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ABSTRACT

Purpose: The study sought to establish the effect of credit access function on financial performance of SACCOs in Kenya.

Methodology: The study adopted a descriptive research design. The target population comprised of registered 181 deposit-taking SACCOs as at 31st December 2014 and the three licensed CRBs in Kenya. Stratified random sampling was used in the study, where SACCOs were grouped into five respective strata which were then randomly selected. The SACCOs were grouped into five respective strata of government based, teachers based, farmers based, private institutions based and community based. The study sampled 135 of the 181 (74.5%) licensed deposit taking SACCOs since these were the only licensed deposit-taking SACCOs by 2014. The choice of the licensed deposit taking SACCOs in Kenya was very objective since it was possible to obtain information that is representative of Kenya. In addition, SACCOs form the smaller arm in the financial sector and in most cases deals with a larger group of clients from the informal sector as opposed to other financial institutions like banks. Both primary and secondary data were analyzed using SPSS software, and statistics generated included descriptive statistics and inferential statistics. The particular descriptive statistics used included frequencies and percentages while the particular inferential statistics included Pearson correlation analysis and regression. Correlation analysis was used to establish either positive or negative relationships between the variables. Regression analysis was used to establish the significance of the variables and the degree of causal effect of the independent variables on the dependent variable. The hypotheses testing were conducted using simple regression model.

Findings: From the data analysis the study concluded that there was a significant and positive relationship between credit access function and financial performance thus the existence of credit reference bureaus was suitable for improving financial performance of SACCOs. This implied that CRBs help improve credit access resulting to increase in income in form of interest charged from the loans granted. In addition, Credit reference bureaus have led to increase in small and short-term loans. Credit reference bureaus helped members remove fear for access of credit and also for lenders no longer fear to get a negative selection of applicants since their competitor has already picked all cherries.

Recommendation: The study recommended that lenders should reduce unnecessary transaction costs like high interest rates on provision of credits which may shy away borrowers or even make loans expensive thus reducing credit access to borrowers. There was also a need to develop

strategic plans to act as a road map for the SACCOs future plans that would enhance credit access and performance improvement.

Keywords: *Credit access, lender, Credit Reference Bureaus, Non-performing loans, financial performance, SACOCOs.*

1.0 INTRODUCTION

1.1 Backgrounds and Research Gap

In recent years, lenders derived valuable information from credit information registries, commonly known as credit reference bureaus. Credit bureaus help create an open environment of credit information which allow lenders to identify good clients by providing information on the borrowers' repayment histories and levels of indebtedness (McIntosh & Wydick, 2007). In more liberal markets, credit providers can undertake enquiries on the potential and existing customers for the purpose of offering product and service before the customer makes actual application for that product or service, a process called pre-scoring (IMF, 2011).

Saba, Kouser and Azeem (2012) observed that once a loan is non-performing, the odds that it will be paid in full are considered to be substantially lower. Non-performing loans are therefore a measure of the stability of the banking system, and thereby the financial stability of a country. This outlines the importance of a financial institution ability to forecast, monitor and manage non-performing loans.

Most financial institutions are facing an enormous risk of non-performing loans (NPLs) noting that larger loans have greater risk exposure. Savings and Credit Cooperatives (SACCOs) mainly, carter for the credit needs of smallholders who cannot afford the collateral required by commercial banks. SACCOs safeguard money and other valuables for their members besides providing loans and offering investment financial services with credit creation forming the main income generating activity (World bank, 2009).

Information sharing helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. In most cases prospective lenders access the information only when they have permissible reason as defined in law, to determine the borrower's creditworthiness to ensure borrowers` right are not infringed. The borrower could be individuals, businesses, companies, sole proprietors and Government entities. The individual information collected by CRBs is made available on request to customers of the credit bureau for the purposes of credit risk assessment, credit scoring or for other purposes such as employment consideration or leasing an apartment (Laeven & Levine, 2011).

The use of credit reference bureaus is beneficial to SACCOs because they encourage data sharing within and across industry alongside implementation of global best practices. They foster mechanisms to be employed in reducing bad debts and identify potential fraud. According to the Developments in the Kenyan Banking Sector for the Quarter Ended 30th June 2014, Credit Reference Bureaus in Kenya act as a typical response to information asymmetry problems between lenders and borrowers (CBK, 2014). Sacco's have also created employment for Kenyans thus contributing to the government efforts of achieving the economic goals in the vision 2030.

The Kenya Credit Information Sharing report (2012) specified three roles played by CRBs: first, they enable lenders to lend to more and better risk clients thereby avoiding dead beats as well as determine better and lower the bad loan spread that they need to cover expected losses of credit to good payers. Secondly, credit bureaus reduce the borrowing cost by forcing creditors to be more competitive for good borrowers. Those lower costs for good credit risks motivate those borrowers to be more careful with repayment. Thirdly, credit bureaus reduce moral hazard by developing a credit culture where they operate as borrowers become aware that credit market becomes aware of their credit history and rewards or punishes them accordingly. However, Shisia, Marangu, & Omwario (2014) argue that CRB firms in Kenya should link with other regional CRB firms in other countries in order to monitor loan defaulters who move from one region to another.

In Kenya, SACCOs are one of the leading sources of rural finance and in many rural areas the local SACCO is the only provider of financial services. While the exact number of SACCOs operating in Kenya is not known but it is estimated to be 6000. Kenyan SACCO sub-sector remained the largest and most vibrant cooperative financial institutions in Africa, while registering an improvement in the global ranking to eleventh position from thirteenth position recorded in the previous year (WOCCU, 2014).

The study measured SACCOs performance through their level of profitability, Return on Assets and asset quality. Guy (2011) argue that NPL is widely used as a measure of asset quality among leading institutions and are often associated with failures and financial crisis in both developed and developing world. The SACCOs also invest in purchase of non-current assets to generate more income. A firm`s profits are measured by the earnings the firm gets from its operations which is evidenced by payouts and dividends to members. Performance can be measured by asset quality which is the percentage of good loans to total assets. If loans increase they signal good performance (Kioko, 2014).

1.2 Statement of the Problem

SACCOs have improved lives of many by grating loans and offering direct and indirect employment opportunities. However, defaults on loan repayments pose the greatest risk to stability of the multi-billion-shilling savings and credit co-operative (SACCO) movement (CBK, 2012). The risk of defaults on personal loans granted by SACCO's is high, as the debts are secured only by member guarantors. Many SACCOs have collapsed in Kenya since 1986 due to non-performing loans as evidenced by gazette notice No.15698 of 28th November, 2013 which indicated that Bookies SACCO Society Limited was under liquidation. In the recent years SACCOs have moved to Front Office Operations thus operating like commercial banks. What they do, how they do it and the consequences of their actions need to be understood clearly.

Locally, Segita, Limo, Kibati, & Muhanji (2014) reviewed the asymmetry information on CRBs for banks in Kenya; Gitahi (2013) studied on the effect of CRBs on NPLs in commercial banks in Kenya and Gaitho (2013) reviewed the role of credit reference bureau on credit access, a survey of commercial banks in Kenya. The hidden actions of lenders and borrowers in their credit transactions have resulted to the current financial crisis faced by SACCOs. The World Bank report (2011) identified CRBs functions as credit access, information sharing, consumer protection and risk management. Therefore, the effect of credit access function on financial performance of SACCOs in Kenya would be addressed in order to fill the gap.

1.3 Objectives of the Study

To establish the effect of credit access function on financial performance of SACCOs in Kenya.

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive research design which generally describes the characteristics of a particular situation, event or case. The target population comprised of registered 181 deposit-taking SACCOs as at 31st December 2014 (SASRA, 2014) and the three licensed CRBs in Kenya. The sampling frame used was the list of all the 135 licensed deposit taking SACCOs as at 31st December 2014 (SASRA, 2014). The choice of the licensed deposit taking SACCOs in Kenya was very objective since it was possible to obtain information that is representative of Kenya. In addition, SACCOs form the smaller arm in the financial sector and in most cases deals with a larger group of clients from the informal sector as opposed to other financial institutions like banks.

The study used stratified random sampling where the SACCOs were grouped into their respective strata and randomly selected. The SACCOs were grouped into five respective strata of government based, teachers based, farmers based, private institutions based and community based. The study sampled 135 of the 181 (74.5%) licensed deposit taking SACCOs since these were the only licensed deposit-taking SACCOs by 2014. Therefore the sample size of the study was 135 respondents.

Table 1: Sample Size

Categories	Population	Sample
Government based DTSs	42	31
Teachers based DTSs	42	31
Farmers based DTSs	58	43
Private institutions based DTSs	16	12
Community based DTSs	23	17
Total	**181**	**135**

Source: SASRA 2014

The study used both primary and secondary data which was largely quantitative and descriptive in nature. Data collected from secondary sources were available from the CRBs, published journals, annual reports and financial reports. Primary data was obtained from the original sources using questionnaires. The study used a structured questionnaire to collect data on credit access function, information sharing function, consumer protection function, and risk management.

The primary collected using questionnaires and the secondary data were subjected to quantitative analysis using SPSS, version 20. SPSS offers extensive data handling capacity and numerous

statistical routine that can analyze small to large data statistics (Donald & Tromp, 2006). The statistics generated included descriptive statistics and inferential statistics. The particular descriptive statistics used included frequencies and percentages while the particular inferential statistics included Pearson correlation analysis and regression.

Correlation analysis was used to establish either positive or negative relationships between the variables. Regression analysis was used to establish the significance of the variables and the degree of causal effect of the independent variables on the dependent variable. The hypotheses testing was conducted using simple regression model and thus was tested o the objective as shown below;

Objective: Effect of credit access function on financial performance;

$Y=\beta_0+\beta_1 X_1+\varepsilon$

Where

X_1=Credit Access Function

Y= Financial Performance

4.0 RESEARCH FINDINGS AND DISCUSIONS

4.1 Response Rate

The number of questionnaires that were administered were 135 and a total of 110 questionnaires were properly filled and returned. Out of the 135 questionnaires administered 110 were filled and returned representing 81.5 percent. The response rate result is shown in Table 2.

Table 2: Response Rate

Response	Frequency	Percent
Returned	110	81.5%
Unreturned	25	18.5%
Total	**135**	**100%**

4.2 Demographic Information

The study sought to establish the demographic characteristics such as of the category/type of the Sacco, year of existence and licensed year.

4.2.1 Categories of Sacco

The respondents were asked to indicate their type of Sacco. Results are presented in table 3.

Table 3: Categories of Sacco

Type of Sacco	Frequency	Percent
Government based	30	27.2
Teachers based	10	9.0
Farmers based	19	17.2
Private institutions based	27	24.5
Community based	24	21.8
Total	**110**	**100**

Table 3 show five categories of deposit-taking SACCOs namely government based deposit-taking SACCOs, teachers based, farmers based deposit-taking SACCOs, private institutions based deposit-taking SACCOs and community based deposit-taking SACCOs. Government institutions based deposit-taking SACCOs had the largest share of 27.2 percent, private based SACCOs had 24.5 percent followed by community based with 21.8 percent, farmers based had 17.2 percent while teachers based had the smallest share of 9.0 percent. This could mean that government institutions have the largest number of employees in the country compared to the other sectors.

4.2.2 Years of existence

The respondents were asked to indicate the years of existence of their deposit taking SACCOs. Results are presented in table 4.

Table 4: Years of Existence

Duration	Frequency	Percent
11-20 years	17	15.5
Above 20 years	93	84.5
Total	**110**	**100**

Table 4 shows that 84.5% of the respondents who were the majority indicated that their deposit taking SACCOs has been in existence for over 20 years while only 15.5% indicated that they have been existence for between 11-20 years.

4.2.3 Number of Years the SACCO was licensed in Deposit-taking Business

The respondents were requested to indicate Number of Years their SACCOs were licensed in Deposit-taking Business. Results are presented in table 5.

Table 5: Number of Years the SACCO was licensed in Deposit-taking Business

Number of Years	Frequency	Percent
Less than 1 year	12	10.9
2 to 5 years	75	68.2
More than 5 years	23	20.9
Total	**110**	**100.0**

Results in Table 5 shows that 10.9 percent of the sampled SACCOs were licensed for less than one year, 68.9 percent licensed within two to five years while 20.9 percent were licensed for more than five years as shown in table 5. This could indicate that many SACCOs registered after 2010 when the credit reference bureaus started and the SACCOs were aware of the need to be registered in the credit bureaus to control defaults rate thus improving their financial performance.

4.3 Effect of credit access function on financial performance of SACCOs in Kenya.

The objective of the study was to establish the effect of credit access function on financial performance of SACCOs in Kenya.

Descriptive Statistics

The study sought to assess the effect of credit access function on the financial performance of SACCOs. Results were presented in Table 6.

Table 6: Credit access function

Statement	No idea	Strongly disagree	Disagree	Agree	Strongly Agree	Mean	Std. Dev.
Credit reference bureaus help improve access to credit in our SACCO	6.4%	5.5%	10.0%	33.6%	44.5%	4.05	1.16
Credit reference bureaus have led to increase in the volume of both secured and unsecured loans in our SACCO	1.8%	8.2%	6.4%	34.5%	49.1%	4.21	1.01
Credit reference bureaus have led to increase in small & short-term loans in our SACCO	0.9%	12.7%	10.0%	33.6%	42.7%	4.05	1.06

Credit reference bureaus have led to increase in the volume of innovative credit products like house schemes in our SACCO	3.6%	2.7%	10.0%	38.2%	45.5%	4.19	0.98
Credit reference bureaus have led to change in guarantees requirement for SME loans in our SACCO	0.9%	9.1%	0.1%	42.7%	46.4%	4.32	1.13
Credit reference bureaus help members remove fear for access of credit in our SACCO	2.7%	4.5%	4.5%	46.4%	41.8%	4.20	0.93
Credit reference bureaus help reduce access to credit to unworthy borrowers in our SACCO	2.7%	4.5%	7.3%	22.7%	62.7%	4.38	1.00
Credit reference bureaus have enhanced access of personal properties to members in our SACCO	4.5%	8.2%	5.5%	38.2%	43.6%	4.08	1.11
Credit access is felt more in urban than in rural towns	2.7%	2.7%	12.7%	36.4%	45.5%	4.19	0.95
Credit reference bureaus have led to growth of our SACCO	0.0%	6.4%	3.6%	42.7%	47.3%	4.31	0.82
Credit reference bureaus have led to reduction in liquidity problems in our SACCO.	2.7%	7.3%	5.5%	37.3%	47.3%	4.19	1.02
Credit reference bureaus have led to increase in total assets in our SACCO	5.5%	3.6%	11.8%	37.3%	41.8%	4.06	1.09
Average						**4.19**	**1.02**

Results in Table 6 shows that 78.1 percent agreed that CRBs help improve credit access improves resulting to increase in income in form of interest charged from the loans granted. 88.6 percent of the respondents agree that Credit reference bureaus have led to increase in the volume of both secured and unsecured loans. This is in agreement with Kerage & Jagongo (2014) who found out that with sfficient credit informaion the volume of loans significantly increase.

76.3 percent agree that Credit reference bureaus have led to increase in small & short-term loans agreeing with Triki and Gajigo (2012) who found that the presence of public credit registers is associated with high access to finance. The findings indicate that 83.7 percent agree Credit

reference bureaus have led to increase in the volume of innovative credit products like house schemes. The respondents indicate that 89.1 percent agree that Credit reference bureaus have led to change in guarantees requirement for SME loans.

88.2 percent agree that Credit reference bureaus help members remove fear for access of credit and also for lenders no longer fear to get a negative selection of applicants since their competitor has already picked all cherries which is in agreement with Boyd & Hakenes (2013). 85.4 percent agreed that Credit reference bureaus help reduce access to credit to unworthy borrower agreeing with Jappelli and Pagano (2005) who argued that information sharing gives lenders the information about the characteristics and indebtedness of borrowers. The findings show 81.8 percent agreed that Credit reference bureaus have enhanced access of personal properties to members.

81.9 percent agreed that Credit access is felt more in urban than in rural towns an indication that the high cost of living in towns has pushed the need for credit facilities. On the other hand, 80 percent agreed that Credit reference bureaus have led to growth; 84.6 percent agreed that Credit reference bureaus have led to reduction in liquidity problems since the savings from members boost the liquidity levels. 79.1 percent agreed that Credit reference bureaus have led to increase in total assets because the contributions from members is reinvested in income generating projects.

Using a five point scale likert mean, the overall mean of the responses was 4.19 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.02 indicates that the responses were varied.

4.4 Correlation Analysis

Correlation analysis was conducted between Credit access Function (independent variable) and Financial performance (dependent variable). Results are presented in Table 7.

Table 7: Correlation matrix

		Financial performance	Credit access Function
Financial performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Credit access Function	Pearson Correlation	.243*	1.000
	Sig. (2-tailed)	0.011	

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

Results in Table 7 indicated that there was a positive and a significant association between Credit access Function and Financial performance (r=0.243, p=0.011). Triki & Gajigo (2012) in their study on credit bureaus and access of finance found a significance relationship since the volume of loans increased after the introduction of credit bureaus. According to Sambasivam & Biruk (2013) the deposit and loan portfolio in SACCOs amounts to about 34 percent of national savings and about 24 percent of outstanding domestic credit (as cited in CBK Report, 2008). It is undeniable fact that member's loan demand is very high and incompatible compared with the availability of funds. This follows that SACCOs face a risks arising from liquidity shortage and this has been a major cause of failure of many financial cooperatives.

4.5 Regression Analysis

The objective of the study was to establish the effect of credit access function on financial performance of SACCOs in Kenya. Ordinary least square regression analysis was conducted and the result was represented in Table 8.

Table 8: Credit access function on financial performance

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.277	0.038		7.311	0.000
Credit access function	0.024	0.009	0.243	2.599	**0.011**

Table 8 showed that Credit access function was positively and significantly associated with financial performance (r= 0.024, P=0.011).Thus, a unitary percentage increase in credit access function leads to an increase in financial performance by 2.4%. This finding is consistent with that of Triki & Gajigo (2012) who found out that the presence of public credit registers is associated with high access to finance for countries with public credit bureaus.

The specific model was;

$Y=0.277 + 0.024\ X_1$

Where Y=Financial Performance

X= Credit Access Function

4.6 Hypothesis Testing

The hypothesis was tested by using simple linear regression (table 8, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho is not rejected but if it's less than 0.05, the Ho fails to be accepted.

The null hypothesis was that Credit access function has no significant effect on financial performance of SACCOs in Kenya. Results in Table 8 above show that the p-value was 0.011<0.05. This indicated that the null hypothesis was rejected hence Credit access function has a significant effect on financial performance of SACCOs in Kenya.

5.0 Conclusions and Recommendations

5.1 Conclusions

The study concludes that there is a significant and positive relationship between credit access function and financial performance thus the existence of credit reference bureaus was suitable for improving financial performance of SACCOs. This implies that CRBs help improve credit access resulting to increase in income in form of interest charged from the loans granted. In addition, Credit reference bureaus have led to increase in small and short-term loans. Credit reference bureaus help members remove fear for access of credit and also for lenders no longer fear to get a negative selection of applicants since their competitor has already picked all

cherries. Furthermore credit access is felt more in urban than in rural towns an indication that the high cost of living in towns has pushed the need for credit facilities.

From the correlation analysis credit access function and financial performance of SACCOs are positively and significantly associated. Regression analysis indicated that credit access function have a positive and significant effect on financial performance of SACCOs (r= 0.024, P=0.011). Thus, a unitary percentage increase in credit access function leads to an increase in financial performance by 2.4%. The hypothesis results indicated that there is a significant relationship between credit access function and financial performance of SACCOs in Kenya. The null hypothesis was rejected hence Credit access function has a significant effect on financial performance of SACCOs in Kenya.

5.2 Recommendations

Lenders should reduce unnecessary transaction costs like high interest rates on provision of credits which may shy away borrowers or even make loans expensive thus reducing credit access to borrowers. Low borrowing costs will attract many borrowers thereby increasing the amount of interest charged on these loans which form part of their income earnings. There is also need to develop strategic plans to act as a road map for the SACCOs future plans that would enhance credit access and performance improvement. The management should also invest in human resources welfare through motivational activities such as giving commissions to employees who manage to woo more good customers for accessing credits.

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