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INFLUENCE OF COLLATERAL REQUIREMENTS ON SACCO'S CREDIT ACCESSIBILITY IN IMENTI NORTH SUB-COUNTY, KENYA

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Abstract

Savings and Credit Co-operative Societies (SACCO's) are started with a common objective which is savings mobilization and credit advancement. SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, sources of funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. A national survey conducted by Central bank of Kenya on financial access (2013) revealed that SACCO's credit accessibility has reduced from 2009 to 2013 despite the increase in credit demand. The general objective of the study was to assess the influence of collateral requirements on credit accessibility of SACCO's in Imenti North Sub-County, Kenya. The target population of the study was 34 registered SACCO's which offers credit and the management employees were the study respondents. Results revealed that collateral requirements have a moderate influence on credit accessibility in SACCO's. Pearson *correlations also indicated that collateral requirements have a major positive significance contribution on credit accessibility. It was recommended that SACCO's should therefore possess a wide range of collaterals and also develop a policy which allows use other forms of collateral other than guarantors and shares only. This will certainly increase access to credit in SACCO's.*

Keywords: Influence, Collateral Requirements, SACCO'S, Credit Accessibility

INTRODUCTION

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

According to Cooperative Bank of Kenya (2010), the Kenyan SACCO's have mobilized over Kshs.200 billion in savings which accounts to 30% to National Domestic Saving. The Kenya cooperative sub-sector plays a significant role in the Kenyan financial sector. It contributes 45% of the country's GDP. Ndungu (2010) argues that use of social security commonly referred to as guarantors in obtaining credit may affect the number of person who access credit. This hinders members from accessing credit which could be used in investment. The Kenya Vision 2030 strategy requires the financial services sector including SACCO's to play a critical role in mobilizing the savings and advancing credit to their customers for development investments of the country.

According to a study done by Omboi et al. (2011) found that SACCO's members in Imenti North Sub County seek credit from other financial institution. Imenti North Sub County has 34 SACCO's which is the highest number of SACCO's in the entire Meru County. The service provided by SACCO's will play a crucial role in improving the livelihoods of Kenyans especially in developing towns like Meru town which is the headquarter of Imenti North Sub County.

Statement of the Problem

The objective of SACCO's is members' empowerment through savings mobilization, disbursement of credit and ensuring long-term sustainability through prudent financial practices. However, SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, sources of funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. Mulwa (2013) found that SACCO's offers competitive lending rates to their members with an opportunity to borrow up to 3 times their shares contributions.

A national survey conducted by Central bank of Kenya on financial access (2013) revealed that SACCO's credit accessibility has reduced from 13.5% in 2009 to 9.1% in 2013 despite the increase in credit demand. This continuous decline in access to credit for 3 consecutive years shows that SACCO's members are not able to access the credit from their SACCO's and they seek for credit from other financial institutions. These findings of the central bank survey shows a decline in credit accessibility and this reveals that there is a problem and it is therefore imperative to explore the determinants of credit accessibility of SACCO's in Imenti North Sub County on this important sector. This study is embarked to fill this gap.

General Objective of the Study

The general objective of the study was to assess the influence of collateral requirements on credit accessibility of SACCO's in Imenti North Sub-County.

Research Hypothesis

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

Significance of the Study

The research output is also helpful to the Imenti North Sub-County SACCO's and other SACCO's in the entire County. The study will help them to evaluate their criteria of credit issuing and revise it accordingly in favor of credit worthy borrowers so as to alleviate the current decline in credit accessibility and reduce repayment constraints. Moreover, this study is of great help to the policy makers in order to formulate successful credit policies and programmes that enable in allocating the scarce financial resources to the development of basic sectors of the economy. Other researchers in this area will find this research report useful. They will get recommendations for further research from this study.

Limitation of the Study

The study encountered challenges in locating the target population since some of them are dispersed within Meru town and its outskirts. However, this was overcomed by requesting guidance of location from the district cooperative office.

Assumptions of the Study

The study assumed that there were no significant changes in the target population that would have materially affected the study outcomes. The study further assumed that respondents offered credible information.

THEORETICAL REVIEW

Agency Theory

According to Bowie et al. (1992) an agency relationship arises when one or more individuals, called principals, hire one or more other individuals, called the agents, to perform some service and then delegate decision making authority to the agents. The primary agency relationships in business are those between shareholders and management. This relationship is not always harmonious and the theory is concerned with conflicts of interest between agents and principals. This has implications on how the organization affairs are conducted. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship like offering management performance bonuses to encourage managers to act in the shareholders' interests.

Bowie et al. (1992) argues that agency theory suggests that, in imperfect labor and capital markets, managers will seek to maximize their own utility at the expense of shareholders. Managers have the ability to operate in their own self-interest rather than in the best interests of the organization because of asymmetric information. Managers know better than shareholders on whether they are capable of meeting the shareholders objectives or not, and they are also aware of uncertainty in the market.

In this study, the principals are the shareholders of the SACCO's delegating the authority to make decisions on behalf of the SACCO's to the agents who are the management of the SACCO's and to perform all other tasks on their behalf. The agency theory assumes both the shareholders and the management are motivated by self-interest. Thus, if both parties are motivated by self-interest, management is likely to pursue self-interested objectives that deviate and even conflict with the goals of the shareholders. Yet, management is supposed to act in the sole interest of their shareholders.

It is the responsibility of management to ensure that members are able to access to credit facility in order to earn interest that shareholders can use to pay divided and also to expand the operations of the Sacco.

The problem of credit accessibility can be attributed to the management not acting in the best interest of shareholders since they should come up with a wide range of loan products, ensure that loan offered have got characteristics which will attract more borrowers like flexible repayments periods and ensure that the lending procedures are friendly and they will not inconvenience the clients when borrowing credit from SACCO's (Chiivakal et.al. 2008).

It is the responsibility of the management to ensure that when accessing credit, the collateral required is affordable to the customers while increasing the number of collaterals accepted by SACCO's. This theory explains how management have failed to use their skills to come up with strategies that will ensure that none of the Sacco members will seek credit from any other financial institution as it is currently. This requires that management to be innovative when it comes to credit facility for them compete with other financial institutions offering credit. The management should not only work to earn salaries but also to maximize the shareholders wealth and ensure there is growth by generating more income and especially from interest on loans advanced to members.

The study concludes that agency theory is helpful and it is encouraged that management and shareholders should share a common interest and desires the same outcome in credit accessibility.

EMPIRICAL REVIEW

Collateral Requirements of SACCO's

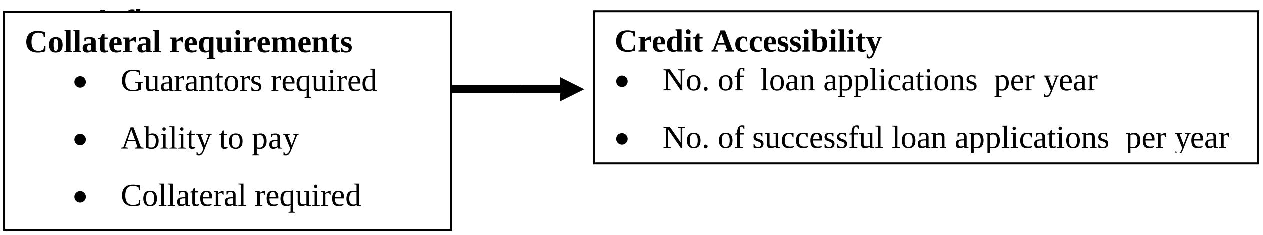
According to Lore (2011) on his study on enhancing access to credit among retailers in Nairobi, SACCO's lenders will always demand collateral in order to evaluate the borrower's creditworthiness and minimize the risk of repayment and default. This study found that SACCO's are limited in terms of collateral offered to their clients. This study found that the most accepted collaterals included shares held by the borrower and guarantors. The study concluded that this policy leaves out a large number of borrowers who may not be able to offer these collaterals and this affected the ability of clients to access credit. SACCO's lenders on the other hand use collateral substitutes, third party guarantees and threat of loss of future access to credit. The efficient use of collateral substitutes depends on the ability of the lender to obtain information about the credit worthiness of the borrowers at low cost.

A study conducted by Kaplan & Warren (2007) on entrepreneurship patterns, found that there is flexibility in the amounts loaned as it depends on borrower's ability to pay and the lenders level of liquidity. In addition, social groups and networks nurture trust which is very vital in business relationships as it creates social collateral for use in accessing finance in SACCO's. A key factor as to whether a borrower will access certain structured credit depends on who has introduced the borrower or guaranteed the loan. Thus credit only revolves around a group with mutual interests and one cannot easily leave such a group due to family, business or professional affiliations. Fellow Sacco members, friends and family, presumably have good information concerning the characteristics of the potential borrower.

Conceptual Framework

Figure 1: Conceptual framework

Independent Variables *Dependent Variable*



RESEARCH METHODOLOGY

Research Design

The study adopted a descriptive research design which is concerned with describing the characteristics of a particular individual, or groups (Kothari 2009). This method was suitable since it allowed flexible data collection and the respondents were not manipulated

Target Population

The target population of the study was 34 registered SACCO's, all the 34 SACCO's offer credit. The study respondent was 102 management staff. The respondents were selected since they are the people who play critical role in designing credit policies and strategies.

Sampling Procedure and Sample Size

The study did not conduct a sampling since the target population was manageable and the respondents are within systems that they can be accessed and hence a census was conducted. According to Kothari (2010), this is a complete enumeration of all items in the population hence the sample size of 102 respondents was used.

Research Instruments

Data was collected through questionnaire. The questionnaire had both open ended and closed ended questions. The questions were simple and logical. They contained simple but straight forward directions for the respondents so that they not feel any difficulty in answering the questions.

Data Collection Procedures

The drop and pick method was used to collect data after booking appointment with the respondents. This method was useful in administering the questionnaires to the sampled population since it ensured that respondents were reached without any external influences (Neville, 2007).

Method of Data analysis and Presentation

Frequencies and descriptive analysis was used to analyze data. Inferential statistics such Pearson correlation was used to test the significance of the overall model at 95% level of significance. According to Mugenda (2008) correlation is used to measure association between independent variable and dependent variable. This was used to measure the relationship that existed between credit accessibility and collateral requirements. Multiple regression analysis was considered also valuable for quantifying the impact of various simultaneous influences upon a single dependent variable. Jackson (2009) stated that multiple regression analysis involves combining several predictor variables in a single regression equation. Data analysis was done with the help of software programme SPSS version 22 which is the most current version in the market. The analyzed data was presented using tables.

In this study, regression equation of the variable Y which is credit accessibility was defined as follows;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + e}$$

Where: Y= **C**redit Accessibility

β_0 = Constant

β_1 = Coefficient of independent variable

X_2 = Collateral Requirement

e = Error term

ANALYSIS AND DISCUSSION

Response Rate

The researcher issued 102 questionnaires to the respondents. Only 94 questionnaires were returned which accounted for 92% return rate. The reasons for this response rate was attributed to some of the respondents who were issued with the questionnaires returned questionnaires in time and there were well filled while very few who did not respond at all and others whose items were not filled. However, the response rate is considered adequate given the recommendations by Saunders, Lewis and Thornhill (2007) who suggested a 30-40% response is adequate, Sekaran (2010) who document 30%, and Hager, et.al,. (2008) recommend 50%. Based on these assertions, this implies that the response rate for this study was adequate.

Collateral Requirements influence on Credit Accessibility

This section sought to gather the responses of the respondents in regard to the collateral requirements that are accepted by SACCO's. They were asked to indicate the most appropriate response on the types of collateral accepted by their SACCO's. Table 1 below illustrates the type of collaterals accepted in order to access credit by the borrowers.

Table 1: Collateral Accepted by SACCO's on Credit Accessibility

Collateral	Disagree	Uncertain	Agree	Conclusions
Motor vehicles Log Books	89	2	3	Majority Disagree (95%)
Land Title Deeds	86	1	7	Majority Disagree (92%)
Certificate of deposits	91	-	3	Majority Disagree (97%)
Insurance covers	88	4	2	Majority Disagree (94%)
Shares	-	-	94	Majority Agree (100%)
Pay slips	17	-	77	Majority Agree (82%)
Guarantors	-	-	94	Majority Agree (100%)
Employments Letters	66	-	28	Majority disagree (70%)

It is clear from the data that 82% of the respondents agreed that their SACCO's accept pay slips as collateral. The data revealed from all the respondents 100% that all the SACCO's accept shares and guarantors as the collateral in order to access credit. It was also found that motor vehicles logbooks were found not be accepted as form of collateral in order to access credit and this was supported by 95% of the respondents. The data also revealed with majority of respondents 92% that their SACCO's does not accept land title deeds as collateral to access credit by borrowers. This implies that SACCO's has got very limited types of collateral at the client's disposal and this may influence the accessibility of credit. These findings are supported by Lore (2011) who conducted a study on enhancing access to credit among retailers in Nairobi and found that SACCO's are limited in terms of collateral offered to their clients. This study found that the most accepted collaterals included shares held by the borrower and guarantors. The study concluded that this policy leaves out a large number of borrowers who may not be able to offer these collaterals and this affected the ability of clients to access credit from SACCO's

Response on Growth/ Decline in the Accessibility of Credit of SACCO's

In this section, the respondents were asked to give the most appropriate response in terms of growth or decline in the accessibility of credit of SACCO's. The findings revealed that from 2011 to 2013, the number of loan applications received in SACCO's from Imenti North Sub-County has dropped from 45% to 20.5%. This has affected the number of successful loan applications. The findings revealed that successful loan applications dropped from 43% in 2011 to 24% in 2013. These finding are in agreement with the study a national survey conducted by Central bank of Kenya on financial access (2013) which found that SACCO's credit accessibility has reduced despite the increase in credit demand.

Response on credit accessibility satisfaction rate of SACCO's

In this section, the respondents were asked to give the most appropriate response in relation to satisfaction with the credit accessibility in their SACCO's since this was the problem which was being studied. Their responses were as shown in table 2 below.

Table 2: Response on credit accessibility satisfaction rate of SACCO's

Responses	Frequency	Percent	Cumulative Percent
Satisfied	26	28	28
Neutral	1	1	29
Dissatisfied	67	71	100.0
Total	94	100.0	

Data revealed that majority of the respondents 67% were dissatisfied with the rate at which credit is accessed in their SACCO's. However, 28% of the respondents argued that they were satisfied with the rate at which credit is accessed in their SACCO's. Only 1% of the respondents were neutral in this question. This reveals that SACCO's management are dissatisfied with level at which credit is accessed by clients. These findings correspond with those of Fin Acces Survey (2013) which found that the credit accessibility of SACCO's in Kenya is below satisfaction levels.

Table 3: Regression Coefficients on SACCO's Credit Accessibility

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.562	0.026		21.700	0.00
	Collateral	0.182	0.072	0.511	2.531	0.000

a. Dependent Variable; Credit Accessibility

The table 3 above shows multiple regression coefficients and how every independent variable influences' credit accessibility in SACCO's in Imenti North Sub County. The interpretation was done as follows;

The hypothesis of the study postulated that there is no significant relationship between collateral requirements and credit accessibility in SACCO's. The study findings revealed that there is a positive significant relationship between collateral requirements and credit accessibility in SACCO's with a $\beta=0.511$, $t=2.531$ and a p-value <0.05. This implies that a change in collateral requirements is associated with 51.1% increases in credit accessibility in SACCO's. These findings concur with Lore (2011) and Manyara (2008) who found that collateral requirement is a major factor on the credit accessibility of SACCO's. It can be inferred that SACCO's should have a variety of collateral accepted to increase accessibility to credit in Imenti North Sub-County.

The multiple regression model was also developed using the Beta coefficients in order to illustrate the explanatory power of every independent variable on the dependent variable as follows;

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

Where: Y= Credit Accessibility

β_0= Constant

β_1 = Coefficient of independent variables

X_1 = Collateral Requirement

e = Error term

$Y = 0.562 + 00.511\ X_1$

The model above showed that while holding all other factors constant, collateral requirement explains credit accessibility at 51.1%. This model shows that the collateral requirement is statistically significant.

Hypothesis Testing

Pearson correlation was used in order to ascertain whether there was any relationship that exists between the Collateral requirements and credit accessibility. A Pearson's correlation is used to find a linear relationship between two variables and when there is a there is a significant effect between the variables. The results are shown by table 4 below.

Table 4: Correlations of the Dependent and Independent Variables

Independent Variable		**Collateral Requirement**
Sacco credit accessibility (Y)	Pearson Correlation (r)	.438*
	Sig. (2-tailed)	.004

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

Test of Hypothesis of Collateral Requirement

There is a weak positive relationship between collateral requirement and Credit accessibility by SACCO Members in Imenti North Sub-County as indicated by correlation of 0.438. The p-Value of 0.004 is less than the acceptable significance level (α), hence the null hypothesis that there is no relationship between collateral requirement and Credit accessibility by SACCO Members in Imenti North Sub-County is rejected. This shows that the sampled data can be applied to the general population at 95% confidence level.

CONCLUSIONS AND RECOMMENDATIONS

This objective of the study sought to establish the nature of influence that collateral requirements had on credit accessibility in SACCO's in Imenti North Sub-County. Results revealed that collateral requirements had moderate influence on credit accessibility in SACCO's in Imenti North Sub-County. This is supported by Pearson correlations which show that collateral requirements have a major positive significance contribution. According to the findings of the study, collateral requirements can be a key lever for credit accessibility in SACCO's in Imenti North Sub-County.

The crux of this study was to explore the influence of collateral requiremenets and SACCO's credit accessibility in Imenti North Sub County. Based on previous studies, the variable was expected to have positive relation with credit accessibility in Imenti North Sub County. The output given from the findings indicate that there is a significant positive relationship between collateral requirements with credit accessibility.

The study recommended that SACCO's managers needs to understand that collateral requirements of SACCO's is necessary and it drives the clients in determining whether they will access credit or not. SACCO's should therefore possess a wide range of collaterals and also develop a policy which allows use other forms of collateral other than guarantors and shares only. This will increase access to credit in SACCO's.

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