



Effect of Unsecured Commercial Bank Loans on Financial Performance of Savings and Credit Co-Operative Societies in Kenya

Everlyn Ninga Munene¹, James Muchiri Ndambiri¹, Stephen Muthii Wanjohi²

¹Muchiri Ndambiri and Company Consulting Group, Nairobi, Kenya

²Department Statistics and Actuarial Science, Jomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya

Email address:

eve@mncconsulting.co.ke (E. N. Munene), james@jamesndambiri.me.ke (J. M. Ndambiri), wanjohi8280@yahoo.com (S. M. Wanjohi)

To cite this article:

Everlyn Ninga Munene, James Muchiri Ndambiri, Stephen Muthii Wanjohi. Effect of Unsecured Commercial Bank Loans on Financial Performance of Savings and Credit Co-Operative Societies in Kenya. *International Journal of Accounting, Finance and Risk Management*. Vol. 4, No. 1, 2019, pp. 1-14. doi: 10.11648/j.ijafmr.20190401.11

Received: October 26, 2018; **Accepted:** January 24, 2019; **Published:** February 28, 2019

Abstract: Changes that occur in the co-operative sector affect the development of the country and the general welfare of the members. Given the increasing aggressiveness by commercial banks in Kenya to offer unsecured loans to both their clients and non-clients and their marketing techniques that ensures wide coverage, then there is likelihood of the unsecured commercial bank loans affecting the financial performance of Savings and Credit Co-operative Societies in Kenya. Thus the general objective of this study was to establish the effect of unsecured commercial bank loans on financial performance of Savings and Credit Co-operative Societies in Kenya. The specific objectives of the study were to establish the effect of unsecured commercial banks loan amount, loan interest rate and loan tenure on financial performance of Savings and Credit Co-operative Societies in Kenya. The research adopted a causal research design. The population of the study was the 177 licensed deposit taking Savings and Credit Co-operative Societies and 43 licensed commercial banks in Kenya as at 2015. Secondary data was obtained from Savings and Credit Co-operative Societies Regulatory Authority Annual Supervision Reports and Central Bank of Kenya Bank Supervision Reports using data collection checklist. The study established that unsecured commercial banks loan amount and loan interest rates had a positive significant effect on financial performance of Savings and Credit Co-operative Societies with P-values of 0.004 and 0.03 and coefficients of 0.006468 and 0.013 respectively. Unsecured commercial banks loan tenure had a negative significant effect on financial performance of Savings and Credit Co-operative Societies with a P-value of 0.018 and a coefficient of -0.74. The findings of this study would be of benefit to the management and policy makers of Savings and Credit Co-operative Societies in formulating policies that would ensure they remain competitive amidst competition from commercial banks.

Keywords: Portfolio, Unsecured Loan, Co-Operative's

1. Introduction

1.1. Background of the Study

SACCOs are co-operatives which furnish their members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest [31]. Co-operative societies are organizations which are user-owned, user-controlled and user-benefited which operate under the seven co-operative principles namely; open and voluntary membership, autonomy and independence, democratic

member control, economic participation of members, education, information and training for members, co-operation among various co-operatives and concern for the community (International Co-operative Alliance [ICA] [27]. Being voluntary, democratic and self-controlled business associations, co-operatives offer the institutional framework through which local communities gain control over the productive activities from which they derive their livelihoods [64]. The basic function of SACCOs is to provide credit facilities at low cost [74]. This is done through pooling together members' savings. These members agree to save

their money together and to extend credit to each other at reasonable rates of interest.

With the population of Kenya at 43 million it is estimated that 63% of Kenyans participate directly or indirectly in co-operative development enterprises [88]. Kenya has the largest SACCO movement in Africa with a total membership of 8 million followed by Senegal at 5 million [89]. To date there are over 11,200 registered SACCOs in the country, with a membership of 8 million Kenyans having mobilized domestic savings estimated at over \$ 2.5 Billion. Of which 5,000 SACCOs are operational and 230 have Front Office Service Activities (FOSA). The SACCO sector has mobilized over Kshs 200 billion in savings which is about 30% of the national savings. 70% of total Africa continental portfolio is Kenyan, which is also ranked 7th worldwide. Kenya sits in the group ten largest co-operative movements (G10) member's countries. [88].

In Kenya, SACCOs and commercial banks form part of the financial sector and lending is their principal business as evidenced by the volume of loans that constitute their assets and the annual substantial increase in the amount of credit granted to borrowers in both private and public sectors of the economy. However, SACCOs are facing stiff competition from unsecured commercial banks loans for the same market. Ilve stated that SACCOs have tried to maintain relevance in the market and have tempted to invest in information and technology, and at the same time offer the latest products such as automated teller machines and tailor made loan products [27]. Despite the effort by SACCOs to maintain their competitive edge in the market, the flexible terms offered by commercial banks on their unsecured loans in terms of flexible and longer repayment periods, large loan limits and offering loans without requesting for collateral, SACCOs' business has remained under threat. Unsecured commercial banks loans have been targeted to salaried members of the public who are also SACCO members. The major income for SACCOs arises from interest earned from loans advanced to members and contributes to the overall financial performance of SACCOs. If this interest is affected in any way like reduced loans and advances, the financial performance of SACCOs will definitely be affected adversely.

1.2. Statement of the Problem

SACCOs play an important role in wealth creation, savings mobilization, provision of credit, food security and generation of employment and therefore alleviating poverty. For a long period, SACCOs have enjoyed almost monopoly power on their market niche without much competition from other financial institutions. Over the years 2011 to 2014, the trends have indicated that unsecured commercial banks loan amount and loan accounts have increased at a much higher rate of 62.9% and 150.6% respectively compared to growth in performance of SACCOs in terms of deposits, loans and advances and membership which have improved at lower rates of 46.4%, 54.7% and 44.0% respectively. SACCOs have been diversifying their product lines and offering

affordable interest rates on their loans and advances but their performance still remains below that of commercial banks. Despite the popularity of unsecured commercial bank loans among salaried people who are also members of SACCOs, no conclusive study has been done to determine how unsecured commercial bank loans impact on financial performance of SACCOs in Kenya. This study therefore seeks to fill in the gap by establishing the effect of unsecured commercial bank loans on financial performance of SACCOs in Kenya.

1.3. Objectives of the Study

The general objective of the study was to establish the effect of unsecured commercial bank loans on financial performance of Savings and Credit Co-operative Societies in Kenya.

1.4. Specific Objectives

The study was guided by the following specific objectives;

(1) To establish the effect of unsecured commercial banks loan amount on financial performance of Savings and Credit Co-operative Societies in Kenya.

(2) To establish the effect of unsecured commercial banks loan interest rate on financial performance of Savings and Credit Co-operative Societies in Kenya.

(3) To establish the effect of unsecured commercial banks loan tenure on financial performance of Savings and Credit Co-operative Societies in Kenya.

1.5. Research Hypotheses

H₀₁: There is no significant effect of unsecured commercial banks loan amount on financial performance of Savings and Credit Co-operative Societies in Kenya.

H₀₂: There is no significant effect of unsecured commercial banks loan interest rate on financial performance of Savings and Credit Co-operative Societies in Kenya.

H₀₃: There is no significant effect of unsecured commercial banks loan tenure on financial performance of Savings and Credit Co-operative Societies in Kenya.

1.6. Significance of the Study

This research would provide important information to the SACCOs management on how to adopt new competitive strategies to counter competition from the commercial banks by designing new attractive and innovative products for their members and also engaging in aggressive promotional activities of their products.

The Kenyan government, through Savings and Credit Co-operative Societies Regulatory Authority (SASRA) would benefit from the research findings by enacting laws and regulations that will enable SACCOs to be competitive with other financial institutions and hence promoting economic development. The study would also act as a reference tool and add important information to the body of existing literature in the area of unsecured loans.

2. Literature Review

2.1. Overview of Unsecured Commercial Bank Loans

An unsecured commercial bank loan is the type of loan offered to individuals with a regular monthly salary from employment. It is also known as personal loan, household loan or consumer loan. Unsecured personal loan is a form of debt that is given to an individual borrower without collateral as long as the borrower has proof of regular income. It is a form of debt given to an individual by a financial institution without provision of collateral or security by the borrower. Any form of debt whose source of repayment does not come from the asset purchased but from wages or salary of the individual borrower is called a personal loan [12]. Unsecured personal loans are obtained for consumer needs which refers to the use of credit to purchase personal needs such as durable goods, finance education, medical care and other expenses [13].

2.2. Unsecured Commercial Banks Loan Variables

For the purpose of this study, unsecured commercial banks loans have three main variables namely; unsecured commercial banks loan amount, unsecured commercial banks loan interest rate and unsecured commercial banks loan tenure.

2.2.1. Unsecured Commercial Banks Loan Amount

Unsecured lending, specifically personal loans were mostly marketed to the low income earners in the 1990s. The profile of customers taking up personal loans has changed over time. Unsecured credit has been growing at a far higher rate than secured credit, more so since the implosion in the mortgage market in 2008 [87]. Various commentators and government representatives recently expressed concern about the rapid growth of this portfolio over the last few years especially the personal loans and commercial papers. The demand for unsecured personal loans is seen in the increasing number of applications that have been made by consumers.

According to 2014 Bank Supervision Report, a substantial share of the banking sector loans and advances were extended to personal/households, trade, real estate and manufacturing sectors which accounted for 72.2% of gross loans and advances as at December 2014. Over the same period, 83.6% of the sectors loan accounts were in personal/household sector which accounted for over 26% of the banking sector credit. This shows that personal loans constitute a substantial quantity amount of the total banking sector credit in Kenya.

2.2.2. Unsecured Commercial Banks Loan Interest Rate

Interest rate is the 'rent' paid on borrowed money. Interest rate is the price a borrower pays for the use of money they borrow from a lender/financial institutions or fee paid on borrowed assets. Lenders receive interest as compensation for foregoing the use of their funds now. The original amount lent is called the principal and percentage of principal which

is payable over a period of time is the interest [25]. In money monetary using economies, money creates claims because it is an asset, a store of value as well as a means of exchange. Therefore, those who lend money expect to be compensated for handing over their claims for the period of the loan to those who borrow money. The compensation is the interest rate expressed as a rate percent per annum. This is because it is a convenient way of calculating and comparing the cost of borrowing money.

In Kenya, interest rates decisions are taken by The Monetary Policy Committee (MPC) of the CBK. The official interest rate since August 2005 is the Central Bank Rate (CBR), which replaced the 91-day Treasury bill rate. The bank lending rate is the upper rate of interest charged on unsecured loans by commercial banks to private individuals and companies [14]. Initially, banks in Kenya were using their individual base rates to price their loans.

2.2.3. Unsecured Commercial Banks Loan Tenure

Loan tenure is the period for which the loan is payable, also known as the loan repayment period. Commercial banks in Kenya has since taken advantage of the short loan tenure offered by SACCOs of up to a maximum of 5 years (60 months) and offered considerably longer loan tenure of up to 6 years (72 months). This gives commercial banks a competitive advantage as compared to SACCOs. SACCO members are not satisfied with the shorter repayment period, and pegging loan on deposits deny member's money which they have ability to pay. Kenya Union of Savings and Credit Co-operatives Organization (KUSCCO) reported that the consequences of the global financial crisis have led to reduced growth savings: 7.6 per cent growth in savings in 2008 compared to 31.2 per cent in 2007 [88]. It was reported in interviews that SACCOs in Kenya have reported increase in demand for loans, but have exercised caution in responding to requests [88].

2.3. Savings and Credit Co-operative Societies

SACCOs are formed to provide financial support to the members by accepting deposits from members and granting them loans at lower rates of interest in times of need. The rationale behind the formation of SACCOs is unity in diversity. SACCOs have an immense potential to deliver goods and services in areas where both public and private sector have not ventured [82]. In most cases, co-operatives are local institutions that address "local needs", employ "local talent" are led by "local leaders" either directly or through local branches.

The World Council of Credit Unions (WOCCU) statistical report for 2014, recorded a total of 57,000 SACCOs, spread across 105 countries and 6 continents. The world's credit union system has a combined savings of \$ 1.5 trillion (US dollars), and an asset base of \$ 1.8 trillion (US dollars) out of which \$ 1.2 trillion (US dollars) constituted the loan portfolio. The average worldwide penetration rate of the credit union system stood at 8.2 percent. Kenya has been a success as far as the co-operative movement is concerned. It

is estimated that there are currently over 10,800 registered Co-operative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial-based that is SACCOS and, 16% are others. 63% of the Kenyan population depends on the co-operative related activities for their livelihood with over 250,000 benefiting through direct employment [52].

The strength in numbers which constitute SACCOS in Kenya has led to personal economic empowerment and financial freedom to many Kenyans. Individual employees and producers come together to mobilize savings, thereby forming a powerful economic movement. SACCOS' philosophy hinges on the fact that a well ordered economic life entails a balance between savings and spending. According to Lipsey a high saving economy accumulates assets faster and thus grows faster than a low saving economy. [47].

2.4. Financial Performance of SACCOS

According to the business dictionary financial performance involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added. Financial performance is the ability to operate efficiently, profitably, survive grow and react to the environmental opportunities and threats [80]. Performance is measured by how efficient the enterprise is in use of resources in achieving its objectives.

Richard believes that many firms' low performance is the result of poorly performing assets [26]. SACCOS earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. SACCOS' financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses).

Today, SACCOS are seeking financial sustainability. Many SACCOS were restructured and reorganized in order to achieve financial sustainability and finance their growth. Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off [86]. It embraces generating sufficient profit to cover expenses while eliminating all subsidies, even those less-obvious subsidies, such as loans made in hard currency with repayment in local currency [79].

2.5. SACCOS Financial Performance Indicators

All the strategies designed and activities performed by SACCOS are meant to realize the grand objective of profitability. However, this does not mean that SACCOS have no other goals. SACCOS could also have additional social and economic goals. However, the intention of this study is related to SACCOS' profitability. To measure the profitability

of a firm there are variety of ratios used of which ROA, ROE and NIM are the major ones [3].

2.6. Return on Assets

Return on Assets (ROA) is a ratio that indicates the profitability of a company. It is a ratio of Income to its total asset [37]. It measures the ability of a company's management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution [37]. Woolcock state that a higher ROA shows that the company is more efficient in using its resources, [87].

2.7. Return on Equity

Return on Equity (ROE) is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by Khrawish that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital [37]. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a company's management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholder's capital.

2.8. Net Interest Margin

Net Interest Margin (NIM) is a measure of the difference between the interest income generated by a company and the amount of interest paid out to their lenders for example on deposits, relative to the amount of interest earning assets. It is usually expressed as a percentage of what a company earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). The NIM variable is defined as the net interest income divided by total earning assets [23]. Net interest margin measures the gap between the interest income the company receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of the company intermediation services and the efficiency of the company. The higher the net interest margin, the higher the company's profit and the more stable the company is. Thus, it is one of the key measures of any company's profitability. However, a higher net interest margin could reflect riskier lending practices associated with substantial loan loss provisions [37].

2.9. Empirical Review

The study of commercial banks' lending activities and financial performance of SACCOs has greatly increased in recent years but limited number of studies has been carried out which specifically relate unsecured commercial bank loans to financial performance of SACCOs in Kenya.

According to the latest quarterly UK Family Finances report from Aviva [20], there has been an increase in unsecured debt and mortgage debt, while savings levels have continued to stall. The average amount that families in the UK borrow through credit cards, personal loans and overdrafts has shot up between May and July 2012, rising from £9,314 to £10,563. At the same time the typical family's savings fell to £1,131 from £1,228 over the same period. Whilst statistical evidence indicates that the growth in unsecured lending was driven by middle to high income earners; there is a persistent negative public perception that the industry has been reckless and exploitative in lending to the lower segment. The industry needs to communicate the correct position in a far better way and re-affirm the fact that they have extended funding to the lower income groups in an ethical and fair manner. The industry needs to also emphasize the fact that more people have migrated from the informal banking sector to a regulated and safe environment than in the past.

Ewert carried out a study on the determinants of bank lending performance in Germany using credit file information of 260 medium-sized firm borrowers for the period 1992-1998 [21]. The study aimed at testing the several theories relating collateral to interest rate premiums and therefore lending performance, using a random effects model on panel data analysis to eliminate the borrower and time-specific effects. Two models were estimated with interest rate premiums and probability of distress as the two predicted variables. Interest rate premium was set to be predicted in a random effects model by among other variables: collateral; bank relationships; bank firm rating; firm characteristic and firm size. The highlight of this study's finding was that interest rate premium increased with rise in the collateral pledged. This was contrary to the signaling and firm characteristics theories above, where we would expect higher interest rate premium for firms pledging little or no collateral. However, estimation of distress probabilities of the same firms revealed that more collateral and covenant in credit contracts lead to lower distress probabilities. Combining the above results, the study gives controversial finding that riskier credit contracts are assigned lower interest rate premiums by banks.

Chernykh investigated the determinants of long-term lending by banks to firms in an emerging market using bank-level information from 881 banks in Russia [17]. The variables of concern included bank size, capitalization, liability structure, risk taking, ownership type, managerial expertise and location of individual banks. The findings revealed that the size of the bank (measured by assets) and the bank capitalization are the only determinants of not only

loans expended to businesses but also long-term loans. This is attributed to the fact that bigger and well capitalized banks can withstand the risks emanating from long-term lending. The study thus demonstrates that there are supply-side constraints to credit expansion, although it did not consider the role of collateral on bank lending levels.

Nwanko observed that the Ugandan social and economic context is quite distinguishable from the South African one [62]. It is therefore not surprising that the financial sectors in these two countries differ significantly specifically with regard to unsecured lending. In view of this study, Uganda though lending to households and individuals grew by 40.4% in 2011 (Bank of Uganda), reversing the decline of 11.8% in 2010, there remains a much greater focus on unsecured loans to small businesses, as opposed to individuals. Unlike in South Africa where individuals have a huge appetite for unsecured credit to fund life style costs, in Uganda, unsecured credit is sought and advanced for small to medium enterprise needs such as start-up and for working capital, cash flow and production costs purposes. This may be because of the high unemployment rate and poverty levels as a result of which many people, including employed people, run small businesses as a source of primary or secondary income.

Okungu conducted a study on the effect of commercial bank loans on financial performance of SACCOs in Kisumu [66]. The general objective of the study was to investigate the effect of personal loans offered by commercial banks on the financial performance of SACCOs. The findings and conclusions of the study were that commercial bank loans have not grossly affected the savings and lending volumes of the SACCO. Competition between SACCOs and Commercial banks has helped to uplift the welfare of members of SACCO. SACCOs have suffered a blow from competition because their members seek other avenues for funds to meet their financial obligations, consequently affecting SACCO's annual income. The study used loan advances by SACCOs as the measure of financial performance rather than ROA.

Njeru studied the effect of loan repayment on financial performance of deposit taking SACCOs in Kenya. Their findings and conclusions were that loan repayment is the obligation of members to ensure that SACCOs have adequate cash to meet new members' loan obligation [60]. The researchers noted there was huge credit risks encountered among different SACCOs, hence the need of the management to ensure there are improved credit policies and this will reduce liquidity risk and improve financial performance of the SACCOs. They also noted that the SACCO regulator on board need to introduce compliance on International Financial Reporting Standards (IFRS) to ensure that all SACCOs have a standard way of reporting and it will be easier to monitor loan obligation among different SACCOs since huge loans has a ripple effect on the performance of the economy in relation to inflation rate and gross domestic product of the country.

Okundi conducted a study on the relationship between

working capital management and financial performance of deposit taking SACCOs licensed by SASRA in Nairobi County. Interest rate on members' deposits as a measure of financial performance was used as the dependent variable [65]. The independent variable (working capital management) was measured by cash conversion cycle, current ratio, debt ratio and turnover growth. The findings indicated that efficient working capital management leads to better financial performance of a SACCO; hence a positive relationship existed between efficient working capital management and financial performance variable. For SACCOs, overdrafts and short term advances are part of working capital and hence needs to be managed efficiently for enhanced financial performance.

Bett studied the effect of lending interest rates on profitability of SACCOs in Kenya [10]. He used the empirical cross sectional survey design in data collection. In conclusion he noted the positive correlation between lending interest rates and profits of SACCOs as revealed by a positive multiple correlation coefficient. This means that interest rates levels play a major role in profitability levels of SACCOs. Generally, SACCOs offer lower interest rates compared to those offered by commercial banks but still SACCO members prefer loans from commercial banks because the amount of loan awarded is not pegged on savings as is the case in SACCOs [54].

Mugenda carried out a study on the effects of competition on provision of financial services by Mwalimu SACCO, a case of Thika District in Kenya. His findings were that Mwalimu SACCO has suffered a blow from competition that has intensified in the recent years; some of her members have found other avenues for meeting their financial obligations and thus has affected the SACCO's annual incomes. The researcher further found that teachers in Thika District are not willing to leave Mwalimu SACCO because of its stability. The competing institutions with Mwalimu SACCO have managed to lure a few members. This study was not specific on the area of concentration rather; the researcher was general on competition and on provision of financial services by Mwalimu SACCO.

Thorton observed that SACCOs suffered challenges as members of the SACCOs preferred loans from commercial banks to the ones from the SACCOs because the amount of loan awarded is not pegged on savings as is the case in SACCOs [65]. Mungai Established that Mwalimu SACCO has suffered a blow from competition that has intensified in the recent years; some of her members have found other avenues for meeting their financial obligations and thus has affected the SACCO's annual incomes. These two studies clearly observed that SACCO members preferred meeting their financial obligations from commercial banks as opposed from SACCOs due to constraints found while borrowing from SACCOs [54].

Njoroge examined whether Ukaguzi SACCO experienced delay or non-remittance of SACCO funds by employer and its effects on the ability to pay loans to members to compete with traditional banks. The study shows that Ukaguzi

SACCO does not have serious problems of SACCO funds. The mild delay by a few employers has not affected performance of the SACCO [61].

Muturi did an analysis of factors influencing adoption of innovation strategy among SACCOs registered in Nairobi with SASRA [57]. He observed that in Kenya, the SACCO industry faces a number of challenges in adoption of innovation strategies, among them; overcapacity and price wars, poor corporate governance, inadequate legislative and strict regulatory framework, financially weak banking organizations and lack of awareness of banking knowledge, high cost of interest rate, corruption and fraud among the stakeholders and overdependence on traditional products. The researcher indicated that SACCOs can drive innovation by taking a holistic approach geared toward enterprise-wide improvements, including refocusing on their distribution networks, developing and delivering products geared toward the rapidly growing market, and understanding and realigning their business through analytics but can't hit off without supplementing them with innovation strategies.

Hitt carried out a study on performance and sustainability of formal Micro Finance Institutions (MFIs): A case of Nairobi. His study also looked at measures put in place by MFIs towards achieving sustainability in a bid to increase their outreach of credit facilities to small scale enterprises. Various categories were covered namely Non-Governmental Organizations, Development Finance Institutes (DFIs), and Commercial Banks [26]. The study findings were that MFIs have a huge role to play towards poverty alleviation through credit accessibility. However, factors such as limited financial resources, delinquent loans, lack of management information systems, wide geographical coverage and poor research and development departments among other factors were identified as hindrance to the role of MFIs.

Wamalwa studied the effect of regulation on financial performance of SACCOs offering FOSA in Kenya. He observed that it was not possible to conclude that all regulatory clauses have impacted performance of SACCOs positively. He asserted that while governance, prudential and reporting regulations had impacted performance positively there was need to enforce other regulations by SASRA to realize the desired results.

Lwanda did a study on the strategic responses of SACCOs to changing competitive business environment: a study of KUSCCO affiliated SACCOs in Nairobi County. The findings indicated that majority of SACCOs were well established in Kenya and that response and communication strategies have a role to play in enhancing the competitive strategy implementation in the SACCOs. From the findings competition was rated the most serious challenge facing SACCOs in Kenya followed by challenges from the legal and regulatory environment. The study concluded that response strategies used in the Sacco industry are important in helping an organization improve their performance and competitive edge. This study recommended that SACCOs should develop and improve on strategy support systems that are crucial and the many routine activities that are performed in a SACCO to

keep it running smoothly.

In view of the above researches, a lot has been done regarding various issues such as loan repayment, working capital management, lending interest rates and regulation that contribute to and/or affect the financial performance of SACCOs in Kenya. It has also come out clearly that competition from other financial institutions has been rated the most serious challenge to SACCOs' performance. In view of this, there is need for more work and research to be carried out to clearly fill the knowledge gap as regards the effect of unsecured commercial bank loans on financial performance of SACCOs in Kenya.

2.10. Theoretical Review

Kotler described theoretical framework as a collection of interrelated concepts such as in a theory to guide a research work as it determines the items for measurement and the statistical relationships being studied [41]. A theory is a reasoned statement or group of statements, which are supported evidence meant to explain some phenomena. This study was anchored on Keynesian Theory, Market Power Theory, Efficient Structure Theory and Market Segmentation Theory.

2.10.1. Keynesian Theory

This theory is based on the economic growth theory which was developed by Kothari. It is about the relationship between consumption and income. Kimutai points out that one of the important tools in Keynesian economics is the propensity to consume, when income increases, consumption also increases but by less than the increment in income [38]. This behavior of consumption further explains the rise in savings as income increases. Schmidt pointed out that in most cases the access problem especially among formal financial institutions, is one created by the institutions mainly through their lending policies. Such lending policies are displayed in form of prescribed minimum loan amounts (threshold), prescribed maximum loan amounts (limit), complicated application procedures (long processing periods) and restrictions on credit for specific purposes [76]. The type of financial institution and its policy will often determine the access problem to credit borrowers. Where credit duration (the loan processing period), terms of payment, required security (collaterals) and the provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access [76].

DFIs have their lending policies which according to Schmidt and Kropp (1987) assumption, the loan borrowing policies that the DFIs put up play a part in influencing credit demand among civil servants. Atieno pointed two major factors related to the choice between formal and informal credit sources as those associated with borrower's characteristics which were found to affect the borrowers' decision about which segment of the credit market to borrow from and mainly determine the supply of credit [8]. The aspect under this was identified as application fees, collateral

value, application period and repayment period. Loan ratio in the informal credit market is attributed to the limited resource base while for the formal sector it is due to the lending terms and conditions. Borrowers will always prefer those financial institutions that have better and flexible lending terms and conditions.

2.10.2. Market Power Theory and Efficiency Structure Theory

The market power hypothesis, which is also referred to as the structure conduct performance hypothesis, asserts that increased market power yields monopoly profits. A special case of the market power hypothesis is the relative-market-power hypothesis, which suggests that only firms with large market shares and well-differentiated products are able to exercise market power and earn non-competitive profits. Likewise, the X-efficiency version of the efficiency structure hypothesis suggests that enhanced managerial and scale efficiency leads to higher concentration and then to higher profitability [7]. Studies, such as those by Smirlock investigated the profit-structure relationship in banking, providing tests of the two hypotheses. To some extent the relative market power hypothesis is verified, since there is evidence that superior management and increased market share (especially in the case of small- to medium-sized banks) raise profits, [78].

In contrast, weak evidence is found for the X-efficiency structure hypothesis. According to [9], managerial efficiency not only raises profits, but may lead to market share gains and, hence, increased concentration, so that the finding of a positive relationship between concentration and profits may be a spurious result due to correlations with other variables. Thus, controlling for the other factors, the role of concentration should be negligible. Other researchers Bett and Smirlock argue instead that increased concentration is not the result of managerial efficiency, but rather reflects increasing deviations from competitive market structures, which lead to monopolistic profits [10]. Consequently, concentration should be related to bank profitability. A rather interesting issue is whether the ownership status of a bank is related to its profitability. However, little evidence is found to support the theory that privately-owned institutions will return relatively higher economic profits [78]. In relation to this study, SACCOs are facing stiff competition from other financial institutions in Kenya such as commercial banks and MFIs. This has led to loss of a significant market share for the SACCOs to the competitors. SACCOs have also not been able to inventively come up with well differentiated loan products that match those of their competitors. In this regard commercial banks have gained larger market shares and have innovated well differentiated loan products. This has enabled commercial banks to exercise market power and earn non-competitive profits as opposed to SACCOs. For SACCOs to improve on their profitability, they should welcome the idea of continuous innovation of differentiated loan products and enhanced managerial efficiency which leads to higher concentration hence higher profitability.

2.10.3. Market Segmentation Theory

This theory as expounded by Sanders who argues that investors and financial institutions have specific maturity preferences and to get them to hold securities with maturities other than their most preferred requires a higher interest rate-maturity premium. Lasher (2008) asserts that when people are borrowing money they have a definite term in mind that is based on the use they intend to make of the funds. Lenders too would want to commit their funds for a definite period of time at a known yield. This results in a debt market that is segmented by term. Each segment has its own supply and

demand picture with dependent set of forces pushing the curve back and forth. That means the market interest rate in each segment is independently determined and not related to the market rate in other segments. Market segmentation theory is based on institutional practices being followed by a specific financial institution.

2.11. Conceptual Framework

A conceptual framework is a pictorial representation of the relationship between dependent variable and independent variables as shown in figure 1.

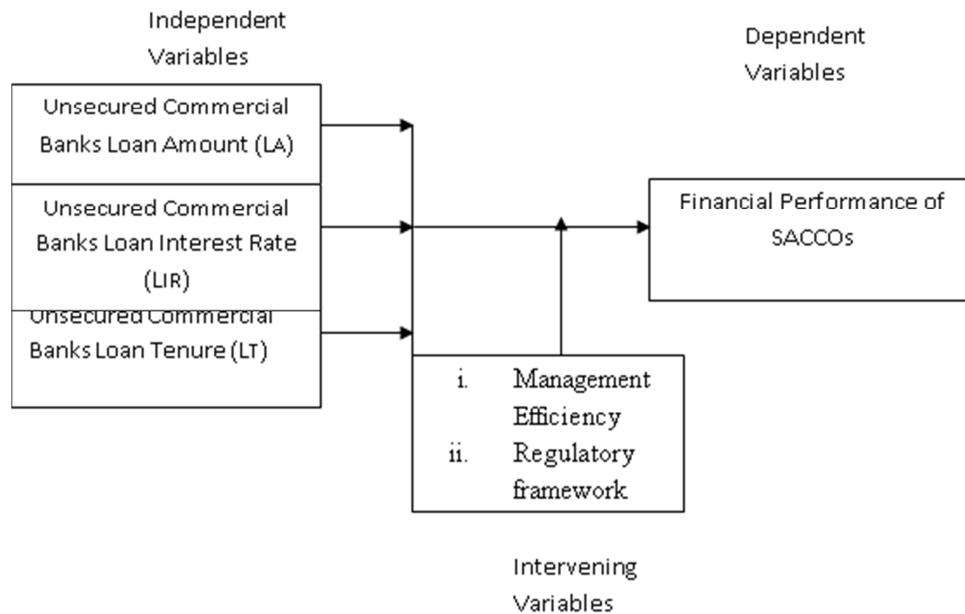


Figure 1. Unsecured Commercial Bank Loans and Financial Performance of SACCOs.

Figure 1 shows the relationship between independent variables which are unsecured commercial banks loan amount, loan interest rate and loan tenure and dependent variable which is financial performance of SACCOs as measured by Return on Assets. The amount of unsecured commercial banks loan amount in Kenyan Shillings offered to borrowers, the unsecured commercial banks loan interest rate charged as a percentage and the unsecured commercial banks loan tenure in terms of loan repayment period in years may affect the financial performance of SACCOs in terms of interest earned from loans and advances to members.

If unsecured commercial banks loan amount is raised, it is expected that borrowers will favour taking loans from commercial banks to meet their financial limits as opposed to SACCOs that offer limited loan facilities. This negatively impacts on financial performance of SACCOs in terms of reduced loans and interest income.

If unsecured commercial banks loan interest rate is higher relative to interest rate charged by SACCOs, it is expected that borrowers will prefer taking loans from SACCOs to meet their financial limits. This positively impacts on financial performance of SACCOs in terms of interest earned

form increased amounts of loans and advances.

If unsecured commercial banks loan tenure is longer and flexible, it is expected that borrowers will prefer taking loans from commercial banks to meet their financial limits as opposed to SACCOs that offer shorter loan repayment periods. This negatively impacts on financial performance of SACCOs in terms of reduced loans and interest income.

Intervening variables are those variables that help the researcher to conceptualize, understand and explain the influence of the independent variable on the dependent variable. These variables are beyond the control of the researcher and will be held constant in this study. The intervening variables for this study are management efficiency and regulatory framework. Enhanced management efficiency leads to higher concentration for the management and this leads to higher market share and profitability for the SACCOs hence a positive effect on the financial performance of SACCOs. SACCOs' regulatory framework mainly SASRA regulate how SACCOs carry out their business such the minimum amount of capital that they should maintain at all times. This generally improves the financial performance of SACCOs.

2.12. Operationalization of Variables

Table 1. Operationalization of Variables.

Variable	Measurement
Loan Amount	Size of loan in Millions Kenya shillings
Loan Interest Rate	Average annual interest rate (a percentage) of unsecured commercial banks loans
Loan Tenure commercial banks loans in years	Average loan repayment period of unsecured commercial banks loans
Financial Performance of SACCOs	Return on Assets (ROA)

3. Methodology

Econometric Model

The independent and dependent variables in the study were related using multiple linear regression model which was used to measure the magnitude and direction of the relationship between the variables. The regression equation is;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Return on Assets for SACCOs measured by the simple average ROA (2011-2015)

β_0 = Constant term/ the interception point of the regression line and the y-axis

β_i = Slope coefficient of the i^{th} independent variable ($i = 1, 2, 3$)

X_1 = Unsecured commercial banks loan amount (L_A)

X_2 = Unsecured commercial banks loan interest rate (L_{IR})

X_3 = Unsecured commercial banks loan tenure (L_T)

ε = Error term.

4. Results and Discussions

4.1. Regression Analysis

The study sought to determine the cause-effect relationship between unsecured commercial bank loans and financial performance of SACCOs. A multiple regression analysis model was used to show the relationship between dependent variable (financial performance of SACCOs) and the independent variables (unsecured commercial banks loan amount, loan interest rate and loan tenure). A correlation coefficient (R) indicates the degree of association between dependent variable and the independent variables. A coefficient of determination (R^2) that is equal to or more than 70% indicates a strong correlation between dependent and independent variables. The overall significance of the model was tested using F-test at 5% level of significance and the significance of the regression coefficients were tested using T-tests at 5% level of significance. P-values for T-test and F-test below 0.05 meant a significant relationship between the variables. The results of the results of the analysis are presented in Tables 1, 2 and 3.

Table 2. Strength of the Model.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.780 ^a	.608	.584	.00472	3.335

From Table 1, the value of R is 0.780 and R^2 is 0.608. An R^2 of 0.608 means that 60.8% of variations in financial performance of SACCOs are explained by changes in unsecured commercial banks loan amount, loan interest rate and loan tenure jointly. The remaining 39.2% of variations in

financial performance of SACCOs is explained by other factors outside the model. This implies a moderate relationship between the variables hence the model is fairly reliable in predicting the changes in financial performance of SACCOs.

Table 3. Significance of the Model.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.599	3	.200	8967.658	.008 ^b
Residual	.000	1	.000		
Total	.599	4			

a. Predictors: (constant) Loan amount, Loan interest rate, Loan tenure.

b. Dependent Variable: Average Return on Assets (2011-2015)

The results in Table 2 indicates an F-test value of 8967.658 with a P-value of $0.008 < 0.05$. This implies that the overall model is significant in explaining the variations in financial performance of SACCOs.

4.2. Regression Analysis Model

In determining the cause-effect relationship between the dependent variable and the explanatory variables the multiple regression model analysis was used. The regression coefficients were tested using t- test at the 5% level of significance. The results are presented in Table 3.

Table 4. Coefficients of Variables.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	-.402	.033		-12.130	.052	-.824	.019
Loan amount	0.006468	.000	.958	152.625	.004	.000	.000
Loan Interest rate	.013	.001	.115	-2.459	.030	-.021	.014
Loan tenure	-.074	.002	-.218	35.598	.018	.048	.101

From Table 3, the constant is -0.402 implying that financial performance of SACCOs will decline by 0.402 units when unsecured commercial banks loan amount, loan interest rate and loan tenure are all held constant. The coefficients for unsecured commercial banks loan amount, loan interest rate and loan tenure are 0.006468, 0.013 and -0.074 respectively. Therefore, the model is as presented as follows.

$$Y = -0.402 + 0.006468 X_1 + 0.013 X_2 - 0.074 X_3$$

4.3. Effect of Unsecured Commercial Banks Loan Amount on Financial Performance of SACCOs

The study sought to find out the effect of unsecured commercial banks loan amount on financial performance of SACCOs. In Table 3, the coefficient of unsecured commercial banks loan amount is 0.006468 with P-value of $0.004 < 0.05$, implying that a unit increase in unsecured commercial banks loan amount will result to an increase in financial performance of SACCOs by 0.006468 units with all other variables being held constant. The results also mean that the null hypothesis that unsecured commercial banks loan amount has no significant effect on the financial performance of SACCOs was rejected and concluded that there is statistically significant effect of unsecured commercial banks loan amount on financial performance of SACCOs at 5% level of significance. This may be attributed to the fact that the Kenyan financial market has really upgraded and expanded. Borrowers are borrowing at a very high rate for their long term developmental projects, daily routine and leisure expenditure. Borrowers are also engaging in multiple borrowing from different financial institutions such as SACCOs, commercial banks, MFIs and Chama's among others. These findings are in agreement with Okungu who did a study on the effects of commercial bank loans on financial performance of SACCOs in Kisumu[66]. Their findings were that commercial bank loans have not grossly affected the savings and lending volumes of the SACCOs, competition between SACCOs and Commercial banks has helped to uplift the welfare of members of SACCOs.

4.3.1. Effect of Unsecured Commercial Banks Loan Interest Rate on Financial Performance of SACCOs

This study aimed at finding out the effect of unsecured commercial banks loan interest rate on financial performance of SACCOs. From Table 3, the coefficient of unsecured commercial banks loan interest rate is 0.013 with P-value $0.030 < 0.05$ implying that a unit increase in unsecured commercial banks loan interest rate will result to an increase in financial performance of SACCOs by 0.013 units with all other variables being held constant. The results also mean

that the null hypothesis that unsecured commercial banks loan interest rate has no significant effect on the financial performance of SACCOs was rejected and concluded that there is statistically significant effect of unsecured commercial banks loan interest rate on financial performance of SACCOs at 5% level of significance. Increase in unsecured commercial banks loan interest rates results in increase in the cost of borrowing funds for the commercial banks borrowers. As a result, the borrowers would find unsecured commercial bank loans expensive and inaccessible as compared to loans offered by SACCOs. This is in agreement with [10] who did a study on the effect of lending interest rates on profitability of SACCOs in Kenya. In conclusion the researcher noted the positive correlation between lending interest rates and profits of SACCOs as revealed by a positive multiple correlation coefficient.

4.3.2. Effect of Unsecured Commercial Banks Loan Tenure on Financial Performance of SACCOs

The study sought to establish the effect of unsecured commercial banks loan tenure on financial performance of SACCOs. In Table 3, the coefficient of unsecured commercial banks loan tenure is -0.074 with P-value $0.018 < 0.05$ implying that a unit increase in unsecured commercial banks loan tenure will result in a decrease in financial performance of SACCOs by 0.074 units with all other variables being held constant. The results also mean that the null hypothesis that unsecured commercial banks loan tenure has no significant effect on the financial performance of SACCOs was rejected and concluded that there is statistically significant effect of unsecured commercial banks loan tenure on financial performance of SACCOs at 5% level of significance. Loan repayment period is an important factor that borrowers consider while borrowing funds in which borrowers prefer longer to shorter loan repayment periods. Therefore, borrowers would prefer taking unsecured commercial bank loans with longer repayment periods to those offered by SACCOs hence affecting the financial performance of SACCOs negatively. The findings are also consistent with [63] who did a study on the financial challenges facing savings and credit co-operative societies in Kenya the case of SACCOs in Nairobi and found that members of the SACCOs preferred loans from the commercial banks to the ones from the SACCOs due to the speed within which the loans are disbursed, longer loan repayment periods and also due to the fact that amount of loan awarded is not pegged on saving as is the case in SACCOs.

5. Summary, Conclusions and Recommendations

5.1. Summary of Findings

The study aimed at establishing the effect of unsecured commercial bank loans on financial performance of SACCOs in Kenya. This was achieved by determining the effect of unsecured commercial banks loan amount, loan interest rate and loan tenure on financial performance of SACCOs. The study used a causal research design in explaining the relationship between dependent variable and independent variables.

The significance of the regression model in predicting the relationship between unsecured commercial bank loans and financial performance of SACCOs was tested at 5% significance level and was found to be significant at F-value 8967.658 and P-value $0.008 < 0.05$. The value of coefficient of correlation (R) was 0.780 which implied a strong positive relationship between the dependent variable and independent variables as jointly predicted by the model. The coefficient of determination (R^2) was 0.608 which implied that 60.8% of variations in financial performance of SACCOs is explained by unsecured commercial banks loan amount, loan interest rate and loan tenure jointly while 39.2% of the variations were explained by other factors not included in the study. The model was fairly reliable in explaining the variations in financial performance of SACCOs.

Further the findings indicated that unsecured commercial banks loan amount had a significant positive effect on financial performance of SACCOs with a P-value of $0.004 < 0.05$. The regression coefficient for unsecured commercial banks loan amount was 0.006468.

Concerning the relationship between unsecured commercial banks loan interest rate and financial performance of SACCOs, the study established that there was a weak positive relationship. The regression coefficient of unsecured commercial banks loan interest rate was 0.013 with a P-value of $0.03 < 0.05$ meaning that unsecured commercial banks loan interest rate significantly affected financial performance of SACCOs at 5 % level of significance.

Finally, unsecured commercial banks loan tenure had a weak negative relationship with financial performance of SACCOs with a regression coefficient of -0.074 and a P-value of $0.018 < 0.05$. This means that unsecured commercial banks loan tenure significantly affected the financial performance of SACCOs at 5% level of significance.

5.2. Conclusions

From the findings of the study, conclusions were made. It was concluded that the model was fairly reliable in predicting the variations in financial performance of SACCOs. Unsecured commercial banks loan amount was strongly positively related to financial performance of SACCOs and hence concluded that an increase in unsecured commercial banks loan amount results into a corresponding increase in

financial performance of SACCOs. Therefore, a good performance in terms of unsecured loan amounts by commercial banks is a boost to the financial performance of SACCOs. The null hypothesis that unsecured commercial banks loan amount has no significant effect on the financial performance of SACCOs was rejected and concluded that unsecured commercial banks loan amount significantly affected financial performance of SACCOs at 5% level of significance.

Unsecured commercial banks loan interest rate and financial performance of SACCOs had a weak positive relationship and hence concluded that an increase in unsecured commercial banks loan interest rate results into a relatively low increase in financial performance of SACCOs. The null hypothesis that unsecured commercial banks loan interest rate has no significant effect on the financial performance of SACCOs was rejected and concluded that unsecured commercial banks loan interest rate significantly affected financial performance of SACCOs at 5% level of significance.

Unsecured commercial banks loan tenure and financial performance of SACCOs had a weak negative relationship and hence concluded that an increase in unsecured commercial banks loan tenure results into a relatively low decline in financial performance of SACCOs. The null hypothesis that unsecured commercial banks loan tenure has no significant effect on the financial performance of SACCOs was rejected and concluded that there is a significant effect of unsecured commercial banks loan tenure on financial performance of SACCOs at 5% level of significance.

5.3. Recommendations

Based on the findings of the study the following recommendations are made:

SACCOs should strive to come up with strategies and structured solutions to assist them better their financial performance more in regard to unsecured commercial banks loan amount in terms of market expansion and diversification of their products through aggressive marketing and new products innovation. SACCOs should also not always consider awarding loans pegged on amount saved by the borrower but should consider critical factors such as the borrowers' capability to repay the loan. This will increase the amount of loans advanced to borrowers hence improving the financial performance of SACCOs accordingly.

SACCOs should continuously review their credit policies and procedures to ensure that their interest rates are below those of unsecured commercial bank loans. They should aim at maintaining their interest rates at competitive levels with those of commercial banks so that borrowers can prefer borrowing from SACCOs.

Finally, SACCOs should also review their loan repayment tenure to periods that are long enough to accommodate borrowers with different abilities.

Conflicts of Interest

The author(s) declare(s) that there is no conflict of interest regarding the publication of this article.

Authors' Contributions

All the authors have significant contribution to this paper and the final form of this paper is approved by all authors.

References

- [1] Aczel, A., & Sounderpadian, J. (2002). *Business Statistics* fifth edition. New York: Irwin: McGraw hill companies.
- [2] Adam, C., Collier, & P., Ndungu, N. (2011). *Policies for Prosperity; Kenya*. Oxford: Oxford University Press.
- [3] Alexandru, C., Genu, G., & Romanescu, M. L. (2008). The Assessment of Banking Performances-Indicators of Performance in Bank Area. *MPRA Paper* No. 11600.
- [4] Alila, P., & Obado, P. (1990). Co-operative credit: The Kenyan SACCOs in a Historical and Development Perspective; *Working paper*.
- [5] Andrew F. (2002). *Practical Business Statistics*. New York: McGraw Hill/Irwin.
- [6] Ansoff, H. I., & McDonnell, E. J. (1990), *Implanting Strategic Management*, 2nd Edition, Prentice Hall International (UK) Ltd, Cambridge.
- [7] Athanasoglou, P. P., Brissimis, S. N. & Dellis, M. (2005). Bank Specific, Industry Specific and Macroeconomic Determinants of Bank Profitability, Bank of Greece *Working Paper* No.25.
- [8] Atieno, R., (2001). Formal and Informal institutions lending policies and access to credit by -Scale enterprises in Kenya: an empirical assessment. *AERC Research paper* 111, *African economic Research*.
- [9] Berger, A. N. (1995). The Relationship between Capital and Earnings in Banking. *Journal of Money, Credit and Banking*, 27(2), 432-456.
- [10] Bett, J. K. (2006): Effect of Leading Interest Rates on Profitability of Saccos in Kenya. Unpublished MBA project, University of Nairobi.
- [11] Bourke, P. (1989). Concentration and other determinants of bank profitability in Europe, North America and Australia. *Journal of Banking and Finance*, 13(1), 65-79.
- [12] CBK (2009). *Annual Report*. Nairobi: Central Bank of Kenya.
- [13] CBK (2011). *Bank Supervision Report*. Nairobi: Central Bank of Kenya.
- [14] CBK (2012). *Annual Report*. Nairobi: Central Bank of Kenya.
- [15] CBK (2014). *Bank Supervision Report*. Nairobi: Central Bank of Kenya.
- [16] CBK (2015). *Annual Report*. Nairobi: Central Bank of Kenya.
- [17] Chernykh, L. & Theodossiou, A. K. (2011) *Determinants of Bank Long-term Lending Behavior: Evidence from Russia*.
- [18] Cooper, R. D., & Schindler, P. S. (2011). *Business Research Methods (11th edition.)* McGraw-Hill Publications. New York, United States.
- [19] Cull, R. A., Demirgüç-Kunt, & Morduch, J. (2009b), Banks and Micro-Banks Policy. *Research Working Paper* 5078, World Bank.
- [20] DeYoung, R., & Roland, K. P. (1999), *Product Mix and Earnings Volatility at Commercial Banks: Evidence from a Degree of Leverage Model*, *Federal Reserve Bank of Chicago*, WP-99-6, pp 3-4 environment: a study of KUSCCO affiliated SACCOs in Nairobi County. Unpublished MBA Project. University of Nairobi.
- [21] Ewert, R., Szczesmy, A., & Schenk, G. (2000). Determinants of Bank Lending Performance in Germany. *Schmalenbach Business Review (SBR)*, 52: 344 – 362.
- [22] Government of Kenya (2004). Revitalizing the co-operative sector for economic growth, Co-operative Sessional paper, *Government press, Nairobi*.
- [23] Gul, S., Faiza, I., & Khalid, Z. (2011) Factors Affecting Bank Profitability in Pakistan. *The Romanian Economic Journal*, 2(3), 6-9.
- [24] Hair, B., & Tatham, R. (2010). *Multivariate Data Analysis* 7th edition. New York: Pearson Publishers.
- [25] Heaton, J. B. (2002). *Managerial Optimism and Corporate Finance*, Financial.
- [26] Hitt, E. H, Richard, A. J., & Douglas, D. M. (1996). *The Market for Corporate Control and Firm Innovation*.
- [27] Ileva, G. K. (2008). *A survey of the investment practices among SACCOs in Nairobi*. Unpublished MBA Project, University of Nairobi.
- [28] International Co-operative Alliance (ICA) website, www.ica.coop accessed on 15th April 2016.
- [29] International Monetary Fund (2007). *Poverty Reduction Strategy* Annual Report.
- [30] Jhingan, (2001). *The economics of Development and Planning*, 34th ed. (Delhi: Vrinda Publications (P) Ltd.) Capital market for schung, Johann Wolfgang Goethe-Universit.
- [31] Kabuga, C., & Batarinyebwa, K. (1995) *Co-operatives Past, Present and Future Development through mutual self-help in RIC*.
- [32] Kathuri, N. J., & Pals, D. A. (1993). *Introduction to Educational Research*. Njoro, Kenya: Egerton University Education Media Centre
- [33] Government of Kenya (2008). *A policy Agenda to Restore Growth*. Washington, D. C. Republic of Kenya.
- [34] Kenya Government Session Paper No. 10 of 1965 on “*African Socialism and its Application to Planning in Kenya*”.
- [35] Kenya Government Session Paper No. 8 of 1970 on “*Co-operatives Development Policy of Kenya*”. Kenya.
- [36] Keynes, J.M. (1936). ‘*The General theory of Employment Interest and Money*.
- [37] Khrawish, H. A. (2011) Determinants of Commercial Banks Performance: Evidence from Jordan. *International Research Journal of Finance and Economics*.Zarga University;5 (5), 19-45.

- [38] Kimutai, T. K. (2003). *'An Empirical Analysis of Factors Contributing to High Interest Spreads in Kenya'*. Unpublished MBA Project, University of Nairobi.
- [39] Kithuka, J. (2004). *An investigation whether Ukaguzi SACCO experienced delays or non-remittance from employees*, Unpublished MBA Thesis, Kenyatta University.
- [40] Kothari, R. (2008). *Research Methodology*. New Delhi: New Age International Publishers.
- [41] Kotler, P., & Gary, A. (2005). *Principles of marketing*. London: Pearson.
- [42] Krige, D. (2012). *Fields of Dreams, Fields of Schemes: Ponzi Finance and Multilevel Marketing in South Africa*, Africa Vol. 82 (Special Issue 1), 69-92.
- [43] KUSCCO (2007). *Annual Report* Nairobi.
- [44] Landi, A., & Venturelli V. (2002), "The Diversification Strategy of European Banks: Determinants and Effects on Efficiency and Profitability" (<http://www.papers.ssrn.com>).
- [45] Lasher, W. (2008). *Financial management, a practical approach*, South-western College Publishers.
- [46] Lind, D. A.; Marchal, W. G., & Wathen, S. A. (2008). *Statistical Techniques in Business and Economics*. New Delhi: Mc Graw Hill.
- [47] Lipsey, R. G., & Chrystal, K. A., (1995). *An Introduction to Positive Economics*, 8th Edition. Oxford: Oxford University Press.
- [48] Lwanga, H. (2011). *Strategic responses of SACCOs to changing competitive business* Macmillan press. anagement.
- [49] Market Intelligence Report (2006): In House Publication.
- [50] Molyneux, P., & Thornton, J. (1992). Determinants of European bank profitability: *Journal of Banking and Finance* 16, 1173-1178.
- [51] Momanyi, E. A. (2014). Challenges and opportunities facing SACCOs in the current devolved system of government of Kenya: A case study of Mombasa County. *International Journal of Social Sciences and Entrepreneurship*, 1 (9), 288-314.
- [52] Mudibo, K. E. (2005). Corporate Governance in Cooperatives: The East African Experience. *Report Presented at the 3rd Pan-Africa Consultative Forum on Corporate Governance, Dakar: Senegal*
- [53] Mugenda, A. G. (2008). *Social Science Research. Theory and Principles*. Nairobi Arts Press.
- [54] Mungai, J. N. (2006). *The effects of competition on provision of financial services by Mwalimu SACCO. A Case of Thika District*. Unpublished Thesis, Kenyatta University
- [55] Murthy, Y., & Sree, R. (2003) *A Study on Financial Ratios of major Commercial Banks. Research Studies*, College of Banking & Financial Studies, Sultanate of Oman.
- [56] Muruana, M. N. (2007). *Effects of inflation on share capital and loan portfolio with the co-operative organizations in Kenya. A case study of Chai saving and credit co-operative society*. MBA thesis, Moi University, Eldoret, Kenya.
- [57] Muturi, B. W. (2000). *Performance and Sustainability of formal microfinance institutions. A case of Nairobi*, Unpublished Master of Science Thesis, Kenyatta University
- [58] Mwangi, G. W. (2013). *Effects of unsecured commercial bank loans on services offered by SACCOs with FOSAs in Kenya*. Unpublished MBA Project: University of Nairobi.
- [59] Nakaso, H. (2013). *Towards better reference rate practices: a central bank perspective*. Bank of international settlement.
- [60] Njeru, M. D., Agnes, N., Florence, M., & Ondabu, I. T. (2015) Effect of Loan Repayment on Financial Performance of Deposit Taking SACCOs in Mount Kenya Region. *International Journal of Innovation and Applied Studies* ISSN 2028-9324 Vol. 10 No. 4 Mar. 2015, pp. 1238-1244 © 2015 Innovative Space of Scientific Research Journals.
- [61] Njoroge, S. (2012). *An analysis of factors influencing adoption of innovation strategy among SACCOs registered in Nairobi with SASRA*. Unpublished MBA Project. University of Nairobi.
- [62] Nwankwo, G. O. (2000). *Prudential Regulation of Nigerian Banking*, Lagos: University of Lagos Press.
- [63] Odhiambo, J., (2013) *The relationship between Working Capital Management and Financial Performance of Deposit taking Savings and Credit Co-operative Societies Licensed by SACCO Societies Regulatory Authority in Nairobi county*. Published Master's Thesis University of Nairobi. URI: <http://erepository.uonbi.ac.ke:8080/xmlui/handle/123456789/12776>.
- [64] Ofeil, K. A. (2005), *Participative Schemes and Management Structures of Ghana. Offered by SACCOs with FOSAs in Kenya*. Unpublished MBA Project. University of Nairobi. Ohio State University: University of Chicago Press.
- [65] Okundi, G. (2011). The financial Challenges Facing Savings and Credit Co-operative Societies in Kenya the Case of SACCOs in Nairobi. Unpublished MBA Project. University of Nairobi.
- [66] Okungu, E. O., Mule, R. K., Nyongesa, D., Alila, F. O., Momanyi, G., Ogut, A. S., Muchoki, M. M. (2014) Effect of Commercial Bank Loans on Financial Performance of Savings and Credit Co-Operative Societies in Kisumu, *Greener Journal of Economics and Accountancy* ISSN: 2354-2357 Vol. 3 (1), pp. 009-019, April 2014.
- [67] Oyoo, M. O. (2002). Financial Performance of SACCOS before Deregulation: The case of SACCOs in Nairobi, Unpublished Thesis, University of Nairobi.
- [68] Pelrine, R., & Kabatalya, O. (2005). Savings Habits, Needs and Priorities in Rural Uganda. Kampala: USAID/ Rural SPEED. *Progress Report - 2004/2005, IMF Country Report No. 07/159, International Monetary Fund. Washington, D. C.*
- [69] Republic of Kenya (2008). *The Sacco Societies Act, 2008 (Laws of Kenya) Nairobi*. The Government Printer.
- [70] SASRA (2011). *Sacco Supervision Report: Deposit Taking SACCOs*. In house Publication.
- [71] SASRA (2013). *Sacco Supervision Report: Deposit Taking SACCOs*. In house Publication.
- [72] SASRA (2014). *Sacco Supervision Report: Deposit Taking SACCOs*. In house Publication.

- [73] Saunders, A. (2010). *Financial Markets & Institutions*, McGraw Hill Publishers.
- [74] Saunders, A., & Cornett, M. M. (2007). *Financial Markets and Institutions: An Introduction to a Risk Management Approach*. 3rdEd. New Delhi: Tata McGraw-Hill Publishing Company.
- [75] Sayedi, (2013). Bank specific, industrial specific and macroeconomic determinants of banks profitability in Nigeria. *Journal of Finance*.
- [76] Schmidt, & Kropp, (1987). "Rural Finance Guiding Principles", GTZ Esehborn.
- [77] Short, B. K. (1979). The Relation between Commercial Bank Profit rates and banking concentration in Canada Europe and Japan. *Journal of Banking and Finance* 3, 209–219.
- [78] Smirlock, M. (1985). "Evidence on the (None) Relationship between Concentration and Profitability in Banking", *Journal of Money, Credit and Banking*, Vol. 17, No.1, pp.69-83.
- [79] Tucker, M. & Miles, G. (2004). Financial performance of microfinance institutions: a comparison to performance of regional commercial banks by geographic regions. *Journal of Microfinance/ESR Review*, 6 (1), pp.41-54.
- [80] Turyahebwa, A. (2013) *Financial Performance in the Selected Microfinance Institutions in Uganda* Unpublished master's thesis; Kampala International University, West campus.
- [81] UK Quarterly Family Finance Report (2012). Aviva.
- [82] Verma, S. K. (2004). Co-operative Centenary in India, *New Sector Magazine*, Issue No 61, April/ May 2004.
- [83] Wamalwa, I. S. (2012). *Effect of Regulation on Financial Performance of Saccos Offering FOSA in Kenya*. Unpublished MBA Project, University of Nairobi.
- [84] Waruiru, J. M. (2012). *Determinants of Interest Rates in Microfinance Institutions in Kenya*. Unpublished MBA Project, University of Nairobi.
- [85] Wen, W. (2010) *Ownership Structure and Banking Performance: New Evidence in China*. Universitat Autònoma de Barcelona Departament D'economia de L'empresa, 2010.
- [86] Woolcock, M. J. V. (1999). Learning from Failures in Microfinance: What unsuccessful cases tell us how group base programs works. *American Journal of Economics and Sociology* 58 (1), 17-42.
- [87] World Bank Survey, (2012). Unsecured credit in the mortgage market. *World Development Report 2012: Building Institutions for Markets*. Washington, DC: The World Bank/Oxford University Press.
- [88] WOCCU (2009) *Statistical Report*, Washington D. C.
- [89] WOCCU (2014) *Statistical Report*, Washington D. C.