Factors Affecting Financial Performance of Deposit Taking Saccos in Nairobi County, Kenya

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Abstract- The main objective of this study was to investigate on the factors affecting the financial performance among deposit taking SACCOs in Kenya with specific reference to SACCOs in Nairobi County. The independent variables were investment decisions, funds misappropriation, loan defaults and membership withdrawal. The study was anchored on the agency theory, financial literacy theory, stewardship theory and the modern portfolio theory. The study adopted a descriptive research design in which the opinions of employees in the Saccos were sought. The study targeted a population of 654 management employees working in the registered Saccos in Nairobi County. The sample size was 87 management employees. Primary data was used and which was collected by aid of questionnaires. The study established that the Saccos had well established investment committees which participated in making all investment decisions with stakeholder involvement. The investment decisions made by the SACCOs in Kenya are based on risk management. Moreover, the management in the SACCOs is insightful in creating both short and long term investments. The Study also established that misappropriation of funds in the Saccos is prevented through stakeholder involvement in financial decision making.

Index Terms- Investment decisions, Funds Misappropriation, Loan Defaults, Membership Withdrawal, Financial Performance

I. Introduction

SACCOs are an autonomous association of persons united voluntarily to meet their common economic and social needs through jointly owned and democratically controlled enterprises, which are organized and operated under the principles of cooperatives (Alfred, 2011). All SACCOs are formed on the basis of values of self-help, honesty, openness, self-responsibility, social-responsibility, democracy, quality, equity, solidarity, mutual caring, efficiency, transparency and accountability (Sammy, Philemon & Juma, 2013). Sacco's have been recognized worldwide as important avenues of economic growth. Many countries that have achieved economic development have a vibrant and dynamic cooperative sector which contributes substantially to the growth of those economies (Kwame, 2012). SACCOs play a significant role in the provision of financial services to the poor. They provide savings and credit and investment opportunities to individuals, institutions and group members.

According to Muriuki (2013), the primary purpose of savings and credit co-operative society is to meet the common needs of members. Sacco's have been recognized worldwide as important avenues of economic growth. Sacco's perform an active financial intermediation function, particularly mediating from urban and semi-urban to rural areas, and between net savers and net borrowers while ensuring that loan resources remain in the communities from which the savings were mobilized.

The modern co-operative concept began in 1844 in Rochdale village, Manchester in England. It has since developed globally as a socio-economic movement with its own distinct identity, history and purpose (Sebhatu, 2011). In 1864 the first rural credit union was established by Raiffeisen in German to cater for the needs of the rural people. The rural communities were deemed nonbank able owing to very small, seasonal flows of cash and shortages of human resources (WOCCU, 2012).

Ongore (2013) reveals that the cooperative movement spread all over Europe, Northern America, Latin America and Asia from 1900 to 1930 and thereafter to Ghana by a catholic Bishop. In Africa, the farmers promoted and registered cooperatives towards the end of 1950s for cash crops like pyrethrum and coffee. Kwame (2012) asserts that the success of the cooperative movement in Ghana has been widely replicated throughout the African continent.

Today there are many Saccos being formed across the country as members seek to pool efforts together for better lives and also tap on the support offered to Saccos by the two tiers of the government and non-governmental organisations. Therefore, in pursuit of serving the members, contribution to the economic growth and provision of employment opportunities, SACCOs should ensure they record positive financial performance in term of return to assets, liquidity and also generate revenue to pay dividends to shareholders (Ngui, 2010). However, this has not been the case since information in the public domain is that most Saccos are grappling with the challenge of continuous losses despite the existing legal and regulatory framework hence the need to undertake a study to establish the cause of this challenge.

Several studies have been done locally on the factors affecting the growth and performance of SACCOs. For instance, Wasike (2012) did a research on factors affecting performance of SACCOs and pointed out that inadequate capital, poor asset quality, poor liquidity and non-compliance were the key factors affecting the SACCOs. In his study, Mathuva (2016) established that inadequate marketing strategies, limited product and services, and poor image as the factors affecting the performance of SACCOs in Kenya.

Odhiambo (2013) study on factors affecting performance of SACCOs found out that the issues affecting performance are membership size, poor profitability and loan defaulting. Despite the various studies being conducted, insufficient literature exists to link up the variables identified in this study such as investment decisions, fund misappropriations, loan defaulting, member's withdrawal and the performance of deposit taking Savings and Credit Cooperative Societies hence creating a research gap which this study seeks to fill. The study therefore fills this gap by determining the factors that influence financial performance of deposit taking Saccos in Nairobi City County, Kenya

The general objective of this research is to assess the factors that affect financial performance of deposit taking Saccos in Nairobi City County, Kenya. The specific objectives were: to determine how investment decisions affect the financial performance of deposit taking Sacco's in Nairobi City County, Kenya, to find out how funds misappropriations affect the financial performance of deposit taking Sacco's in Nairobi City County, Kenya, to establish the effect of loans default on the financial performance of deposit taking Sacco's in Nairobi City County, Kenya and to investigate the effect of members withdrawal on the financial performance of deposit taking Sacco's in Nairobi City County, Kenya.

II. Literature Review

2.1 Investment Decisions

According to Pandey (2015) an efficient allocation of capital is the most important finance function in the modern times. It involves decisions to commit the firm's funds to the long term assets. Investment decisions are of considerable importance to the firm since they tend to determine its value by influencing its growth, profitability and risks. Investment decisions require special attention because of the following reasons: they influence the firm's growth in the long run, they affect the risks of the firm, they involve commitment of large amount of funds, they are irreversible or reversible at substantial loss and they are among the most difficult decisions to make. Co-operatives have failed without a market-driven approach that allows them to compete. They need a competitive advantage through professional management, operational and financial efficiency, high quality products, and competitive pricing (OCDC, 2012).

According to Dunn *et al.* (2010) in his study which included co-operative managers and directors, he was concerned that owner-directors too often make political decisions for their own personal gains rather than prudent financial decisions with economic sense. These participants believed that, on occasion, co-operative directors may be motivated to make decisions that benefit the individual at the expense of the co-operative. This is the reason why governance issues are more exaggerated at co-operatives unlike in corporations

According to DFID (2010), Saccos are at liberty to undertake financial investments since members and or shareholders can respond to the management decision of investment proposal among co-operatives by increasing co-operatives' access to finance in a range of ways, including: providing revolving loans funds, bank guarantees, or equity capital to increase their capitalization. This is done simply because the shareholders clearly understand that the funds when wisely invested will lead to financial benefits to then in the future from the dividends. Shareholders can increase capital for investment through engaging with commercial banks to increase their willingness to lend to co-operatives on good terms; and in some cases providing low interest loans directly to co-operatives to support expansion of their business.

Mwaura (2015) argues that the annual delegates meetings and the ministry of co-operatives are to blame for investment activities undertaken by SACCOS because they are the ones who are supposed to approve the same investment. Muchemi (2005) notes that non profitable investments should be discouraged because, despite the enormous amount of resources invested in such projects, returns are almost none hence reducing the capital base where interest is drawn from. Co-operative Management Committees are notorious for diverting members' funds into investments of dubious value. The law hence needs to be amended to strengthen the Ministry's regulatory hand. It should clearly prohibit investments that are not related to the core objective of the society (KUSCCO, 2013)

Co-operatives are complex social organisations with many interests coalescing in one place and with a focus on inclusive decision-making. SACCO's shareholders want more than just attending an annual general meeting as shareholders of private companies but would like to be involved in investment decisions to be undertaken by the management. Clarity of purpose, on-going participation by members and competent leadership clearly focused on the agreed upon objectives are key factors in ensuring that these complex organisations remain successful (Kithunzi, 2014).

Olao (2014) investigated influence of financial stability on deposit taking SACCOs. Descriptive survey was adopted. Population comprised all the 34 DTS which had complied with SASRA regulations by December 2013. The study used secondary data from all the SACCOs sampled. The study concluded that financial stability positively and significantly influences performance of deposit taking SACCOS.

2.2 Funds Misappropriations

Kanu and Okorafor (2013) carried out a study on the nature, extent and Economic impact of Fraud on Bank Deposits in Nigeria to determine the amount of Bank funds involved in fraud. They collected quarterly Fraud and Forgeries report on Nigerian Banks for the period between 1993 and 2010. The study found that the most frequent type of fraud in Nigerian Banking Industry is fraudulent withdrawals.

According to Odera (2012), financial management problems specific to the SACCO pose challenges not faced by many other forms of organizations. However, when a number of controls are brought to bear on the problems including; well-defined financial reporting procedures, internal controls, service adequacy, prudential management disciplines and external supervision, the problems can be overcome to produce a stable and balanced financial management. Boards of Directors in SACCOs are empowered to make decisions they believe will benefit the organization (section 28 of the Co-operative Societies Act CAP 490). They must be held accountable and responsible for performance results. In Kenya, the Centre for Corporate

Governance in Liaison with the Ministry of Co-operative Development and Marketing (2008) has developed guidelines that must be adhered to in the management of co-operatives with regard to specific key areas to enhance performance. For example have regular and timely elections and allow members to participate without interference; maintain up to date and accurate records of the organizations and ensure audited accounts are presented and read to members on time and members allowed to deliberate and resolve on them among others.

In his study Odhiambo (2013) concluded that most Saccos in Kenya have been grappling with the challenge of funds mismanagement from the board of directors as well as the managers. As a result, members have been left decrying the kind of leaders they have entrusted with their funds. Misappropriation and embezzlement occurs in several ways including unauthorized withdrawal, fraudulent funds transfer and even improper accounting practices.

According to Odhiambo (2013), unauthorized withdrawals are where an individual obtain funds from another person's account without proper authorization. It may take the form of an individual forging another person's signature and thereby obtaining money over the counter. It may also take the form of an individual having authorized access to Person Identification Number (PIN) of another person and using it to withdraw cash through Automatic Teller Machine (ATM).

Akinyomi (2012) investigated fraud in the Nigerian banking sector and its prevention, fraudulent money transfer is where a fraudster generates a fraudulent request or alters a legitimate Funds Transfer Request for the purpose of committing fraud. The fraudster will then collude with fraudulent Bank staff to withdraw the ill-gotten money. According to Akinyomi (2012), theft and embezzlement represent another form of fraud which involves the illegal collection of financial items such as cash, traveller's cheque. In Kenya, directors have transferred money from Sacco accounts into their business accounts and claim to have obtained loans while others supply "air' to the Saccos and are paid huge sums leading to loss of cash (Muriuki, 2013). Recently, there has been a case reported where Saccos members of Busia Agricultural Training Centre stormed the Sacco offices and demanded for all their contributions. The agitated members accused the Sacco leadership of funds embezzlement and lack of accountability

Another form of funds misappropriation among the Saccos is through improper cash management systems leading to loop holes where managers and directors can siphon funds from the Saccos. Cash management is a crucial activity in every business and involves planning and controlling cash flows in and out of the business, cash flows within the business, and cash balances held by a business at a point in time. Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. Sacco leadership go around the set financial policies to embezzle the funds. For instance, it has been reported by Wasike (2012) that board members and managers in Kenyan Saccos go for training that cost millions of shillings only to be trained on what they already know and others never even attain the training. All they need is the funds and they disappear since nobody can make follow up on their whereabouts.

2.3 Loan Defaults

According to the study of Clement & Martin (2012) evidence from many countries in recent years suggests that collateral values and recovery rates on corporate defaults can be volatile and, moreover, that they tend to go down just when the number of defaults goes up in economic downturns. This link between recovery rates and default rates has traditionally been neglected by credit risk models, as most of them focused on default risk and adopted static loss assumptions, treating the recovery rate either as a constant variable independent from the probability of default. This traditional focus on default analysis has been partly reversed by the recent significant increase in the number of studies dedicated to the subject of recovery rate estimation and the relationship between default and recovery rates.

Alfred (2011) researched on loan repayment performance is an important concept for all the lending institutions. It is a measure of whether loans are settled up in full according to the loan contract or not. The higher loan repayment performance leads to the higher probability of the collecting interest revenues and lower loan losses in a lending institution (Alfred, 2011). On the other hand, the poor loan repayments have a harmful impact on institutions capital, earning as well as in realizing its objectives and may even lead to a financial institution collapse.

For instance, failure to manage loan repayment performance results in losses and high delinquency management costs (Huseyin, 2011). The higher expenses are for closer monitoring, more frequent portfolio and legal fees for pursuing seriously delinquent loans. Such costs adversely affect the generated income, and, in general, the operation of the lending institution, thus, the institution becomes unsustainable.

Gekara and Joseph (2013) used a discriminate analysis to identify defaulters from non-defaulters of agricultural bank recipients in Iran. Results showed that use of machinery, length of repayment period, bank supervision on the use of loan had significant and positive effect on the agricultural credit repayment performance. On the other hand, waiting time for loan reception had a significant effect on its repayment.

In a study by Clement and Martin (2012) on determinants of successful loan repayment, in order to avoid delays in repayment, 100% rule was applied i.e. no new credit was granted until the former had been repaid in full. This rule was later relaxed and loans granted as long as the payment rate reached 90% of outstanding loan. Every borrower had to have savings amounting to 20% of the loan in order to access credit. Every member had to subscribe to a number of shares in order to access credit. Guarantor ship was also required for credit beyond specified amounts (Paxton, 1996).

A study by Mwangi (2012), on Microfinance Default Rates concluded that the probability of default decreased with the frequency of monitoring, the availability of non-business income, years in business, the number of guarantors and whether the client was a first time borrower. In a research carried out by Wakuloba in Uasin Gishu on the causes of loan default in Uasin Gishu District Trade Development Joint Loan Board scheme, it was noted that it had high and rising default rates over the period. The main causes of default were poor business performance, diversion of funds and domestic problems. The recommendations were that the board be strengthened through capacity building in computer applications to speed up loan processing and ensure timely disbursements. Despite these noble practices and theoretical expectations, the current experiences do not concur with the premise that SACCOS are risk-free institutions. The current situation signals the possible severe and unrestrained financial risk problem in SACCOS and some members have defaulted to pay affecting the financial performance.

Kioko (2016) studied the effect of capital adequacy regulations on Saccos in Kenya. Three questions were answered, namely: Why is it necessary for SACCOs to adhere to capital adequacy regulations? What challenges have SACCOs faced in complying with capital adequacy requirements and what strategies have SACCOs undertaken to meet the requirements for capital adequacy?

Muriuki (2010) did a study on factors affecting Sacco performance in Meru South district: a case of Tharaka Nithi Teachers Sacco. Descriptive survey was adopted. The total population was stratified into the SACCO members, management committee members and staff sub-samples. The results showed that governance has enormous effects on financial performance.

2.4 Membership Withdrawal

A SACCO member is a person who belongs to that SACCO willingly by filling in the membership form and paying the required membership fees. Most SACCO members have a common bond either of occupational or production nature. This characteristic makes a SACCO to be an association of people who have come together with common goal geared at improving their livelihood economically (Sacco's operations report, 2016).

Under the current law most of the SACCOs in Kenya may close their doors if they do not meet the minimum threshold. For a SACCO to be registered, it must have a minimum of 30 people. The members must also meet the ksh.10 million capital adequacy requirements. Investment of SACCO funds in non-core business must not be more than 10% of its total assets. In addition some 15% of SACCO assets must be in cash form to adequately provide for its liquidity requirements. SACCOs will also be expected to make adequate provision for loan losses as is done by the commercial banks and other financial institutions (SASRA, 2012). Despite the continuous growth of Saccos in Kenya, members have been withdrawing their membership status due to financial losses of then Saccos.

According to SASRA (2013), Sacco membership is significant as it provides a source of business and hence economic viability of the Sacco. However, during a Sacco formation, the promoters will interest members who are in the same occupation or geographical area. This ensures that all members have a common goal to pursue and a common interest in the affairs of the Sacco.

Recently, due to fear of losing money through the widespread corruption members have withdrawn from Saccos. For instance, when in 2016 The Sacco Societies Regulatory Authority (Sasra) revoked the licences of five credit unions and effectively barring them from taking deposits from the public, most of the Members had to withdrawal their membership immediately to avoid loss of funds, shares and any benefit accumulated from their savings.

2.5 Critique of Literature and Empirical Gaps

Many studies have concentrated on the context of developed nations leaving the developing countries less researched (Pandey, 2015; OCDC, 2012; Dunn *et al.*, 2010; DFID, 2010; Clement & Martin, 2012; Alfred, 2011; Huseyin, 2011; Gekara & Joseph, 2013; Clement & Martin, 2012).

Also, it has been noted that many studies have not been able to show clearly what the relationship between varied factors and how they affect financial performance (Mwaura, 2015; Muchemi, 2005; KUSCCO, 2013; Pandey, 2015; OCDC, 2012; Dunn et al., 2010; DFID, 2010; Clement & Martin, 2012; Alfred, 2011; Huseyin, 2011; Gekara & Joseph, 2013; Clement & Martin, 2012; Kithunzi, 2014).

Existing studies have concentrated on different sectors thereby neglecting the deposit taking Saccos context which is crucial as Saccos have now been ranked as the vehicles that propel economies (Pandey, 2015; Dunn *et al.*, 2010; DFID, 2010; Mwaura, 2015; KUSCCO, 2013; Kanu & Okorafor, 2013; Odera, 2012; Akinyomi, 2012; Wasike, 2012; Clement & Martin, 2012; Paxton, 1996; Mwangi, 2012).

III. Research Methodology

The study employed a descriptive research design. The major purpose of descriptive research design is to describe the state of affairs as it is at present. In this study, the population was the management employees working in different SACCOs in Nairobi County.

According to SASRA (2017), there is 654 management staff among the top performing 38 registered Saccos in Nairobi County. These encompassed 321 from the administration and 333 from the Finance Department.

The study adopted a stratified random sampling design to select the sample population. Stratified random sampling is a sampling technique in which the entire population of interest is divided into homogenous subsets that share similar characteristics and select respondents from each subgroup so as to ensure equitable representation of the population in the sample (Cooper, 2012).

The sample size consisted of 87 respondents selected proportionately from the two departments. The study adopted the formula of Naissuma (2010) to calculate the sample size as shown in equation below;

$$n = \frac{NC^2}{C^2 + (N-1)\, e^2}$$

Where;
n = is the sample size
N = is the population size
C = is the coefficient of variation
e = is the level of precision.

With a confidence level of 95%, coefficient of variation of 0.5 and precision level of 5%, the sample size was equal to 87 as derived in the equation below;

$$n = \frac{654(0.5)^2}{(0.5)^2 + (654-1)\,(0.05)^2} = 87$$

This constituted approximately 13.3% of the sampling population. In this study, questionnaires were used to collect primary data from the sample population. For the purpose of this study, 5 respondents were picked for pilot testing who are more than the 1% threshold whom Adams *et al.* (2007) considers as being satisfactory for pilot testing.

Creswell (2003) asserts that validity is the strength of qualitative research, although other researchers prefer to substitute validity with terms such as trustworthiness, credibility, transferability, dependability, and conformability. Validity exists when the knowledge sought is arrived at through descriptions that make possible a understanding of the meanings and essences of experience (Castillo, 2009). To make valid inferences from the text, it is important that the classification procedure be reliable in the sense of being consistent: different people should code the same text in the same way (Waber, 1990). Strategies for validating the accuracy of research findings offered by Creswell (2003) included obtaining data from three different sources of information or triangulation, member checking, which involves having the research participants review final reports to determine accuracy, and documentation using rich, thick descriptions. The researcher adopted Creswel (2003)'s criteria to ascertain validity of the study instruments.

The study used the Cronbach (Alpha – α) model to test the reliability of the data. Brown (2002) indicates that Cronbach's alpha reliability coefficient normally ranges between 0 (if no variance is consistent) and 1 (if all variance is consistent). The closer the coefficient is to 1.0 the greater the internal consistency of the items in the scale. An alpha (α) score of 0.70 or higher is considered satisfactory (Gliem & Gliem, 2003).

The research data was coded into Microsoft Excel and Statistical Package for the Social Sciences software (SPSS) to enable the responses to be grouped into various categories and analysed using descriptive statistics. Weighted Mean was used to get the average number of the respondents on their feeling determined in the Likert scale. The findings were presented using tables and charts. Regression analysis was used as it provides a mean of objectively assessing the degree of the relationship between the independent variables and the dependent variables in the prediction of the dependent variable. The regression equation will be as follows:

$$Y = \beta o + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + \beta 4\ X4 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where Y = Financial Performance among Saccos in Kenya
βo = Constant
X1 = Investment Decisions
X2 = Misappropriation of Funds
X3 = Loans Default
X4 = members withdrawal
β1, β2, β3 and β4= Regression Coefficients
ε=Error term

Analysed data was presented in the form of tables and charts.

IV. Findings, Conclusions and Recommendations

4.1 Summary of Findings

This section addresses the major findings of the research drawn from the objectives as discussed in the previous sections. This includes the effect of investment decisions, funds misappropriations, loans default and members' withdrawal on the financial performance of deposit taking Sacco's in Nairobi City County, Kenya.

4.1.1 Investment Decisions and Financial Performance

From the findings, the study as supported by a mean of 4.3571 established that the SACCOs had well established investment committees. The committees guided their investment decisions which contribute to the financial performance of the SACCOs. Secondly, the study established that to a great extent, investment decisions made by the SACCOs are based on risk management in Kenya. This was supported by a mean of 4.6429. In addition, the study established that stakeholders were involved in all investment projects undertaken by the SACCOs as supported by the mean of 4.2714. Moreover, the study established that investment projects are undertaken with integrity and accountability. This was supported by a mean of 4.4429 from the response. It was also established that most of the SACCOs are not undertaking product innovation as part of investment portfolio. This was supported by a mean response of 2.5429. Finally, as supported by a mean of 4.1857, the study established that the management in the SACCOs is insightful in creating both short and long term investments.

4.1.2 Misappropriation of Funds and Financial Performance

The study as supported by a mean of 4.2857 established that that the management in the SACCOs involves all stakeholders in financial decision making. Also the study established that there was a mechanism that was used to detect misappropriation of funds in most of the SACCOs. This was supported by a mean of 3.8143. Moreover, the study established that to a great extent there was existence of independent internal audit functions to ensure compliance and proper use of funds in the SACCOs. This was supported by a mean of 4.5714 from the response. The study also as supported by a mean of 4.3143 established that financial management of the SACCOs was subjected to both internal and external audits. Consequently, it was established that management leadership terms are controlled to avoid long stay which may lead to embezzlement of funds. This was supported by a mean response of 4.7429. The study as supported by a mean of 4.3714 from the response established that there was a significant relationship between funds embezzlement and the SACCOs poor performance. Furthermore, the study also confirmed that misappropriation of funds was at minimal levels in the SACCOs.

4.1.3 Loan Defaults and Financial Performance

The study established that to a great extent that the SACCOs have access to credit information of the borrowers. This was supported by a mean of 4.1857 from the response. Secondly, the study as supported by a mean of 2.6429 established that most of the SACCOs did not have established committees set to manage credit portfolio. The study established that there were well laid regulations on the credit facilities extended to internal staff. This was supported by a mean of 4.1571 from the response. In addition, the study as supported by a mean of 4.7857 established that the SACCOs request for adequate collateral on all loans to reduce the risk of loan default. Overall, the study established that there were well structured mechanisms in the SACCOs to ensure that all issued loans are repaid.

4.1.4 Members' Withdrawal and Financial Performance

The study established that that there was an increase in membership to the SACCOs for the last five years. This was supported by a mean of 4.1857 from the response. The study as supported by a mean of 2.7429 established that there were no incentives for new members which would encourage more people to join the SACCOs. The study established that delays in dividend payment contribute to membership withdrawal from the SACCOs. This was supported by a mean of 3.9571 from the response. In addition, the study as supported by a mean of 4.3571 established that there was a significant relationship between members' withdrawal and financial performance of SACCOs in Kenya. It was also established that members shift from one SACCO to another due to mismanagement. This was supported by a mean response of 3.6286. Finally, the study established that there was the likelihood of the staff in the SACCOs to leave as supported by a mean of 3.3429 in the response.

4.2 Conclusion of the Study

4.2.1 Investment Decisions and Financial Performance

From the findings, the study concluded that the SACCOs had well established investment committees which participated in making all investment decisions with stakeholder involvement. The investment decisions made by the SACCOs in Kenya are based on risk management. Moreover, the management in the SACCOs is insightful in creating both short and long term investments. However, most of the SACCOs are not undertaking product innovation as part of investment portfolio.

4.2.2 Misappropriation of Funds and Financial Performance

The study concluded that misappropriation of funds in the SACCOs is prevented through stakeholder involvement in financial decision making. Moreover, there are mechanisms to detect misappropriation of funds in the SACCOs. Both internal and external audits were conducted in the SACCOs to ensure compliance and proper use of funds. Leadership terms in the SACCOs were controlled hence members could not overstay in leadership positions which would give them room to embezzle with funds.

4.2.3 Loan Defaults and Financial Performance

The study concluded that the SACCOs have access to credit information of the borrowers which is used to determine their credit worthiness. Also, well laid regulations on the credit facilities extended to internal staff existed and that the SACCOs requested for adequate collateral which helped in reducing loan defaults. The SACCOs had well laid down mechanisms to ensure all loans issued were paid. However, majority of the SACCOs did not have committees to manage the credit portfolio.

4.2.4 Members' Withdrawal and Financial Performance

The study concluded that there was a significant increase in membership in the SACCOs due to the financial performance witnessed although it was discovered that there were no incentives for new members to join. Delays in dividend payment were seen to contribute to membership withdrawal from the SACCOs as well as the financial performance. It was concluded that due to mismanagement of the SACCOs, members would shift to other SACCOs that were well managed. Finally, the staff in the SACCOs did not show an intention of leaving which shows that they comfortable with their job.

4.3 Policy Recommendations

From the study findings, the researcher recommends that the SACCOs should undertake product innovation as part of investment portfolio which will provide a variety of financial tools to offer to its members hence improve their financial performance. Secondly, the SACCOs should come up with terms that provide some incentives to motivate people to join the SACCOs. Such incentives may be in terms of selective interest rates imposed on certain members who hold a significant level of credit.

Finally, the SACCOs should establish committees to manage the credit portfolio. Such committees will come up with strategies that will help in fast credit processing and payments. This will modify the services offered by the SACCOs to their clients who will allow more people to join as well as access the credit services hence improving the financial performance.

4.4 Suggestions for Further Studies

Further research can be done to investigate how the financial performance of the SACCOs in Kenya can be influenced by both increased and reduced interest rates other financial institutions which offer similar services.

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