FACTORS CONTRIBUTING TO LOAN DEFAULTING AMONG SAVINGS AND CREDIT SOCIETIES IN KIRINYAGA COUNTY, KENYA

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ABSTRACT

The specific objectives of this study was to establish the effect of loan appraisal system to loan defaulting by Sacco client, to establish the effect of management skills to loan defaulting, to establish the effect of loan policy to loan defaulting and to establish whether poor loan use contributed to loan defaulting. A descriptive research design was employed in the study. Random samples were drawn from all credit managers and clients in the selected Sacco's from Kirinyaga County strata which formed the sampling frame. A proportional approach to sampling was utilized within the strata. A total of 30 credit managers and 383 Sacco clients were picked through simple random technique for each stratum using a table of random numbers. Quantitative data was collected from the respondents. Statistical Package for Social Scientists (SPSS) version 19 was utilized to do the regression and correlation analysis with a 0.05 level of significance. The data collection instruments, questionnaires were distributed to the credit managers and the clients from the selected Sacco's in Kirinyaga County. The response rate was 92%.The data collected was presented in form of tables, pie charts, cross tabulations, correlations and figures. From the study, it was found that loan appraisal system related well to loan defaulting. Where poor loan appraisal was done, it resulted to loan defaulting. It was also found that the management skills also related well to loan defaulting. Where the management applied poor skills it resulted to loan defaulting. Loan policy related well to loan defaulting. Where poor loaning policy was applied, it resulted to loan defaulting. It was also found that loan use related to loan defaulting. When the loan granted was diverted to other uses other than investing in income generating projects, it resulted to loan defaulting. The results from this study showed that loan appraisal system, management skills, loan policy and loan use have a relationship to loan defaulting. The major contributors to loan defaulting were poor loan appraisal system, poor management skills, poor loan policy and poor loans. These can be controlled and avoided if only the Sacco was under good supervision. The researcher recommended the Sacco's to formulate a comprehensive loan appraisal system and train the credit officers on how to use it effectively to reduce loan defaulting.

Keywords: Loan Appraisal, Management Skills, Loan Policy, Loan Use and Loan Defaulting.

1. Introduction

Borrowed loan has been classified as the major solution not only to fund the proportional cost of business but to finance working capital and expansion (Pandey, 2004). The biggest puzzle in the loaning policy was the risk of the loss of the finances by defaulting from the customers. With introduction and subsequent collapse of pyramid schemes, Sacco's had changed their loaning policies (Al-Tamimi, 2002).

According to Froot, (2003), during that period of late repayment the Sacco charged some interests to safeguard the loan asset value against inflation. In order to avoid loan defaulting Waweru, (2007), suggested that a proper loan administration policy and procedure should be established which allowed for proper appraisal, prevention of double funding, over-funding, and provided information on investment(Miller,2003).Most Sacco's rated at 79% in Kirinyaga County were founded by the tea and coffee growers, dairy farmers and employees from Kirinyaga District who were driven by theneed to save in a pool from where individual members could access funds based on their savings and ability to pay. The loans were to be used for school fees and the excess for development thus eradication of illiteracy and poverty in the district (Al-Tamimi, 2002).

Sacco's usually offer excellent financial services to their members within their areas of operation for sustainable economic and social growth (Waweru, 2007). Sacco's mobilized savings and deposits, provided quality, affordable credit and diversified services through prudent management that ensured optimum benefits to their members and other stakeholders. Sacco's in Kirinyaga County operate under certain core values which included transparency, integrity, honesty, focus, accountability, commitment and quality.

Kirinyaga County has led to growth of many small scale businesses but the loans have been defaulted to a large extent such that it has become a great concern of the stakeholders within the county. Despite well-coordinated member's education in the county, the loan default rate is still creating anxiety. The Sacco's loans defaulter's rate had increased within Kirinyaga County prompting court injunctions to auction the loaves' properties and further hired professional debt collectors who facilitated loan collection. That left many questions unanswered and it made it necessary for the researcher to investigate the reasons for increased loan default rate in Sacco's.

The researcher wishes to uncover the actual reasons why customers defaulted the loans granted to them by the Sacco's in Kirinyaga County. According to (Bradley, 1991) China had12 trillion corporate debts which it had defaulted. There were protests against shortages of basic goods, rising crime and the world's fastest inflation that had left more than a dozen dead in China. The government of China worked hard in order to curb loan defaulting. The Grameen Bank that provided credit to the poor of the poorest in rural Bangladesh in India had reported a loan default of ksh. 140 million in the year 2002, (Bradley, 1991).

According to Ringera (2014) the Higher Education Loans Board was targeting Kenyans in the diaspora who received fund to study but were yet to repay the money granted by Higher Education Loans Board before they were prosecuted. Kenyans living abroad had not been servicing their loans and the agency wanted the money repaid.

He addressed the public through the media that the recent waiver on the interest had increased repayment by more than 400 per cent.

Omondi, (2014), stated that the HELB loan defaulters could soon find themselves in court. To accelerate the rate of payment Higher Education Loans Board had partnered with several institutions including NSSF, NHIF, and KRA among others to ensure defaulters paid their loans. Defaulters would have a difficult time in getting loans from credit facilities because of their repayment history. Employers were also taken to court for failing to remit monthly deductions of their employees. In addition Omondi, (2014), explained that harsh economic times, low pay and failure by employers to remit deductions were some of reasons many university graduates had accumulated huge arrears for Higher Education Loans Board (HELB) loans. Interviews with some defaulters revealed that with low pay, family matters and efforts to eke a living, it was difficult to repay loans.

Default on loan repayments posed the greatest risk to stability of the multi-billion shilling Savings and Credit Co-operative (Sacco's) movement. Financial sector regulators had warned Sacco's to be more cautious while advancing loans to their clients to avoid the loan defaulting (Cole, 2004). A joint report released by Sacco Regulatory Authority and the World Bank stated that the risk of defaults on personal loans granted by Sacco's was high, as the debts were secured only by member guarantees. The Sasra also warned that reliance on expensive bank loans, instead of members' share contributions, raised the probability of the Sacco's defaulting on their debt, as indicated by their low liquidity and solvency ratios, especially since borrowing costs had sharply increased over the past three months.

Co-operative Bank, which was the main banker for Sacco's, raised its minimum lending rate to the societies to 17 per cent in October 2014, yet most Sacco's lend to members at 12 per cent. Credit risk was perceived to pose the greatest risk to the SACCO movement and that was largely manifested in high borrowing from commercial banks, which had resulted in low liquidity and solvency margins in many SACCO societies," said the joint report by the Central Bank of Kenya, the SACCO Societies Regulatory Authority (SASRA), Capital Markets Authority, Insurance Regulatory Authority and the Retirements Benefits Authority (Froot, 2003).

By December 2014 Kenya had 6007 registeredSacco's in Kenya,Data from the Sacco sector's regulator, (SASRA), indicated that the total loans to total deposits ratio stood at 99 per cent as at the end of last year 2015, compared to 97 per cent as at the end of 2011.

That meant that almost all of the member deposits had been loaned out. Government regulation of Sacco's began to take shape in June this year after SASRA started licensing those that provide retail banking services for their members, otherwise called Front Office Service Activities (FOSAs).SASRA was expected to eventually take over the licensing of all Sacco's.

Of the active Sacco's in the country, 215 out of 3180 represented by 6.7 per cent own assets totaled Sh171 billion as at the end of year 2014 against the sector's total assets of Sh216 billion were operating FOSAs, meaning that they controlled 79.2 per cent of the Sacco industry. A total of 200 Sacco's applied for licensing, 66 of which were licensed and 56 issued with letters of intent meaning that 93 of them were required to stop their FOSA services. Ademba (2015), the chief executive officer of SASRA, said that while many Sacco's being regulated had mobilized their own funds to lend, those which had been borrowing from banks had to grapple with the current high interest rate environment. They normally lend to their customers at an average of 12 per cent so those Sacco's that had been going to banks were hit hard.

Savings and Credit Cooperative Societies in Kirinyaga County advanced loans to their customers based on the income they generate. Loan administration was virtually very important since loans and advances to customers were most profitable asset of Sacco's. There was however great elements of risk involved with that type of assets as it happened that the customer became insolvent, unemployment, death, and disability among others. The appraisal system should establish the type of business, cash flows of business, market analysis of business and location of business. Double funding could also be dangerous to Sacco's where a customer cannot be able to finance and service several loan facilities. However, there had been a very big problem of the loan defaulting by the customers. According to the information from the Ministry of Cooperative Societies in Kirinyaga County, they recorded a loan default of ksh.204 Million respectively among the Sacco's in the year 2015 and Ksh. 240 Million in the year 2016. There was relatively little research done in that field thus limited literature on the same. It was against that background that the researcher was investigating the factors that lead to loans defaulting in the Sacco's.

2. Context

Portfolio Theory

This study is guided by Portfolio Theory and Finance and Lender Liability Theory. According to Pandey, (2007), portfolio Theory is related to investment and stock selections and it has broad applications across corporate finance, including the management of financial institutions. The most basic idea in portfolio theory is that a group of assets held together is less risky than the risks of the individual assets making up the portfolio. That is by holding a portfolio of asset, an investor can diversify away some of the risks of the individual assets. According to Bratanovic, (2009), collateral security is regarded as the most significant consideration. Sacco's must ask what their position would be if the customers fail to make repayment as planned. Therefore assets have to be committed as securities to enable Sacco's maintain a performing portfolio.

Sacco's relationships are immensely valuable to borrowers. Waweru, (2007) attributes part of the Great Depression of the 1930s to the destruction of Sacco's borrower relationships and the subsequent increased real cost of financial intermediation for small firm, farmers, and consumers. Retail grocery business and real estate firms typically cannot survive without credit. Automobile dealers depend on floor plan facing, a revolving line of credit to finance their inventories. Finance theory deals with the value of loan relationships. There is also a growing body of legal precedent with regard to lender liability. The focus in this survey article is the value of the loan services that Sacco's provide, interpreted from the perspective of breach of contract. In other words, what happens when valuable loan relationships are destroyed through a SACCO's actions? Breach of contract is the most basic area of Sacco's relationships (Jensen D, and Meckling, 2009).

The Effect of Loan Appraisal Systems in Relation to Loan Defaulting in Saccos

The manner in which loan appraisal system is administered determines the borrowers default rate. The credit manager is supposed to consider some important issues while appraising individual loans like the loaners should be 18 years of age or above, customer should be a sound mind and health. He or she should be a Kenyan citizen holding a national identity card. The customer should own and operate an income generating business which must be within the business unit's area of operation. He or she should agree to abide by all the rules and regulations as laid down by the Sacco and also abide by all Sacco lending policies and procedures. In a group, credit facilities should be appraised based on business financial statements, balance sheet, account turnover statistics, collateral account balances, character check (through references and guarantors).

However, for repeat borrowers, past loan performance shall determine eligibility of the loan borrower. Proper assessment system should be induced in order to curb loan defaulting.

The effect of Management skills in Relation to Loan Defaulting in Sacco's

A manager can be compared to the captain of a ship who has first to set the course to reach the destination and then steer the ship along the course (Derban, 2005).Similarly, a manager has to first of all, set objectives which the firm must achieve. Objectives provide the direction in which the firm must move. Having decided upon the objectives, the manager must constantly monitor the progress and activities of the firm to ensure that it is moving in the desired direction. That is the first and foremost task of every manager (Cole, 2004). If you are a part of the top management team then you will be very actively involved in this task through the process of defining the mission and objectives for the entire organization. If you are a manager reporting to the top manager, it is your task to see that the actions of the people who work for you in your department are working in the desired direction. It is your task as a manager to prevent all such actions which take your company away from the direction set by the top management (Graham, 2002).

A profitable firm can turn to be unprofitable because of obsolete technology, inability to meet high fixed cost structures, high levels of wastage, or simply because the product is no longer in demand by customers. In today's fast changing world one of the very critical tasks of every manager is to anticipate and prepare for the increasing competition (Ledger, 1999).Competition is increasing in terms of more competitors, more products, wider variety of products, better quality of products and a customer who is today better informed and more aware than ever before (Ledger, 1999). The increasing reach and popularity of television as a means of information has also contributed to the increasing competition. The manager today has more potential customers to sell to and easy access to these customers yet the market is crowded with many competitors wooing the same customers (Meckling, 2009). This only reinforces the fact that a good worker is a valuable asset to any company and every manager must constantly be on the lookout for people with potential and attract them to join his company (Derban, 2005).A manager with a competent team has already won half the battle. However, competent or brilliant individuals may be, if they cannot work together with each other they may not be useful to a company. It is up to manager to mesh individuals into a well-knit team. The manager who cannot build his team cannot succeed. Teams should be built on the principles of division of labour, specialization of work and mutual give and take (Armstrong, 2007).

A manager is lucky if he can find elements of both creativity and conformity in the same individual. Usually this is not the case, and most organizations have separate Product Development Groups or Research and Development Division. Creativity can flourish best when allowed full freedom with minimum rules and regulations. Thus most firms allow the product development groups to function in a relatively free atmosphere. An advertising agency known for the excellent advertisements it produces, allows its creative people, the copywriters and art-director, the freedom to come into office and leave whenever they please. As long as the work is completed within the deadline, management allows its creative people a great degree of freedom (Pandey, 2004).

. The manager should review on the past loan performances and advice accordingly on the way forward. Failure to this will automatically lead to loan defaulting.

The Effect of Loan Policies in Relation to Loan Defaulting in Sacco's

Loan policy involves decisions on reposing, criteria of awarding loan, collection criteria and employment of staff in credit department. If the policies are deflectable and out dated, this will result into defaulting (Pandey, 2004).The assessment of loan for an individual Sacco's requires sincere and honest introductive analysis of the Sacco's characteristics, its professional capabilities, the type of depositor and the community it serves and the environment in which it operates. The first consideration is the character of its character base. What is the makeup of its deposits time and demands? What proportions of its deposits come from individual businesses and other sources? Do the Sacco's have a broad deposit base or do relatively few depositor time and demands? What proportions of its deposits come from individual businesses and other sources?

Does the Sacco's have a broad deposit base or do relatively few depositors account for a large percentage of total deposits? Are deposits subject to the Sacco's capital? How adequate is the Sacco's capital invested in relation to its deposit, liabilities and risk assets? These and similar factors will be analyzed with respect to the employment of deposits and capital funds (Churchill, 1997).

In Sacco's or Credit Companies, the evaluation of new credit demands is one of the basic aspects of credit granting (Churchill, 1997). The decision traditionally where to grant loan to an individual is taken by a specialized person who handles each demand individually. This is a time consuming and an expensive process and financial institutions often make use of credit scoring system. It's a computerized procedure, which attributes to the clients a number of points according to a number of relevant characteristics as income profession, age among others (Derban,2005), If the total obtained by summation of the individual score is high than the cut off level, a credit is guaranteed. If it falls below the cut off line it is denied (Churchill, 1997). The two major questions to be answered in the derivation of the credit-scoring model are the characteristics which are to be used in the scoring model variable that would discriminate between 'bad' and 'good' loan and how to obtain a score for each characteristic, (Robinson, 2001).

The tangible collateral coverage value should be at least 100% of the loan approved. Vehicles taken as security must be in good mechanical condition and should have an insurance cover which is current and Sacco's interest should be noted in the insurance cover. The original log book should be duly signed and original blank transfer forms duly signed. There should also be a copy of pin number certificate, memorandum of deposits and search certificate. Where land is taken as security, proper valuation and registration of charge will be done at the clients cost. If the value of securities is defectable and expired, this will result to loan defaulting.

The Effect of Loan Use in Relation to Loan Defaulting in Sacco's

The customer must specify the intended purpose of the loans advance, he is asking for. It is a SACCO requirement that the customer must specify the internal use of the advance. Also inside the prescribed form for the loan application, there is a column whereby a customer is supposed to fill in the purpose for his loan.

In case of an advance into business to purchase fixed assets like vehicles, land, machinery, and the credit manager must be satisfied that the business will generate sufficient profit so as to repay the loan. The purpose of the loan should be related to the lifetime of an asset.

If it is a loan to set up new venture, it is viewed in the context that all business ventures are risky and thus security is required (Pandey, 2004).

If it is a school fees loan, the customer has to present school fees form structure and also security is required. If the loan is for illegal business like enhancing drug trafficking or trading with enemies, it will be rejected because the Sacco is likely to face criminal prosecution because of advancing loan for illegal businesses. The Sacco does not give loans for speculative business purposes because of the investment flocks. Also Sacco's do not give loans to company for purposes not permitted by the objective clauses in the memorandum of association. Thus the Sacco's require the company to submit a copy of Memorandum of Association in order for it to be advanced the loan (Meckling, 2009).

Some customers usually invest their loan in businesses which are not income generating hence they are not able to service their loan as was originally agreed. Some clients invest their money in political campaigns hence this will result to loan defaulting. Some customers usually invest their loan in illegal businesses such as enhancing drug trafficking and human trafficking. Investing loan on illegal business is risky because a customer can face criminal prosecution hence will not be able to service his/her loan which will lead to loan defaulting. Customers who invest their money in risky businesses like gambling, politics among others will not be able to service their loan as was originally agreed hence this will result to loan defaulting (Robinson, 2001).

Poor people do not have knowledge on how to spend their loan and thus end up improving household goods like television sets, refrigerators, radios among others other than improving and venturing into an income generating business. This will automatically lead to loan defaulting because he or she will not be able to generate income from the household goods.

Empirical Literature Review

Wachiuri (2009), in a Study on Why Sacco's need Accountancy Services asserts that Non-performing loans (NPL) can lead to efficiency problem for Sacco. It is found by a number of economists that failing Sacco tends to be located far from the most-efficient frontier, because Sacco doesn't optimise their portfolio decisions by lending less than demanded. What's more, there are evidences that even among Sacco that do not fail; there is a negative relationship between the non-performing loans and performance efficiency.

The phenomena that Sacco are reluctant to take new risks and commit new loans is described as the '"credit crunch" problem. According to the United States Council of Economic Advisors, credit crunch is "a situation in which the supply of credit is restricted below the range usually identified with prevailing market interest rates and the profitability of investment projects".

A credit crunch is a disequilibrium phenomenon. It is present when Sacco is unwilling to lend, especially when a firm with profitable projects cannot obtain credit in spite of low interest rates (lower than the expected marginal products). Credit crunch results in excess demand for credit and hence credit rationing, where loans are allocated via non-price mechanism. Eventually, it imposes additional pressure on the performance of the monetary policy. Wachiuri (2009), indicates that the reluctance of Sacco to lend can be caused by several reasons, such as the increased capital adequacy requirement imposed by Basel Accords; impaired debt-servicing capacity, especially small-to-medium enterprises (SMEs); risks of a further fall in collateral value and may others, which make the interest rate not to serve as the main determinant by Sacco in credit approval. Non-performing loans have been viewed to constitute one of the most important factors causing reluctance for the Sacco to provide credit. In a high NPL condition, Sacco increasingly tends to carry out internal consolidation to improve the asset quality rather than distributing credit. Also, the high level of NPLs requires Sacco to raise provision for loan loss that decreases the Sacco' revenue and reduces the funds for new lending.

Wachiuri (2009) indicates that the cutback of loans impairs the corporate sector as they have difficulties in expanding their working capital, blocking their chances of resuming normal operation or growing. Unavailability of credit to finance firm's working capitals and investments might trigger the second round business failure which in turn exacerbates the quality of Sacco loans, resulting in a re-emerging of financial failure. In a worse case, it triggers an endless vicious liquidity spiral: As a result of poor economic condition and the depressed economic growth, the level of NPLs increases the weaker corporate sector makes Sacco more reluctant to provide additional credits with insufficient capital, the production sector is further weakened, resulting in decreases in aggregate demand again, even worse borrowers' condition creates more NPL.

3. Methodology

Research Design

The research design that is adopted in this research study is the descriptive survey design.Descriptive design involves collecting information by interviewing through administering a questionnaire to a sample of respondents (Orodho, 2005). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Mugenda and Mugenda, 2008). The design is selected because the data to be collected will be quantitative in nature. The study is appropriate for this study since the variables could be studied the way they occurred or had been occurring and the researcher had no control over the variables.

Target Population

The targeted population was 85030 comprising of 85000 customers and 30 credit managers from the registered Sacco's operating within Kirinyaga County.

Table 3.1 Study population

Category	**Population**
Credit manager	30
Customers	85,000
Total	**85,030**

Sacco's records 2015

Sample size

Since the credit managers target population was a manageable number in the study, the researcher employed saturated census for the study for the population category. Hence all the credit managers of the 30Sacco's were to be considered in the study. The purpose of using the study population was to enable the researcher obtain reliable and accurate information from all the levels of credit risk management and to avoid bias. Proportional sampling was done followed by random sampling to establish the sample per each sampling frame (Appendix IV).

Table 3.2 Sample size

Category	**Sample size**
Sample size (Among credit managers)	30
Sample size among clients	383
Total Sample Size	**413**

The sample design used formula which has been used to calculate the sample size is Coopers and Schlinder, 2011. A 95% confidence level is assumed.

The formula:

For undefined population beyond 10,000 the formula is:

$n = p \times q\ (z/e)^2$

Where $p = 0.5$

$q = 0.5$

$z = 1.96$

$e = 0.05$

$n = 383$

Data Collection Procedures and Instruments

The researcher sought permission from the relevant authorities in Sacco institutions in Kirinyaga County to be allowed to collect data. After the permission was granted the researcher obtained appointment from the respondent prior to the actual data collection. It was possible in this study to identify the respondent since purposively the credit officers would receive the questionnaire. Data was collected mainly by use of questionnaire method. The questionnaire had both open ended and close ended questions. In this study a questionnaire was chosen as the method of collecting data for it allows interaction with researcher. Secondary data was also obtained from the financial statements of the institutions. That would assist in measuring the defaulting rate of the Sacco and was administered personally by the researcher.

Before using the questionnaire for generating data for the study a pilot study was conducted in two Sacco's in Embu town which is outside the study sample. The purpose of pre-testing the research instrument was to:-

- Verify whether the questionnaire was clear to the respondents.
- Establish whether the questionnaire effectively provided data needed for the study.
- Assess and identify any problems respondents would encounter in completing the questionnaire that may not have been foreseen when constructing the questionnaire.

The researcher administered the questionnaire and collected them after they were filled on the same day. Corrections were effected in the final draft of the questionnaire after expert suggestions from the supervisors. The research instruments were found reliable to collect the data required for the study.

Data Analysis and Presentation

Once the questionnaires were collected, they would be scrutinized to ensure they were duly completed and were consistent, after which they would be numbered. That would be followed by checking that all questions had been answered according to instructions to reduce errors and maintain the validity of the data. Data was analyzed using descriptive and inferential statistics. The data was presented in form of tables, pie charts, cross tabulations, correlations and figures.

4. Results and Discussions of Findings

This part provides the results and discussion of the outcome and data analysis of this study. This is based on the questions and research objectives of the study which is to assess the factors contributing to loan default in the Sacco's. Concerning the effect of Loan defaulters to loan defaulting in Sacco's. The study shows that most of the respondents believe that there is loan default and this is represented by57.9% of the respondents while 15.8% also believe that there are defaulters. Only a small number didn't agree that there are loan defaulters. This can be attributed to the amount of loan granted.

Concerning the analysis of the level of the loan repayment, most of the respondents stated that the level of loan repayment is between 41-60%. This constitutes 39.5% of the respondents. This shows that there is still low loan repayment by the Sacco members. The study also shows that 34.2% of the respondents stated that the loan repayment lies between 21-40%. This shows that the rate of loan repayment is low. Concerning the effect of the number of customers to loan defaulting, the study shows that majority of the members have been given loans. This is supported by 55% of the respondents. Another 14 % states that there are few members who are granted loan. This implies that the loan default may be associated with the granting of loans to many members. Concerning the effects of loans granting to loan defaulting, the study shows that most of the respondents stated that collateral security is being considered when granting loan, while 7.8% agreed that the credit history is considered when granting loan and only 13.2% stated that nationality is considered. Concerning the effect of management committee in relation to loan defaulting**,** from the study it is clear that most of the respondents' strongly agreed they have been in management committee for a period between 7-9 years. This is supported by 65.8%. Only 2.6 % disagreed that they have been in the committee for long.Considering the effect of economic factors in relation to loan defaulting, the study reveals that majority of the respondents believed that the economic factors contribute to loan default as per.68.8%. The 18% of the respondents agreed that economic factor contribute to default of loans. Concerning the effect of poor loan use in relation to loan defaulting, the study shows that most of the respondents are in agreement that poor loan use contribute to loan default.57.9% of the respondents believe that poor loan use contribute to loan default. Other respondent strongly disagree that loan use contribute to loan default. This is represented by 13.2% of the respondent. Concerning the effect of action taken on loan defaulters, majority of the respondents stated that action is taken to loan defaulters and that is supported by 23.7%. The relatively big proportion of the respondent being 22.8% stated that there is connection between the actions taken on loan defaulters, while 16.1% felt that no action is taken on defaulters. Considering the effect of interest rate of loans to loan defaulting**,** the data shows that the interest rate has effect on loan default. The majority of the respondent had these feelings. This was represented by 44.7% % of the respondents. It also shows that 15.8% of the respondents believe that the interest rate on loan contribute to loan default. Concerning the effect of customer's loan Insurance cover, the data shows that the Sacco has insurance cover for their customers. The majority of the respondent strongly agreed and this was supported by 58.3% of the respondent. Considering the length of loan processing, the study is clear that most of the respondents' verdict on the loan processing period is that the loan takes one day. This is as per 65.8% of the respondents. Meanwhile 10.5% of the respondent stated that the loan takes one month. The faster speed of granting might lead to loan default. Concerning the effect of Loan Purpose to Loan Defaulting, the study is clear that most of the respondents supported that Sacco's consider the loan purpose when granting loan. This is represented by 25.5% of the respondent. Another 14.5% of the respondents stated that the loan purpose is not considered just as 26.5% of the respondent. Thus failure to consider the loan purpose results to loan default. Concerning the effect of loan follow up on investment type, the study shows that the Sacco's do not make follow up on loans. This is represented by 34.2% of the respondents who strongly disagree while 31.6% of the respondents agreed that there is no loan follows up. Concerning the analysis of loan security in relation to loan defaulting, it is clear from the study that most of the respondents' strongly agreed that depreciation of fixed assets is considered when granting loan. This is supported by 57.9% of the respondents. The 21.1% of the respondents agreed that legal possession of the assets is considered. Only 10.5% stated that the insurance is considered when granting loan. Thus the asset value is important in consideration of loan.

Correlations-Factors Contributing To Loan Default Among Savings and Credit Societies in Kirinyaga County in Kenya

The Pearson correlation coefficients between all the variables, which are loan appraisal system, management skills, loan policy and loan use and loan default among Saccos are highlighted in this section. Loan appraisal system has a positive correlation with the loan default among Sacco with a correlation coefficient of 0.85 and a p-value of 0.0142.The management skills has a relationship with the loan default with a correlation coefficient of 0.862 and a p-value of 0.033. There is also positive correlation between the loan policy and loan default among Sacco's with a correlation coefficient of 0.878 with a p-value of 0.0164.The loan use has a relationship with the loan default with a correlation coefficient of 0.793and a p-value of 0.024.

Regression Analysis; factors contributing to loan default among Saccos

The model effectiveness measurement was determined and illustrated in measuring the variables, loan appraisal system, management skills, loan policy and loan use and the loan default as shown in table 4.31.The table shows that the overall correlation coefficient(R) between the all the variables and the loan default is a strong positive correlationof0.842.Whereasthe R-square was 0.706,thecoefficientofdetermination(R- Square)shows that the variables combined, loan appraisal system, management skills, loan policy and loan use in the regression model can explain 70.6%ofthevariationsinloan default among Sacco's.

Table4.31:Model Fitness–Loan Default Factors and Loan Default Among Sacco's

Indicator	Coefficient
R	0.842
R Square	0.706
Std. Error of the Estimate	0.7832

Table4.32showsthe analysis of variance of the independent variables which are loan appraisal system, management skills, loan policy and loan use are included so as to explain the loan default among Sacco's. The overall significance as found in the model illustrated by the tableis0.042(<0.05).This implies that it was appropriate to reject the null hypothesis that states that there is no relationship between the independent variables and loan default among Sacco's and makes a conclusion that independent variables have a positive relationship with loan default among Sacco's. This indicates that the independent variables included in the model have an overall significance which is suitable in explaining the loan default among Sacco's in Kirinyaga County.

Table4.32: ANOVA – independent variables combined and loan default among Sacco's

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	879.061	7	144.017	286.66	0.042
Residual	59.031	8	0.553		
Total	938.093	15			

Table 4.33 with coefficients indicates that regression coefficients of the independent variables have a relationship with the dependent variable. The results of the study showed that loan appraisal is significant in explaining loan default among Sacco's. Management skills are also significant in explaining loan default among Sacco's. The loan policy and loan use have significance in explaining the loan default. The reason why they are said to have a significant relationship is because they have positive numbers and not negative. This leads to rejecting of the null hypothesis that states that there is no relationship between the dependent and independent variables and conclude that there is relationship between the dependent and independent variables.

Table4.33: Regression Coefficients–loan default factors and loan default among Sacco's.

Indicator	Beta	Std. Error	t	Sig.
Loan appraisal system	0.435	0.111	3.96	0.016
Management skills	0.446	0.218	2.081	0.027
Loan policy	0.458	0.217	2.145	0.038
Loan use	0.456	0.21	2.148	0.041

Summary of the Major Findings

The study was an investigation of the factors contributing to loan default in the Sacco's in Kirinyaga County. Data collection instrument which was questionnaires were distributed to the credit managers and the members and the response rate was 92%.

The study showed that the loan appraisal system related well to loan default. Where loan appraisal was done fairly the rate of loan default was low.

From the study it is clear that the method of loan appraisal was a major factor in loan default. The respondents who were in agreement were 42%.The loan appraisal method determined whether the credit manager had considered all the factors such as the ability to pay apart from loan securities.

The study revealed that the major effect on loan default was the management skills applied by the Sacco management. This was represented by 65.8% of the respondents. It is clear that this variable correlate well with the dependent variable which is the loan default. From the table it was shown that the main reason for loan default according to the respondent is the way the management apply their skills concerning the follow up of the defaulted loans and the action they take to their clients after loan default.

The other variable that also explained the dependent variable which is the loan default was the loan policy. The data showed that the loan default can be explained by poor loan policy. The study also revealed that the major effect on loan default was poor loan use whereby the customers invested in the wrong projects. This was represented by 57.4% of the respondents. Then 68.8% of the respondents stated that economic factors determine the loan default. Also, 57.9% of the respondents stated that depreciation of the fixed assets contribute highly to loan default. The respondents stated that there has been an increase in usage of fixed assets as security. From the tables loan default occurs due to failure of loan follow up. The information gotten related well with the expected outcome whereby failure of proper loan follow up resulted to higher loan default.

There was a moderate correlation between various independent variables, and a strong correlation between the poor loan appraisal and loan default. This corresponded with the expected results. It shows that all the independent variables, loan appraisal, management skills, loan policy and loan use correlate well with the dependent variable which is the loan default. From the study it is clear that all the four variables in the study which were showing the relationship to loan default are significant. These are loan appraisal system, management skills, loan policy and loan use.

5. Conclusions

The results from this study have shown that loan appraisal system, management skills, loan policy and loan use have a bearing on the loan default. The Pearson correlation has established that there exists a correlation between these various aspects loan default which are loan appraisal system, management skills, loan policy and loan use have the strongest relationship as per their coefficient.

Sacco's faces a lot of challenges in the loan default. They were considered to have ragged behind in loan default management. But loan appraisal system, management skills, loan policy and loan use plays a great role regulating the loan default in the Sacco's. However with the above variables the Sacco's will be able to manage loan default. The products offered in the Sacco are now differentiated thus the Sacco's need to be very keen on loan appraisal system and loan granting.

Recommendations

Based on the results of the study the researcher recommends various ways that Sacco's can use to gain competitive advantage over others through reduction of loan default.

Prudent Financial Management

Sacco's need to evaluate all the avenues through which they can generate revenue. This can be established through training and consultancy department whereby these services can be extended to primary cooperative societies. This will increase the loyalty of members who could be tempted to shift to financial institutions and run away with the loan they were granted.

Engagement of Consultants (Outsourcing)

The consultants will assist the Sacco's on strategizing, thus becoming more competitive

The outsourcing enables the Sacco management to think out of the box.This means that they change their way of thinking after they are made aware of other external factors they had not encountered including the adoption of the recent technology which emerges in the market and joining Credit Referrals Bureau (CRB).

Customers Satisfaction

The Sacco should have good customer care and enhance customer satisfaction. This raises their confidence and makes customers stay in the Sacco. The Sacco has an established category of membership. Hence if these members are well served it is possible to retain them since they identify themselves with the Sacco. This could be through minimum harassment when demanding loans.

Suggestions for further Research

The researcher suggests that the research on the impact of enactment of the Sacco Act 2008 on strategic plans formulation and implementation in the Sacco's to be done. This is to establish whether the Sacco's can be more profitable, get higher market share and be more competitive. The findings would complement findings of this research.

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