EFFECT OF COMMERCIAL BANK LOANS ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE
SOCIETIES IN KAKAMEGA COUNTY

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ABSTRACT

The general objective of SACCOs is to promote the economic interests and general welfare of its members. However, SACCOs have received stiff competition from commercial banks and as a result, many SACCO members have moved to borrow from the commercial banks; there was therefore the need to find out how commercial bank loans have affected the financial performance of Savings and Credit Co-operative societies. Financial sector liberalization in Kenya and the world has created an enormous spectrum from which Savings and Credit Cooperative Societies (SACCOs) can raise finances. This has coincided with a period of good performances for a number of SACCOs. However, there is no certain indication of a link between the good performance and the financing diversification. This research sought to establish the effect of commercial bank loans on the performance of SACCOs. The specific objective was to; determine the effect of bank loan interest rate on financial performance of SACCOs. The population for this study was 41 KUSCCO- member SACCOs both affiliates and non affiliates with a target population of 205 officers. Simple random sampling was used to determine the sample size. The study used descriptive survey with the target population being 205 officers of all the 41 registered (KUSCCO) members in Kakamega County from data base. Data was collected from every Sacco using a questionnaire and analyzed using both descriptive and inferential statistics. Simple regression was performed on each construct of commercial bank loan against financial performance. From the results bank loan interest had a beta, $β_1$ value of 0.705 at p≤ 0.05 when regressed with financial performance. In conclusion, there exist statistically significant linear correlation between commercial bank loans and financial performance of SACCOs. The study recommended SACCO management to be keen in ensuring the interest rate levied on loans is kept as low as possible to attract more customers. The findings are of importance to the stakeholders, employees and management of SACCOs in Kakamega County. The findings also formed a basis for reference by researchers and interested academicians in future.

Key Words: bank loan, interest rate, financial performance

INTRODUCTION

Firm's financial performance is affected by Capital structure decisions such as acquiring commercial bank loans. Kirimi, Simiyu and Murithi (2017) defines debt financing as the act of a business raising capital through borrowing from external sources through the issuance of a bond, debenture, or through loans. According to Brealey, Myers, Allen and Mohanty (2012) debt financing is a means of financing a business through borrowing money and not giving up ownership. Financing a firm through commercial bank loans provides it with an opportunity for growth through expansion when used appropriately without affecting the firm's ownership.

According to Kirimi *et al.*(2017) commercial bank loans often comes with strict conditions thus it's a method of financing in which a firm receives a loan and gives its promise to repay the loan. Factors such as interest rate charged on loan, duration of loan repayment leverage ratio and interest coverage ratio often are known to influence returns of a firm (Cetorelli & Goldberg, 2012).

According to this study, Commercial bank loans are the act of a business entity raising capital through external borrowing. Savings and Credit Cooperative societies are legal organizations established and regulated by the respective laws of a given country. Dana (2010) argued in his study that a SACCO is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise Sacco's are vital as they marshal member's savings together and in return used to extend credit to Sacco members who repays at an interest. Study by University of Wisconsin Center for Cooperatives (2012) in the United States shows that up to 50% of a healthy co-op's capital needs may be financed through external borrowing. In USA, study by Keri (2015) also found that cooperative firms, on average, rely more heavily on equity financing

than debt financing, but further, improvements in profitability are associated with increased use of debt. Keri further argued that adequate commercial bank loans are fundamental to operate and grow any cooperative business to a successful venture. He notes that extra capital that comes from external lenders and used appropriately can boost up the profitability of the cooperative. Study by Jarka (2014) conducted in Holland noted that for decades, co-operatives in Central and Eastern Europe relied on a unique ownership model to gain access to member capital, however, he concludes by saying that many co-operatives in the last decade turned to alternative funding sources and debt instruments to expand member investment.

However according to the Reserve Central Bank of India report (2013), primary agricultural credit societies reported losses and continued to show weak financial performance even after financing their operation through debt. Study by Ikpefan (2011) in Nigeria found that even though there was support from the government through low interest loans to boost their members operations, there was a high loan default rate among cooperative societies due to poor financial performance. There are different reasons why people apply for loans while personal needs vary in general it is advisable when accessing long term credits to utilize the facility on purchase that will increase value over time. When initiating a loan both parties the customer and the bank through a decision making process on the banks side the credits analysis the probability of full repayment as stipulated in the contract (Kenya Bankers Association, 2012). Recent research has shown that while nearly one in five people are willing to take out a secured loan to help finance their lifestyle, more surprisingly one in eight would do this to purchase a luxury item regardless of whether they had any equity tied up in their home to help fund the loan. However, increasing leverage has a negative effect on long term Sacco's growth where debt

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financing benefits does not outweigh the cost (Kaloi, 2014).

Financial performance is a measure of the change in financial state of an organization or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization (Woolridge & Gray, 2006). However Gilchris (2013) argues that its outcomes are not universal in nature but largely depend on the organizational context hence selection of the measures that represent performance of a particular organization is done based upon the circumstances of the organization being rated.

The International Cooperative Alliance (2014) defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. The seven internationally recognized cooperative principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; provision of education, training and information; cooperation among cooperatives; and concern for the community (ICA, 2012).

Recent research indicates that approximately seven per cent of the African population is affiliated to co-operatives Shimane (2010). The research indicates that while co-operatives are large in number and represent an organized movement, the movement suffers constraints that are related to lack of voice or effective representation in society.

Financial co-operatives (Savings & Credit Co-operative Societies- SACCOs) and Non-financial co-operatives (includes farm produce and other commodities marketing co-operatives, housing, transport and investment co-operatives). In the recent past Savings and Credit Co-operatives (SACCOs) have witnessed faster growth than other co-operatives. The establishment of SACCO Societies Act 2008 places the licensing, supervision and regulation of deposit taking under the armpit of the SACCO Societies Regulatory Authority (SASRA). Through this new legal framework, prudential regulations have been introduced to guide SACCO's growth and development (Barrales, 2012).

Statement of the Problem

SACCOs are finding bank loans very expensive and consequently affecting their overall performance in their study Jackson Okoth and John Oyuke ,2012) found out that credit seekers including SACCOs no longer rush to take up loans from banks but instead are seeking for alternative avenues. According to (Barrales, 2012) there is a stiff competition between the commercial banks and other financial institutions since they now target the salaried employees who are also SACCO members. A study by Kiaritha (2015) done in Nairobi County pointed out very high interest rates are charged by nearly all the commercial banks to their borrowers in Kenya and this has led to strain both in payment of the loans and internal performances .

Due to this officials from some of the large Sacco's have been moving round to convince Banks on the need to adjust their lending rates as James Wanders (2015) also argues that in order to contain the huge credit demand threatening to deplete savings and protect themselves from high interests on loans borrowed from banks on behalf of members, majority of Sacco's are back on the drawing board. While banks have been charging customers' rates of between 24-32 per cent, Sacco's have kept their rates low at between two and 12 per cent, making them destination of choice for those fleeing from banks to alternative avenues. KUSCCO report (2015).

Further a study by chege (2016) done in Nyeri County on the effects of loan terms on the size of loan resolved that the loan volumes of the SACCOS are greatly subjected to the changes in the interest rates, the loan product, client ability to repay the loan and the credit limit.

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The KUSCCO report (2015) asserts that SACCOS have strategically positioned themselves to increase productivity and ease competition from other sectors of the economy, where extra financing has been sought through borrowing externally by 88% of cooperative societies in Kenya. Despite that Simeyo (2013) revealed in his research that2% of co-operative movements collapse every year due to liquidity problems and 6% of registered members withdraw their membership annually as a result of low returns on their investment. Many studies in Kenya; Nyoro and Ngugi (2007), Mwangi and Wanjau (2012), Njagi, Kimani and Ngugi (2012), Gicheru, Migwi and M' lmanyara (2011), Kiaritha (2015) Auka and Mwangi (2013) and Mauka, Munene and Muturi (2013) were carried out on SACCOs in sectors such as the agricultural sector, the transport industry, teacher's SACCOs and on SACCOS in Kenya generally. From the reviewed empirical literature, it is evident that factors contributing to success or failure of co-operatives are multifaceted and depends on the operating environment of the specific SACCO. Moreover; the studies evaluated just a handful of factors and Owing to the increased cost of debt usage leading to liquidity problems and low returns on investment by savings and credit cooperative societies in Kenya, this study therefore sought to fill the gap by investigating the effects of commercial bank loans on the performance of SACCOS basing on the credit terms offered by them. High interest rates offered by banks making the bank loans to be very expensive and in the long run they negatively affect the overall performance of the Cooperative Societies.

Objectives

The general objective was to establish the effect of commercial bank loans on the financial performance of SACCOs in Kakamega County. The specific objective was to determine the effect of bank loan interest rate on financial performance of SACCOs in Kakamega County.

Study Hypothesis

H_{01} Bank loan interest rate has no significant influence on financial performance of SACCOs in Kakamega County.

LITERATURE REVIEW
### Lending Pricing Theory

This theory explains why it is not prudent for banks to set high interest rates to optimize profit from loan sales. Banks should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz & Weiss, 2011). If banks set interest rates too high, they may induce adverse selection problems because high risk borrowers are willing to accept

these rates. Once these borrowers receive the loans, they may develop moral hard behavior or so called borrower moral hazard since they are likely to take on highly risky projects or investments i.e. The higher interest rates would later act as an incentive for the risky borrowers to consider adding more risk to their investment portfolio due to high affinity for high returns (Chodecai, 2014).

From the above, keeping the same level of supply an increase in demand for loanable funds would lead to an increase in the interest rate and a decrease in demand would lead to a decrease in the interest rates (Mungai, 2016).

Conversely an increase in the supply of loanable funds would result in fall in the interest rates whereas a decrease in supply would lead to a rise in the interest rates. According to Burnett (2012) if both the demand and supply of the loanable funds change, the resultant interest rate would depend much on the magnitude and direction of movement of the demand and supply of the loanable.

Conceptual Framework

Bank loan Interest rate		Financial performance
▪ Interest spread	→	Return on Assets (ROA)
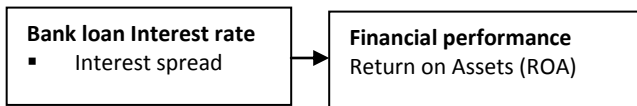
Independent Variables   Dependent Variable

Figure 1: Conceptual Framework
Source: Author (2019)

Review of Variables

Bank Loan Interest Rate

First is interest on loan: that SACCO members look at before borrowing, if the rates are favorable then more members are likely to take up the loans. The more members take loans, the better the financial performance will be and vice versa. Interest rate is the return for use of money and can also be said to be the price of the credit (Pandey, 2010).

According to Irving (1930) interest rate is the link between income and capital. It is the per cent of premium paid on money at one date in terms of money to be in hand one year later. With low interest rate banks are able to give out more loans and hence negate the financial performance of SACCOs When banks charge high interest rate the members would prefer to go for SACCO loans thereby seeing an improvement in the SACCOs performance (Mudida, 2010).

When extending credit to the SACCOS, a bank will charge a cost known (loan interest rate) which mainly depends on the type of loan and the credit risk profile of the SACCO. There are mainly two types of loan interest rates, either, Fixed rate –where the interest is negotiated and locked in for either a period or the duration of the loan; or Variable rate –where the interest rate changes according to the terms and conditions of the loan.

Changes in the spread are an indicator of profitability as the spread is where a bank makes its money and extending their benefits to the SACCOs for them to receive a benefit in return(Bhatt, & Bhatt, 2013).Net interest spread is expressed as interest yield on earning assets (any asset, such as a loan, that generates interest income) minus interest rates paid on borrowed funds by the SACCOs (Kassali, Adejobi, & Okparaocha, 2013).

SACCOs are becoming the choice of many Kenyans because they provide cheap loans on top of enabling individuals to own them in form of shares and also investments in real estate. Interest charged on loans is by far lower than what banks charge. According to Kenya's Sacco Societies Regulatory Authority, there are about 4,000 SACCOs in Kenya, which hold over 20.1 million U.S. dollars in deposits. Some of the SACCOs operate as banks by offering front office services (KUSSCO, 2014).

Research show that more than 90 % of SACCOs in Kenya charge less than 13 % interest rates, but most SACCOs charge a flat rate of 12 % per annum, meaning that you will comfortably pay 1 % per month, which is reasonable. While it is this easier with SACCOs, banks charge over 18 % interest rate per annum. There are banks which charge up to 24 % interest rate per annum this therefore increases the need of reduced interest rates charges by banks to the SACCOs though The Central Bank of Kenya (CBK) tightened its monetary policy to stabilize falling shilling and fight inflation last year (Babalola & Abiola, 2013).

Financial Performance

Financial performance is a measure of the change in financial state of an organization or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization (Woolridge & Gray, 2006)

The overall financial performance of money lending institutions in the last two decade has been improving. However, this doesn't mean that of these institutions are profitable, according to (Oloo, 2010). there are some declaring losses Studies have shown that there are specific and macroeconomic factors

affect the performance of commercial banks and other lending institutions (Flamini *et al.*2009).

Over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their lending operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide (Rosenberg *et al.*, 2009).

Profit is the ultimate goal of all the money lending institutions. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that they have no other goals but could also have additional social and economic goals. However the study focuses on the first objective i.e. profitability. To measure the profitability there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy and Sree, 2011; Alexandrau *et al*. 2015). Performance of Sacco's will be measured by ROA. Gilchris(2013arques that financial performance is a subjective measure of how well a firm can use assets from its primary mode of the business and generate revenue**.**

Return on assets measures the net income returns on each shilling of assets. It measures the overall profitability from investment in assets. It also measures the ability of the management to generate income by utilizing assets at their disposal. In other words, it shows how efficiently the resources are used to generate the income. It further indicates the efficiency of the management of the company in generating net income from all the resources of the institution (Khrawish, 2011) Wen (2010) state that a higher ROA shows that the institution is more efficient in using its resources.

An organization has to operate efficiently for it to achieve sound financial performance levels. Efficiency refers to an organizations ability to utilize the limited resources at hand to generate the most of revenue by minimizing wastages their making savings. A SACCO therefore has to be efficient for it to achieve sound financial performance standard (Shimane, 2010).

Net interest margin refers to the measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders (for example deposits), relative to the amount of their (interest earning) assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets).The NIM variable is defined as the net interest income divided by total earnings assets (Gul *et al.*, 2011).

METHODOLOGY

The research design used in the study was descriptive survey. Descriptive Survey is a method of collecting or administering questionnaires to a sample of individuals, Orodho & Kombo (2013) in their study noted that descriptive survey research is intended to produce statistical information about aspects of the population that interest policy makers without manipulating any variables. The research focused on SACCOs registered in Kakamega County. In addition, there were large numbers of financial institutions operating in Kakamega County that offered competition providing a more ideal environment of operation hence the SACCOs have to offer competitive services to avoid losing members to the other institutions. In Kakamega County there were only forty one registered SACCOs with 205 officers thus the target population for this study are the entire 205 officers SACCO Human Resource Department (2013) SASRA Supervisory Report (2018) and KUSCCO report (2018). The 205 officers comprised the CEO, the credit manager, Finance

manager, Accountant, and operations manager from each of the 41 registered SACCOs. The study used questionnaires which is a measuring tool that asks individuals to answer a set of questions or respondent to a set of statements. The data was collected using structured and non-structured questionnaires. The information was sorted and coded then input to the statistical package for social sciences (SPSS) for the production of graphs, tables, descriptive and inferential statistics.

FINDINGS

Descriptive Statistics of Bank Loan Interest on Financial Performance of SACCOs

The objective the study sought to achieve was to establish effect of bank loan interest on financial performance of SACCOs.

To achieve this, the respondents were asked to give their opinion showing the level of their agreement or disagreement with the statement provided in a Likert scale of 1- 5 where: Strongly agree (SA)=5, Agree(A)= 4, Neutral or not sure (N)= 3, Disagree (D)= 2 and Strongly disagree (SD) = 1. The five statements on bank loan interest results were presented in Table 1.

Table 1: Descriptive Statistics of Bank loan interest rate on Financial Performance of SACCOs

No	Statements	SD f (%)	D f (%)	NS f (%)	A f (%)	SA f (%)	Mean	Std Deviation
1.	Increase in interest rate leads increase in cost of loans	4(3.1)	2(1.6)	7(5.4)	47(36.4)	69(53.5)	4.3566	0.89964
2.	High interest rate makes loans expensive	7(5.4)	2(1.6)	5(3.9)	53(41.1)	62(48.1)	4.2481	.70802
3.	With high interest rates demand for loans is low	3(2.3)	0(0)	5(3.9)	61(47.3)	60(46.5)	4.3566	0.76851
4.	Banks low interest rates lowers the performance of SACCOS	24(18.6)	4(3.1)	18(14)	48(37.2)	35(27.1)	3.5116	0.40932
5.	High interest spreads lowers demand for loans	14(10.9)	0(0)	9(7)	71(55)	35(27.1)	3.8760	.44570
	Composite Mean and Standard Deviation						**4.06978**	**0.646238**

Statement number one; increase in interest rate leads increase in cost of loans. Out of 129 respondents who participated in the study we had 4(3.1%) who strongly disagreed, 2(1.6%) disagreed, 7(5.4%) were not sure, 47(36.4%) agreed while the remaining 69(53.5%) strongly agreed. The statement mean was 4.3566 which was below the composite mean 4.3566, implying increase in interest rate leading to increase in cost of loans does not support financial performance of SACCOs and hence should not be supported. Statement number two; High interest rate makes loans expensive. Out of 129 respondents who participated in the study we had 7(5.4%) who strongly agreed, 2(1.6%) disagreed, 5(3.9%) were not sure,

53(41.1%) agreed while 62 (48.1%) strongly agreed. The statement mean 4.2481 was above the composite mean 4.06978 which imply high interest making loans expensive supports financial performance and hence SACCOs should work on ensuring the interest rate is as low as possible.

Statement number three; with high interest rates demand for loans is low. Out of 129 respondents who participated in the study we had 3(2.3%) who strongly disagreed, 0(0%) disagreed, 5(3.9%) were not sure, 61(47.3%) agreed while the remaining 60(46.5%) strongly agreed. The statement mean of 4.3566 was above the composite mean 4.06978, which meant when the interest rate is high, demand for loans is

low and hence SACCOs should work on ensuring the interest rate is low to enhance financial performance. Statement four; banks low interest rates lowers the performance of SACCOs. Out of 129 respondents who participated in the study we had 24(18.6%) strongly disagreed, 4(3.1%) disagreed, 18(14%) were not sure, 48(37.2%) agreed while 35(27.1%) strongly agreed. The statement mean 3.5116 was below the composite mean 4.06978, which imply the statement does not support financial performance of SACCOs. In other words, lowering bank interest rate does not at the same time lower financial performance of SACCOs. Statement number five; High interest spreads lowers demand for loans. Out of 129 respondents who participated in the study we had 14(10.9%) who strongly disagreed, 0(0%) disagreed, 9(7%) were not sure, 71(55%) agreed while the remaining 35(27.1%) strongly agreed. The statement mean 3.8760 was below the composite mean 4.06978 which implied the statement did not support financial performance.

Descriptive Statistics of Financial Performance

The last area of the questionnaire sought to establish descriptive statistics of financial performance of SACCOs. To achieve this, the respondents were asked to give their opinion showing the level of their agreement or disagreement with the statement provided in a Likert scale of 1- 5 where: Strongly agree (SA)=5, Agree(A)= 4, Neutral or not sure (N)= 3, Disagree (D)= 2 and Strongly disagree (SD) = 1. The five statements on loan size results are presented in Table 2.

Table 2: Descriptive Statistics of Financial Performance

No	Statements	SD f (%)	D f (%)	NS f (%)	A f (%)	SA f (%)	Mean	Std Deviation
1.	The shorter repayment period the lower the performance in SACCOS	0(0)	0(0)	12(9.3)	89(69)	28(21.7)	4.1240	0.54497
2.	The higher the interest rate the higher the performance in SACCOS	16(12.4)	0(0)	6(4.7)	8(6.2)	99(76.7)	4.3488	0.35006
3.	The longer repayment period the higher the performance in SACCOS	14(10.9)	0(0)	8(6.2)	86(66.7)	21(16.3)	3.7752	0.07704
4.	The bigger the loan size the higher the interest	12(9.3)	0(0)	6(4.7)	12(9.3)	99(76.7)	4.4419	0.21132
	Composite Mean and Standard Deviation						**4.172475**	**0.295848**

Statement one; the shorter repayment period the lower the performance in SACCOS. Out of 129 who participated in the study, 0(0%) strongly disagreed, 0(0%) disagreed, 12(9.3%) were not sure, 89(69%) agreed while 28(21.7%) strongly agreed. The statement mean 4.1240 was below the composite mean score 4.172475, implying the statement does not support financial performance.

Statement two; the higher the interest rate the higher the performance in SACCOs. Out of 129 respondents, 16(12.4%) strongly disagreed, 0(0%) disagreed, 6(4.7%) were not sure, 8(6.2%) agreed while 99(76.7%) strongly agreed. The statement mean score of 4.3488 was above the composite mean score 4.172475, which meant the statement supports financial performance and should be enhanced.

Statement number three; the longer repayment period the higher the performance in SACCOS. Out of 129 respondents, 14 (10.9%) strongly disagreed, 0(0%) disagreed, 8(6.2%) were not sure, 86(66.7%)

agreed and the remaining 21(16.3%) strongly agreed. The statement mean 3.7752 was below the composite mean 4.172475 which meant the statement does not support financial performance. Statement four; the bigger the loan size the higher the interest. Out of 129 respondents, 12(9.3%) strongly disagreed, 0(0%) disagreed, 6(4.7%) were not sure, 12(9.3%) agreed while the remaining 99(76.7%) strongly agreed. The statement mean 4.4419 was slightly above the composite mean score 4.172475, implying to some extent, the bigger the loan size, the higher the interest. Thus the statement supports financial performance.

Inferential Statistics of Bank Loan Interest on Financial Performance of SACCOs in Kakamega County

The objective the study did was to establish the effect of bank loan interest on financial performance of SACCOs in Kakamega County. Karl Pearson correlation was used to establish the degree of association between bank loan interests on financial performance of SACCOs in Kakamega County.

The following hypothesis was formed from the first objective.

Hypothesis H_o1

H_{01} Bank loan interest rate has no significant influence on financial performance of SACCOs in Kakamega County.

The test criteria was set such that the study accepts the hypothesis if the value of beta, $\beta_1 \neq O$ (If the value of beta is not equal to zero).

Simple regression $Y = \alpha + \beta_1X_1 + \varepsilon$ was used where Y was Financial performance of SACCOs, α was the y-intercept term, X_1 was bank loan interest, β_1 was the beta value and ε was the standard error term. The mean of bank loan interest rate (X_1) was regressed with mean of financial performance of SACCOs (Y) through simple regression. The interpretation of the results involved using significance of R square and Regression coefficient at 95.0% confidence level or 5% significant. Summary of the results were presented in Table 3.

Table 3: Regression of Bank Loan Interest rate on Financial Performance of SACCOs

Model's Goodness of Fit Statistics						
R	R Square	Adjusted Square	Df	F	Sig.	ET
0.705	0.497	0.493	1	125.375	.000[b]	2.35

Regression Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model	B	Std. Error	Beta		
(Constant)	1.606	1.363		1.178	.041
Bank loan interest	.741	.066	.705	11.197	.000

a. Dependent Variable: Financial Performance of SACCOs

From Table 3, the correlation coefficient (R) or the beta value β_1 of 0.705≠0 at p=0.00 indicated there exist statistically significant positive linear relationship between bank loan interest and financial performance of SACCOs. The coefficients of determination, R-square (r^2) of 0.493 implied 49.3% of the variance in financial performance of SACCOs

was attributed to bank loan interest. The significance value was 0.000 which was less than 0.05 means the model was statistically significant in predicting how bank loan interest influence financial performance of SACCOS. Further, an F-significance value 125.375 at p = 0.000 was established showing that there was a

probability of 0.00% from the regression model to accept the hypothesis.

The unstandardized regression coefficient (β_1) value of bank loan interest was 0.741 with a t-test of 11.197 and significance level of $p \leq 0.001$. This indicated that a unit change in bank loan interest would result to a change in financial performance of SACCOs by 11.197. At 5% level of significance and 95% level of confidence, bank loan interest is significant in predicating financial performance of SACCOs. Hence, completing the equation;

Financial Performance of SACCOs = 0.741+ 0.705*Bank loan interest + ε.

The hypothesis was thus rejected.

The findings were in agreement with the study by Mudida (2010), who noted that with low interest rate banks are able to give out more loans and hence negate the financial performance of SACCOs . In their study ,they posit that when banks charge high interest rate the members would prefer to go for SACCO loans thereby seeing an improvement in the SACCOs performance (Mudida, 2010).

Moreover, according to KUSSCO (2014), SACCOs were becoming the choice of many Kenyans because they provided cheap loans on top of enabling individuals to own them in form of shares and also investments in real estate. Interest charged on loans is by far lower than what banks charge. In view of this, SACCOs were offering low interest loans hence increasing their financial performance in return.

Past studies have also indicated contextual differences for instance a study by Nyoro and Ngugi (2010) on effects of the interest rates on financial cooperative in Meru county brought a successful finding on the direct relationship between the interest rates and financial performance but the other variables were not clearly focused hence did not provide sufficient information about the real performance tent of the SACCOs in Meru county.

SUMMARY

From the descriptive results, majority of respondents agreed increase in interest rate leads increase in cost of loans. Most respondents agreed high interest rate makes loans expensive. Majority of the respondents agreed with high interest rates demand for loans is low. Most respondents noted that when banks low interest rates, they lowers the performance of SACCOs. Majority of respondents noted high interest spreads lowers demand for loans.

The study set out the following null hypothesis $H_o 1$ Bank loan interest rate has no significant influence on financial performance of SACCOs in Kakamega County.

The test criteria was set such that the study accepts the hypothesis if the value of beta, $\beta_1 \neq O$ (If the value of beta is not equal to zero).

Simple regression $Y = \alpha + \beta_1 X_1 + \varepsilon$ was used where Y is Financial performance of SACCOs, α is the y-intercept term, X_1 is bank loan interest, β_1 is the beta value and ε is the standard error term. The mean of bank loan interest rate (X_1) was regressed with mean of financial performance of SACCOs (Y) through simple regression.

The correlation coefficient (R) or the beta value β_1 of $0.705 \neq 0$ at p=0.00 indicates there exist statistically significant positive linear relationship between bank loan interest and financial performance of SACCOs. The coefficients of determination, R-square (r^2) of 0.493 implies 49.3% of the variance in financial performance of SACCOs is attributed to bank loan interest The significance value is 0.000 which is less than 0.05 means the model is statistically significant in predicting how bank loan interest influence financial performance of SACCOs. The unstandardized regression coefficient (β_1) value of bank loan interest was 0.741 with a t-test of 11.197 and significance level of $p \leq 0.001$. This indicated that a unit change in bank loan interest would result to a change in financial performance of SACCOs by 11.197. At 5% level of significance and 95% level of confidence, bank loan interest is significant in predicating financial

performance of SACCOs. The hypothesis was thus rejected.

CONCLUSION

The following conclusion was made from the research findings;

▪ Bank loan interest had a statistically significant effect on financial performance of SACCOs in Kakamega County.

RECOMMENDATIONS

The following were recommendation made from the study;

▪ SACCOs in Kakamega County need to keep their interest on loans as low as possible to attract bank customers whose loan interest rate is high.

Areas of Further Research

▪ The present study was done in SACCOs in Kakamega County. Future studies are encouraged to cover other SACCOs in the whole country and compare the results.

▪ The study did not test moderating influence of government policy on the relationship between effects of commercial bank loan on the financial performance of SACCOs in Kakamega County hence future studies are encouraged to establish the moderating influence.

▪ The study was done in financial sector. Future studies are encouraged to be done in other sectors to compare the results.

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