% response rate. According to Mugenda and Mugenda (1999) a sample of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate is adequate for analysis and reporting. The study used frequency tables, graphs and charts to present data.

4.1 Individual Credit Uptake Level

Table 4.1 Individual Credit Uptake Level

Variable	Respondents	Mean	Std Deviation
Credit Uptake Level	**380**	**3.432**	**0.742**

Source: Self conceptualization

The study sought to examine the individual credit uptake level. The study used a likert scale from 1 to 5 where 1 has the most effect and 5 have the least effect. The respondents revealed that the individual credit uptake is above average with a mean of 3.432 and a standard deviation of 0.742. This implies that despite the Kenya Police great input to the common factors that affect

credit uptake in financial credit providers, the institution is losing a good number of its members to the competing institutions.

4.2 General Demographic Information

Table 4.2 General Demographic Information

Demographic Variable	Percentage Response			
Gender	**Male**		**Female**	
	82%		18%	
Age (Years)	**18 – 30**	**31 - 40**	**41 - 50**	**50 - 60**
	33.1%	48.8%	15.2%	2.9%
Education Level	**Secondary**	**College**	**University**	
	69.3%	26.4%	4.3%	

Source: Self conceptualization

The study sought to examine the response of participants in terms of gender, age and education level. 82 percent of respondents were male and 18 percent were female. This is attributed to skewed recruitment in favor of male. On age, 33.1 percent of the respondent were of the age between 18 -30 years, 48.8 percent of the respondents were of age between 31-40 years, 15.2 percent of the respondents were of age between 41-50 years old and 2.9 percent of the respondents were of the age between 50-60 years. On education; 69.3 percent of the respondent had secondary education, 26.4 of the respondents had college education and 4.3 percent of the respondent had university degree and higher education qualifications. The study results clearly indicate that 82 percentages was male. This means there long time gender parity in Kenya Police

SACCO membership and it have been attributed by recruitment and the nature of work that is more favorable to male than to female. Majority of those who uptake credit range between 31 to 40 years, this is the age whereby a Police officer is investing in other business so as to secure the time when they will be net consumers. The result more so, indicate that majority of the respondent have secondary education level, this means that secondary education is the minimum requirement for a person to qualify to be a police officer hence a member of Kenya Police SACCO.

4.4 Analytical Outputs per Objectives

The study sought to analyze the credit uptake factors on performance of saving and credit co-operative society through four objectives; of which the following results have been generated.

4.4.1 Establish the customer Information on Credit Uptake Levels

Objective one was to establish the customer information on credit uptake levels by the SACCOs. To realize this, customer credit uptake information was analyzed to generate their descriptive statistics as shown in table 4.3

Table 4.3 Establish the customer Information on Credit Uptake Levels

Items	Mean	Std Deviation
How informed is you on available credit options in your SACCO	2.188	0.875
How informed is you on requirements to access different credit facilities in your SACCO	1.331	1.256
How convenient is it to uptake credit facilities	2.644	0.994
How do you rate the process of application for credit facility	2.016	0.462

Source: Self conceptualization

This objective focused on how well informed Kenya Police SACCO customers are, on the availability of credit options to them, how informed they are on the requirement for a person to access different credit facilities. The objective further focuses on convenience how convenience is to uptake credit facilities from Kenya Police SACCO and how customers would rate the process of application for credit facilities. The study used a likert scale from 1 to 5 where 1 is the most and 5 is the least. In the table 4.3 above the respondents were informed on available credit options for them in the SACCO with a mean of 2.188 and a standard deviation of 0.875. This means that most respondents were within the mean. Moreover, the study also established that the respondents were very informed of the requirements to access credit in the SACCO with a mean of 1.331 and a standard deviation of 1.256. In addition to that, the study found that it was convenient to access credit, with a mean of 2.644 and a standard deviation of 0.994 meaning that the variable were closely clustered within the mean. Lastly on this category, the study established that the respondent were satisfied that the application process was fast with a mean of 2.016 and a standard deviation of 0.462. The result above reveals that Kenya Police SACCO members and non members' staffs are informed on availability of credit option and are as well very informed concerning the requirements of accessing different credit facilities within SACCO. In addition, it proves to be convenient for the members to uptake credit from their SACCO and most of the Police SACCO members considered application process for credit facility to be fast. Therefore it is clear that information on credit varieties, requirements to access credit, how convenient it is to acquire credit and how fast application process is were major factors determining credit uptake in Kenya Police SACCO.

4.4.2 Analyses the various credit products on credit uptake level

Objective two was to analyses the various credit products on credit uptake level by the SACCOs. To realize this, various credit products was analyzed to generate their descriptive statistics as shown in table 4.4

Table 4.4 Analyses the various credit products on credit uptake level

Items	Mean	Std Deviation
How many credit options does your SACCO have	2.843	1.075
How do the varieties of credit products offered influence your decision to uptake credit	1.162	0.856
The level of influence of the types of credit products offered on your regularity of credit uptake	1.644	1.364

Source: Self conceptualization

The study sought to establish the influence of variety of credit product on credit uptake. This objective concentrated on how many credit options are available in Kenya Police SACCO, how varieties of credit product influence customer decisions to uptake credit, and what is the level of influence on the types of credit product offered on the regularity in credit uptake. The study used a likert scale from 1 to 5 where 1 is the most and 5 is the least. The following results were established. From the results above, the responds revealed that the availability of different credit product in the SACCO is at average, with a mean of 2.843 and a standard deviation of 1.075. This means that most respondents were within the mean. Moreover, the researcher established that influence of variety of credit option on credit uptake in the SACCO is paramount thus very influential to the respondent in making decision to uptake credit with a mean of 1.162 and a standard deviation of 0.856. Finally on this category, the researcher established the influence of

type of credit product offered on the regularity of credit uptake and found that type of credit offered by the SACCO was very influential on their decision to uptake credit, with mean of 1.644 and a standard deviation of 1.364. The result reveals that the availability of variety of credit products in the SACCOs is at average which means there is need for an increase of other types of credit products. It further clearly show that variety of credit option is very influential to the customers when making credit uptake decisions, and the regularity of credit uptake by the customers are highly influenced by the type of credit the customers are interested in. Hence the researcher found that, number of credit options provided by the SACCO, how influential variety of credit options are on the decision to uptake credit and level of influence of the type of credit product offered on the regularity of credit uptake to be the major factor that influence credit uptake in the Kenya Police SACCO.

4.4.3 Examine the cost of credit products on credit uptake level by the SACCOs.

Objective three was to examine the cost of credit product on credit uptake level by the SACCOs. To realize this, the cost of various credit products was analyzed to generate their descriptive statistics as shown in table 4.5.

Table 4.5 Examine the cost of credit products on credit uptake level by the SACCOs

Items	Mean	Std Deviation
How high is the interest charged on your loan	3.432	1.042
How disclosed is the cost of credit in your SACCO	1.058	1.993
How can you rate the total cost related to credit uptake	2.156	0.764

Source: Self conceptualization

The objective focused on the interest charged on credit uptake, how the cost of credit uptake is disclosed to the customers, and how the customers rate the total cost related to credit uptake. The study used a likert scale from 1 to 5 where 1 is the most and 5 is the least. From the results above, the responds revealed that interest charged on loan is low with a mean of 3.432 and a standard deviation of 1.042. Moreover, the study established that the cost of credit was fully disclosed to the respondents with a mean of 1.058 and a standard deviation 1.993. In addition to this, the study found that respondent considered the total cost of credit to be moderate with a mean of 2.156 and a standard deviation of 0.764. The result reveals that the interest charge on credit uptake by the SACCO is low. There is also clear evidence that the information concerning cost of credit is fully disclosed to the customer and the customers considers the total cost of credit uptake to be moderate. Therefore the researcher found that, low interest charged on loan, fully disclosure on the cost of credit and moderate total cost of credit are among the factors that influence credit uptake in Kenya Police SACCO.

4.4.4 Analysis of customers' service on credit uptake level by the SACCOs.

Objective three was to analyze customers' service on credit uptake level by the SACCOs. To realize this, customer service was analyzed to generate their descriptive statistics as shown in table 4.6.

Table 4.6 Analysis of customers' service on credit uptake level by the SACCOs

Items	Mean	Std Deviation
How often do you receive credit advice from your SACCO	1.759	1.206

How often are your complains in regards to the credit services offered by the SACCO acted upon	1.358	0.873
How satisfied are you with the customer service offered to you	1.561	1.324

Source: Self conceptualization

The objective focused on how often the Kenya Police SACCO customers receive credit advice, how often are their complains in regards to credit services offered by Kenya Police SACCO are acted upon, and how satisfied the customers are with the customer service offered to them. The study used a likert scale from 1 to 5 where 1 is the most and 5 is the least. From the results on the table above, first the respondents revealed that more often respondents receives credit advice from SACCO, with a mean of 1.759 and a standard deviation of 1.206. Secondly, the researcher established how often the respondents complains in regards to the credit services offered by the SACCO was acted upon, the study found that more often the respondent complains was more often acted upon with a mean of 1.358 and a standard deviation of 0.873. Finally on this category, the researcher established how satisfied the respondent was with the customer service offered to them and found the respondents were very satisfied with the customer service offered to them, with mean of 1.561 and a standard deviation of 1.324. The study results reveals that most respondents were within the mean, Therefore the researcher found that, how often respondent receive credit advice from your SACCO, how often their complains in regards to the credit services offered by the SACCO was acted upon and respondent satisfaction with the customer service offered to them was the major factor that influence credit uptake in the Kenya Police SACCO.

4.5 Regression Analysis

In this study, a multiple regression analysis was conducted to estimate the relationship of the credit uptake factors on credit uptake levels. Ordinary Least Square Regression was employed to determine the coefficients as shown in the data in tables 4.7.

Table 4.7 Results of Regression Analysis for Independent Variables

Model	**R**	**R^2**	**Adjusted R^2**	**Std. Error**
1	0.819	0.761	0.722	0.211

Source: Self conceptualization

Table 4.7 shows regression results of the variables. The information in the table reveals that R coefficient is 0.819; subsequently R^2 coefficient is 0.761, while the adjusted R^2 is 0.722. The standard error is 0.211. According to the R^2, the model fits well with 76.1 percent of variation being explained by the variables. The adjusted R^2, explains that 0.722 of the total variation of dependent variable is uniquely explained by the independent variables.

Table 4.8 ANOVA results of the regression analysis between credit uptake and the independent variables

Model 1	Sum of Squares	Df	Mean Squire	F	Prob.
Regression	11.923	4	3.122	3.771	.000
Error	91.918	375	0.632		
Total	114.911	379			

Source: Self conceptualization

The probability value of 0.000 imply that there are zero chances that the estimation is erroneous and therefore highly significant in determining the effect of cost of credit, customer information, product variety, and customer service on credit uptake level. The critical value of F statistic at 5% confidence interval was 3.771 which are greater than the calculated value signifying that the overall model is significant.

4.6 Estimated Regression Equation

Table 4.9 Estimated Regression Equation

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Prob.
β_0	3.125	0.461		6.7787	0
β_1	-0.312	0.211	0.151	-1.4787	0.019
β_2	0.141	0.071	0.044	1.9859	0.031
β_3	0.214	0.071	0.043	3.0141	0.032
β_4	0.121	0.071	0.042	1.7042	0.021

Source: Self conceptualization

In fitting with the credit uptake factors and credit uptake levels model, specified as

$$Credit\ Uptake = 3.125 - 0.312W + 0.141X + 0214Y + 0.121Z + \mu \ldots\ldots\ldots\ldots\ldots\ldots 4.1$$

Where W= Interest rate

X = Customer Information

Y = Product Varieties

Z = Customer Service

μ = Error Term

4.7 Results analysis per objective

The study establishes that the probability associated with each variable indicates that the variable is statistically significant at 5% confidence level. According to the regression results, the constant is 3.125, thus if all factors are held constant, the credit uptake will be at 3.125. This implies that even if the SACCO society performs miserably on these variables, the credit uptake will be above average.

Objective one: the coefficient for customer information is 0.141, meaning an increase in the level of customer information by one unit contributes to 0.141 increases in credit uptake.

Objective two: credit variety has a coefficient of 0.214, implying that a unit increase in level of product variety leads to 0.214 unit increase in credit uptake level.

Objective three: The coefficient for cost of credit is 0.312, implying that increase in cost of credit by one unit will result to a fall in credit uptake level by 0.312.

Objective four: the level of customer service has a coefficient of 0.121 implying that a unit change in level of customer service will lead to a 0.121 increase in level of credit uptake.

In summary, the cost of credit has negative impact on credit uptake whereas all the other independent variables have positive impact with customer service having the least effect.

4.8 Discussion of Results

All the credit uptake factors have been found to positively influence individual credit uptake except the cost of credit. This means that overall performance of Sacco societies is influenced by these factors. Saccos should put much effort in addressing issues that would increase customer

information, develop various products and at the same time adopt a clear customer relationship strategy. These actions combined with low cost of credit will drive their sales and make them competitive in the credit market. The case study of Kenya police Sacco use correlation analysis

The study results corresponds to finding by Iqbal (1983) in an analysis of fund for investment and consumption where it established that the interest charged on loans influenced peoples decision on credit taking. Moreover, the study is consistent with study conducted by Atieno on the impact of tailor made products on credit uptake where the study established a positive relationship between credit varieties and credit uptake levels. In addition, the study provides more information on relationship between credit uptake level and customer service and credit uptake level and credit uptake and customer information.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This section provides a summery, conclusion, and recommendations on the impact of credit uptake factors on credit uptake levels in Kenya police SACCO.

5.2 Summary

The study found that the cost of credit reduces the credit uptake level. This implies that increase in interest rates and other related cost reduces the incentives for SACCO members to seek borrow. Most members prefers to take credit when the total cost is considerably low and match the benefits attained form the facility acquired. Therefore, for the institution to increase the credit uptake, it has to device ways of reducing the interest charged on loan to a level that is favorable to the members such that the borrowers will be able to repay credit using the proceeds from investments made.

The analysis showed that customer information has a positive effect on credit uptake. The more information the members have on the credit requirements and repayments plays an important role in determining the members' choice of the SACCO as the preferred choice when seeking credit. In return, the level of credit uptake increases. Members depends on information they are furnished with about cost of credit, repayment, customer, service and other issues related to service delivery to make choices on preferred facility and point of service. The more informed the members are the higher the level of credit uptake.

The study found that credit variety has a positive impact on credit uptake level. As the SACCO develops more products and diversify facilities, members are convinced to seek credit product that perfectly suits their needs. Members seek credit that is relevant to their needs and considering that needs are unlimited, the more product diversification the SACCO has the higher the level of credit uptake.

Customer service has a positive impact on credit uptake level. Customers feel that they are well accepted and their needs attended to when customer services are high. Members are committed to the SACCO if the customer services are high and therefore seek to be served when seeking a credit facility. Decision on where to seek credit from SACCO is highly dependent on customer service that they receive.

5.3 Conclusion

The study concludes that SACCO societies continue to rely heavily on lower credit costs, customer information, credit diversification, and customer service to attract customers and increase credit uptake level. The SACCO reliance on cost of credit as a basis of attracting members to choose the institution as their preferred credit provider have seen most of the SACCO societies offer credit at a cost lower than the market average. Lower credit costs make the credit cheaper and therefore the returns on investments are higher. This motivates the members to seek credit and invest in areas with higher returns that the cost of credit. The study concludes that credit cost has significant impact on credit uptake level in SACCO societies.

The study concludes that customer information increases the level of credit uptake. SACCO members make decision based on how much information about the credit facility they have.

Improved communication with members on requirements to access certain credit facility, cost of the credit, and credit varieties available for members increases the level of credit uptake. Therefore, the level of customer information has significant impact on the credit uptake level.

The study concludes that developing various products would increase the demand for credit by members and make the SACCO society more attractive to non-member who would join and borrow and in turn increase credit uptake. Many SACCO societies develop tailor made products that ensure members get the exact product they need. Therefore, SACCO societies should diversify their products to attract more customers and increase credit uptake.

The study concludes that customer service is an important factor in determining credit uptake level. Members tend to seek services in a facility that they feel appreciated. Increase in level of customer service would lead to increase in credit uptake level. SACCO society should invest in areas of public relations and general customer service to improve credit uptake level.

5.4 Recommendation

The study recommends that SACCO societies should manage their operations to minimize costs so that they can offer credit at lower levels to motivate members to prefer them as the credit provider of choice. This can be achieved by creating efficiency in operation system and managing defaults. Moreover, clear insurance policy will eradicate cost associated with default.

The study recommends the SACCO to provide clear framework of furnishing members with every bit of information that is important to client on choosing the credit facility. The customers need to be informed on the cost of credit, premiums, interest rates, and the duration of

repayment. This can be achieved by using mass media, and other forms of communication such as fliers and other advertisements.

The study recommends the SACCO societies to become innovative and develop various products that suit the needs of the members and non members. They should tailor made tailor made products to suit the interest of the members. In addition, the SACCO should develop policies that will make their operations flexible according to the customer needs. It is necessary to involve members when developing new products to ensure that their needs are taken into account.

The study also recommends the SACCO societies to take care of customer relations flaws. It should ensure that members are treated differently in their place of work and SACCO offices. Therefore, the SACCO society should invest on public relations and customer service to ensure that members feel appreciated and honored. Moreover, public communication on credit and other related operations should be done with high courtesy.

5.5 Limitations of the study

The study evaluate only four credit uptake factors in a pool of infinite factors that combines economic social political, and psychological factors. This implies that there are other factors that are outside this study and should be further analysed. In addition, the study was conducted in Kenya police SACCO whose majority members are salaried thus it may have varying characteristics with other Sacco's whose members comes from various fields. Time and resources are never enough hence limited the researcher during his work.

5.6 Suggested Areas of Further Research

The study recommends similar studies on other financial institution to determine whether the same results would be obtained. Moreover, another study should be carried out on analysis of credit uptake factors in SACCO societies.

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APPENDICES

APPENDIX 1: TRANSMITTAL LETTER

MASENO UNIVERSITY – NAIROBI CAMPUS,

P.O BOX 50881 – 00200,

NAIROBI.

TEL: 2220702/22207420.

1ST MARCH 2015.

Att: Kenya Police SACCO,

Dear Sir/Madam,

REF: COLLECTON OF DATA FROM MEMBERS.

I am a student at Maseno, pursuing Master in Business Administration {Finance}. I'm currently undertaking my research project that is the requirement to be fulfilled to be awarded with the said credential in Business Administration, and therefore seeking your kind assistance to fill the questionnaire form attached

All the information given will treated as confidential and will only be used for academic purpose.

Thank you.

Yours faithfully,

Njugu P. Njiri.
MBA/BE/05003/2014

APPENDIX II: RESEARCH QUESTIONNAIRE

Name {optional}……....

Date……

Kindly tick where appropriate

1. **Gender**

☐ Male ☐ Female

2. **Age**

☐ 18 – 30 ☐ 31 – 40 ☐ 41 – 50 ☐ 51 and above

3. **Education level**

☐ Secondary level ☐ College level ☐ University level

4. **In a scale of 5, how do you rate your preference for credit in your** SACCO**?**

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

SECTION I

Analyse the Customer Information on credit uptake levels by the SACCO **s: (*Please tick the appropriate)*.**

[i] How informed is you on available credit options in your SACCO**?**

☐ Very informed ☐ Informed ☐ Fairly Informed

☐ Poorly Informed ☐ Uninformed

[ii] How informed is you on requirements to access different credit facilities in your SACCO**?**

☐ Very informed ☐ Informed ☐ Fairly Informed

☐ Poorly Informed ☐ Uninformed

[iv]. How do you rate the process of application for credit facility?

☐ Very fast ☐ Fast ☐ Moderate ☐ Slow ☐ Very Slow

[v] In a scale of 5, how do you rate your information about credit in your SACCO?

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

SECTION II

Establish variety of credit product on credit uptake level by the SACCO s

(i). How many credit options does your SACCO have?

☐ Very many ☐ Many ☐ Average

☐ Few ☐ Very few

[ii] How many credit products do you have interest on?

☐ Very many ☐ Many ☐ Average

☐ Few ☐ Not influential

[ii] In a scale of 5, what is the level of influence of the types of credit product offered on your regularity of credit uptake?

☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

SECTION III

Examine the cost of credit product on credit uptake level by the SACCOs

[i] How high is the interest charged on your loan?

☐ Very high ☐ High ☐ Moderate ☐ Low ☐ Very low

[ii] How disclosed is the cost of credit in your SACCO?

☐ Fully Disclosed ☐ Disclosed ☐ Fairly Disclosed

☐ Poorly Disclosed ☐ Undisclosed

[iii] How can you rate the total cost related to credit uptake?

☐ Very high ☐ High ☐ Moderate ☐ Low ☐ Very low

SECTION IV

Analyse the effect of customers' service on credit uptake level by the SACCOs.

[i] How often do you receive credit advice from your SACCO?

☐ Most ☐ More ☐ Average ☐ Less ☐ Least

[ii] How often are your complains in regards to the credit services offered by the SACCO acted upon?

☐ Most often ☐ More often ☐ Often ☐ Less often

☐ Least often

[iii] How satisfied are you with the customer service offered to you?

☐ Very Satisfied

☐ Satisfied

☐ Moderate

☐ Less satisfied

☐ Unsatisfied

Appendix III: Sampling Method

Population	Sample	Population	Sample	Population	Sample
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354

95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10 000	370
150	108	750	254	15 000	375
160	113	800	260	20 000	377
170	118	850	265	30 000	379
180	123	900	269	40 000	380
190	127	950	274	50 000	381
200	132	1000	278	75 000	382
210	136	1100	285	1 000 000	384
Population	**Sample**	**Population**	**Sample**	**Population**	**Sample**