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INFLUENCE OF PRODUCTS RANGE ON SACCO's CREDIT ACCESSIBILITY IN IMENTI NORTH SUB-COUNTY, KENYA

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Abstract

The objective of Savings and Credit Co-operative Societies (SACCO's) is members' empowerment through savings mobilization, disbursement of credit and ensuring long-term sustainability through prudent financial practices. However, SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, sources of funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. There has been a continuous decline in access to credit in SACCO's for three consecutive years. The objective of this study is to find out the influence of products range on credit accessibility in SACCO's in Imenti North Sub-County, Kenya. The study targeted management level employees of SACCO's as the respondents. Descriptive research design and a census sample design were used in this study. The findings of this study revealed that credit accessibility in SACCO'S is positively influenced by product range. These findings were both supported by the frequencies of the responses from the respondents which were presented in the form of percentages and mean scores. The study recommended that SACCO's should start investing in products innovation in order to ensure that they have a wide range of products which are tailor made to suit their client's needs. This will increase the level of credit accessed and increase profitability of the SACCO's.

Keywords: SACCO's, Product Range, Credit Accessibility, Influence, Government Policies

INTRODUCTION

Savings and Credit Co-operative Societies (SACCO's) are started with a common objective which is savings mobilization and credit advancement. They have a solid base of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs. Due to this, SACCO's's are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCO's have the ability and opportunity to reach clients in areas that are unattractive to commercial banks. This has made SACCO's more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Musyimi, 2010). The core objective of SACCO's is to ensure members empowerment through mobilization of savings and disbursement of credit. Musyimi (2010) argued that SACCO's have not been efficient in achieving this objective especially in credit disbursement.

Tang et.al. (2010) on the study of formal and informal credit markets demand found that SACCO's credit accessibility in India is affected by inadequate products to meet their customer needs. Tang et.al (2010) recommended that there should be a variety of loan products to ensure that SACCO's members are not going for loans to other financial institution and this will enable the SACCO's to build more of institutional capital which ensures permanency, provide cushion to absorb losses and impairment of members' savings. The institutional capital, which comprises the core capital and less share capital, is mainly accumulated from the interest earned on credit advanced to the members and this ensures growth of the SACCO's even in turbulent economic times.

Statement of the Problem

The objective of SACCO's is members' empowerment through savings mobilization, disbursement of credit and ensuring long-term sustainability through prudent financial practices. However, SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, sources of funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. Mulwa (2013) found that SACCO's offers a competitive lending rates to their members with an opportunity to borrow up to 3 times their shares contributions. A national survey conducted by Central bank of Kenya on financial access (2013) revealed that SACCO's credit accessibility has reduced from 13.5% in 2009 to 9.1% in 2013 despite the increase in credit demand. This continuous decline in access to credit for 3 consecutive years shows that SACCO's members are not able to access the credit from their SACCO's and they seek for credit from other financial institutions. These findings of the central bank survey which shows a decline of 4.4% and this reveals that there is a problem with credit accessibility of SACCO's.

Objective of the Study

To find out the influence of products range on SACCO's credit accessibility in Imenti North Sub-County.

Research Hypothesis

Ho: There is no significant relationship between products range and credit accessibility in SACCO's in Imenti North Sub-County.

H1: There is significant relationship between products range and credit accessibility in SACCO's in Imenti North Sub-County.

LITERATURE REVIEW

Theory of investment

Most individuals operate like firms where they maximize utility subject to the production function. They need the flow of output, labor and capital accumulation. Though firms know that where there is profitable investment opportunity one needs to obtain credit and finance it, most individuals do not do that since they found paying credit being hard. They will invest the little they have rather than using credit which later depends on the cost of the capital (interest rate) and the expected rate of return (Roslan & Mohd, 2009). The theory argues that individuals will invest on a certain project provided that the investment on the project raises the market value of the firm's shares. Other scholars also theorize the demand for credit with production function. In Cobb Douglas production function theory, firms need to maximize their profit from production. According to this theory, production depends mainly on labor and capital given technology (Yunus 2007). Cobb Douglas studies how production is affected by these important two factors of production- labor and capital, and how their variation change the income distribution (Onyeagosha et al 2012). This capital can be obtained from credit at different cost of capital (interest rate). Norhaziah & Mohdnoor (2010) argues that the permanent income hypothesis by is the commonly model that is used to explain the functioning of credit markets. This model assumes the presence of perfect credit markets. Besides, it assumes that economic and political institutions do not matter, even though they determine the structure and costs of human interaction. On the contrary developing countries, especially low-income countries, are characterized by institutional rigidities in the credit markets that deny the sustainability of the neo-classical assumptions of well-functioning financial markets, perfect competition and mobility of factors of production. With institutions playing a critical role in determining the performance of economies, it is perhaps no surprise that credit channel plays a critical role as safety nets to cushion the poor against income loss or transitory changes in income as well as counter situations where the state is too weak to implement effective market policies.

Empirical review of Product range of SACCO's

According to a study by Ngugi and Karina (2013) on the effect of products innovation on performance of SACCO's in Kenya, they found that product range of SACCO's can only be possible if SACCO's are going to adopt innovation strategies such as product replacement, product repositioning and conformance to variety of products that will contribute to the SACCO's profitability. They also found out that product technological innovation, aggressive competitors marketing campaigns by other credit lenders have contributed to the inaccessibility of credit from SACCO's more. They concluded that adoption of product innovation which would be translated to a wide range of SACCO's credit products would increase profitability of the SACCO's through access to credit. However the study dwelt on products innovation in SACCO's at the expense of the performance of the SACCO's.

According to Koech (2011) on financial constraint hindering growth of SME's, argued that the need for credit is a key component that drives man's economic needs the world over. Resources are known to be scarce and how they are allocated to satisfying individual needs and wants is the study of economist both in classical and contemporary eras. To a large extent man has never been able to meet his needs and wants at particular points in time as income and expenditure can seldom be matched. This has given rise to need for financial credit in order to fill the gap of individual needs and wants and cover the mismatch between income and expenditure. SACCO's members borrowing is sometimes unplanned and is usually driven by emergency situations in the businesses or family matters. Most borrowers would be faced with urgent needs that are unplanned and may have no choice but to obtain credit from either SACCO's or other formal or informal lenders. Thus, the uncertainty in life sustains demands for credit.

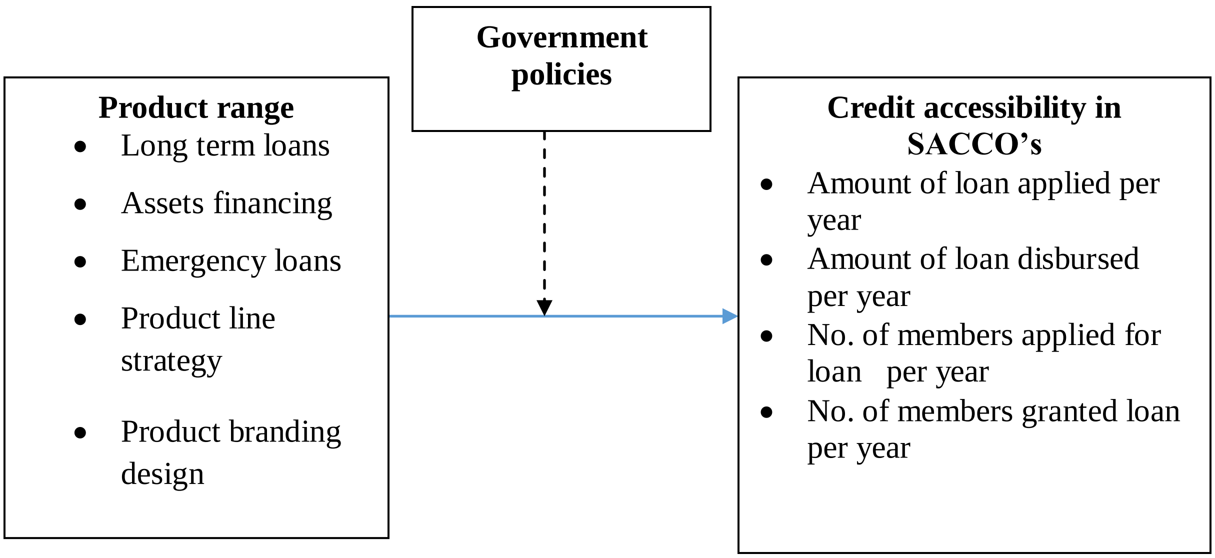
Gaitho (2010) conducted a survey on credit accessibility of SACCO's in Nairobi and the findings revealed that majority of SACCO's uses lending as one of their principal business activity. The loan portfolio is typically the largest asset and predominate source of revenue for SACCO's. The level of credit accessed from these SACCO's is attributed to the composition of its loan products portfolio. It was also found that most SACCO's does not engage in market research to understand the financial needs of current and potential clients as well as the type of loan products they prefer. The study recommended that SACCO's should conduct a thorough review of the products currently offered and identify features in their design, promotion or delivery that can affect their customers demand for those products or their ability to access them.

Okwany (2010) conducted a study on transformative development and harnessing cooperative entrepreneurship advantage for women and youth in Africa and found out that despite the fact that every financial institutions has its own loan products to offer, they should design of products that are flexible and meet the customer's needs. He argued that some clients may need long-term housing loans, others may be interested in consumption loans to meet more immediate needs. The study concluded that financial institutions should design loan products that are convenient and accessible. Dhakal (2011) on his study on risk management in SACCO's found out that risk management could be effective if SACCO's can diversify their products portfolio. The study argued that offering a wide range of products can help the SACCO's minimize risks which will be distributed over a wide range of products. He also noted that given the capacity, introduction of sophisticated products does not work in SACCO's and since they lack the capacity required for innovating new products.

Owusu (2008) on credit practices in rural SACCO's in Ghana found out that there was low credit applications in SACCO's due to very limited products they offered that limited the credit decision of the clients. He also found out that SACCO's have no drafted credit policy documents on how to develop and introduce new products in the markets compared with the other financial institutions. This findings were supported by WOCCU that the financial discipline of provisioning for loan has been lagging behind in most SACCO's since they did not innovate and redesign their loan products in such a way that their clients will create interest to access the credit.

Champo et.al. (2008) conducted a study on an analysis of the socioeconomic impact of co-operatives in Africa and their institutional context and found out that most SACCO's to a great extent used the number of products they offer determine how well the SACCO's can streamline their credit operations. He also noted that SACCO's need to employ a combination of performance indicators such as profitability, operating efficiency and portfolio quality indicators to measure their overall performance. This study agreed with the findings of Wangari & wanjau (2013) where it was asserted that very low loan applications are received by SACCO's due to lack of innovativeness, friendly products, and a variety from where the client can choose what fits his/her needs. This have plunged some SACCO's into serious liquidity problems, culminating in the erosion of public confidence in these SACCO's. Doan et.al. (2010) stated that effective access to credit in SACCO's management function for maintaining the SACCO's safety and soundness. Therefore, SACCO's should employ the qualified and competent staff who can identify risks associated with limited types of product. This study concluded that the credit management staff should possess the fundamental credit handling experience, quantitative analytics skills, marketing skills and experiences in innovating products that will see the SACCO's perform well in the market and increase its and credit accessibility to its customers. Effective product management was found to foster the credit performance and sustainability of SACCO's.

Figure 1. Conceptual framework



Independent Variable *Dependent Variable*

RESEARCH METHODOLOGY

The study adopted a descriptive research design which is concerned with describing the characteristics of a particular individual, or groups (Kothari 2009). The target population of the study was 34 SACCO's registered with the Ministry of Cooperatives. All the 34 SACCO's offer credits to their members. The study respondents was 102 management staff of the SACCO's. The respondents were selected since they are the people who play critical role in designing credit policies and strategies. The credit officers advises the customers on the loan products offered that can suit their needs while the credit manager and the branch managers approves the loans at different levels of the loan processing.

The study conducted a census to all the 102 respondents. According to Kothari (2010), this is a complete enumeration of all items in the population. Data was collected through questionnaire. The questionnaire had both open ended and closed ended questions. It was self-designed in such a way to capture all pertinent information regarding product range and credit accessibility in SACCO's. The test-retest method was conducted using 10 questionnaires to employees which was 10% of the respondents of the study. The 10 questionnaires were coded and input into Statistical Package for Social Sciences (SPSS) version 22 for running the Cronbach reliability test.

The reliability of the questionnaires were tested using the Cronbach's alpha correlation coefficient. The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.887. A coefficient of 0.7 is recommended for a newly developed questionnaire. Descriptive statistics which included mean and standard deviations was used to analyze data. The study also used logistic regression analysis to test the hypothesis and the p-value from test statistic was used to determine whether any differences could be attributed to the ordinary random factors or not (Greene, 2003). Logistic regression was considered the best statistical method since the parameters were of qualitative response in describing the relationship between the dependent variable and independent variable.

ANALYSIS AND FINDINGS

Preliminary Analysis

The researcher issued 102 questionnaires to the respondents. Only 94 questionnaires were returned which accounted for 92% return rate.

Analysis was done from responses of the respondents in regard to the product range in their SACCO's. The respondents were asked to respond on the kinds of products offered in their Sacco's.

Table 1. Response on Long term loan products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	10	10.6	10.6	10.6
	Neutral	7	7.4	7.4	18.1
	Disagree	77	81.9	81.9	100.0
	Total	94	100.0	100.0	

Respondents were asked to respond on whether there is long term products in their Sacco's. The table above presents respondents responses to the item. Majority of the respondents 81.9% disagreed that their Sacco's have long term products, while 10.6 % agreed that their Sacco's have long term products while 7.4% could not agree or disagree that the kinds of products offered in their Sacco's are long term products.

Table 2. Response on whether Sacco's offer Assets financing products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	2	2.1	2.2	2.2
	Neutral	1	1.1	1.1	3.3
	Disagree	88	93.6	96.7	100.0
	Total	91	96.8	100.0	
Missing	System	3	3.2		
Total		94	100.0		

The respondents were asked to indicate whether their Sacco's offers assets financing products. Majority of the respondents 96.7% disagreed that they offer assets financing products while 2.2% agreed they offer assets financing products and 1.1% of the respondents were neutral.

Table 3. Response on whether Sacco product range determines accessibility of credit by SACCO's members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	23	24.5	24.5	24.5
	Neutral	2	2.1	2.1	26.6
	Agree	69	73.4	73.4	100.0
	Total	94	100.0	100.0	

The respondents were asked whether Sacco's product range determines credit accessibility. Data obtained revealed that majorities of the respondents 73.4% agreed that Sacco's product range determines credit accessibility in their Sacco's while 24.5% of the respondents disagreed with this construct. Only 2.1% were neutral. The findings implies that Sacco members will access credit from SACCO's if there is several products to be offered.

Table 4. Response on whether SACCO's product line strategy determines accessibility of credit by SACCO's members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	57	60.6	60.6	60.6
	Neutral	5	5.3	5.3	66.0
	Agree	32	34.0	34.0	100.0
	Total	94	100.0	100.0	

Respondents were asked whether Sacco's product line strategy determines the access of credit by members. From the table above, it was found that majority of the respondents 60.6% disagreed with the statement that Sacco's product line strategy determines the access of credit.

However, 34% of the respondents agreed with this statement that Sacco's product line will determine how credit Sacco's credit will be accessed.

Table 5. Response on whether SACCO's product brand design determines accessibility of credit by SACCO's members

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	51	54.3	55.4	55.4
	Agree	41	43.6	44.6	100.0
	Total	92	97.9	100.0	
Missing	System	2	2.1		
Total		94	100.0		

The table above shows that Majority of the respondents did not agree at 54.3% that Sacco's products brand design determines the level at which credit is accessed. It was noted that 43.6 of the respondents agreed that Sacco's products brand design determines the rate at which credit is accessed in Sacco's.

Table 6. Descriptive Statistics Analysis

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
SACCO'S loan product range	94	3.49	.089	.864	.747
Valid N (listwise)	94				

Credit accessibility is very important aspect for the existence SACCO's. It is the major source of income for SACCO's and hence its management is crucial in enhancing the performance of a SACCO.

The researcher established that most SACCOS credit accessibility is influenced by their product range as indicated by mean of 3.49, this is strong but with level of dispersion of 0.864 shows that very minimum product range available to ensure that members access credit from their SACCO's.

Hence the need of the management to ensure there are available range of loan products to ensure that members have a wide range to choose from and this will be well represented by a smaller standard deviation.

Test of hypothesis of Product Range

Table 7. Correlation of the dependent and independent variables

Independent Variable		**Products Range**
Sacco Credit Accessibility (Y)	Pearson Correlation (r)	.525*
	Sig. (2-tailed)	.001

There is a strong positive relationship between product range and Credit accessibility by SACCO Members in Imenti North Sub-County as indicated by correlation of 0. 525. The p-Value of 0.001 is less than the acceptable significance level (α), hence the null hypothesis that there is no relationship between product range and Credit accessibility by SACCO Members in Imenti North Sub-County is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

Estimation Model for dependent variable (Credit accessibility in SACCO's)

The indicators were also subjected to analysis in order to ascertain the model fitness which can explain the level of change by all the predictors on the dependent variable. The coefficients indicate that the correlation coefficient (R) between the product range and credit accessibility is 0.711 which is a positive strong relationship. The coefficient of determination (R Square) of 0.506 indicates that the model can explain 50.6% of the variations or changes in the dependent variable. This means that product range can explain 50.6% of changes in credit accessibility of SACCO's in Imenti North Sub-County.

Table 8. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error
1	.711[a]	.506	.476	.309

a. Predictors: (Constant), Product range of SACCO's.

b. Dependent Variable: Credit Accessibility in SACCO's.

SUMMARY & CONCLUSIONS

The findings of the study revealed that credit accessibility in Sacco's is influenced by product range. These findings were both supported by the frequencies of the responses from the respondents which were presented in the form of percentages and mean scores. It was found that product range have a highest positive influence on SACCO's credit accessibility. The objective of the study was to set to establish the influence of products range on credit accessibility in SACCO's in Imenti North Sub-County. The findings revealed that products range have a positive influence on the accessibility of credit in SACCO's. This finding is supported by variation of 0. 525. There is a p-Value of 0.001 which is less than the acceptable significance level (α) and hence the null hypothesis. The influence of products range on accessibility of credit is also statistically significant and hence the null hypothesis was rejected. This shows that the influence is not by chance. SACCO's has not been increasing their loan product portfolios and this has affected the level at which their members access credit. It was also found 90% of the SACCO's have only developed 3 products for the last five years while the 10% have not developed any new product that could have attracted member to borrow credit. This shows lack of innovativeness in terms of credit product offered by SACCO's.

This study agrees with the findings of Ngugi and Karina (2013) who found that inadequate loan products innovation, aggressive competitors marketing campaigns have contributed to the inaccessibility of credit from SACCO's in Kenya. Theirs study concluded that product range of SACCO's can only be possible if SACCO's are going to adopt innovation strategies such as product replacement, product repositioning and conformance to variety of products that will contribute to the SACCO's profitability. The findings further revealed that from 2011 to 2013, the number of loan applications received in SACCO's from Imenti North Sub-County has dropped from 45% to 20.5%. This has affected the number of successful loan applications. It was also found that successful loan applications dropped from 43% in 2011 to 24% in 2013. The results of the analysis of the moderating variable revealed that government policies had a higher moderating influence on credit accessibility. The results also showed that the product range can explain 50.6% of changes in credit accessibility of SACCO's in Imenti North Sub-County. The study concludes that the objective of SACCO's is to empower members' through savings and disbursement of credit for long-term sustainability and profitability of the SACCO's and product range should not be overlooked if SACCO's credit accessibility is to be improved. The product range of SACCO's being a single variable reflects a very high influence of 50.6% on credit accessibility in SACCO's.

RECOMMENDATIONS

The study recommends that SACCO's should start investing in products innovation in order to ensure that they have a wide range of products which are tailor made to suit their customer's needs. This will increase the level of credit accessed by their customers and increase profitability of the SACCO's. It is also recommended that the government and SACCO's regulating authority in Kenya should develop policies that will enhance credit accessibility in SACCO's.

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