FACTORS LEADING TO INCREASED BORROWING FROM COMMERCIAL BANKS BY MEMBERS OF MWALIMU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY OF MERU NORTH DISTRICT

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FACTORS LEADING TO INCREASED BORROWING FROM COMMERCIAL BANKS BY MEMBERS OF MWALIMU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY OF MERU NORTH DISTRICT

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ABSTRACT

Saccos core business is mobilizing savings from members, and then providing them with credit at affordable interest rates. However, owing to the high level of liquidity in the country, Saccos have received stiff competition from commercial banks, which are awash with loanable funds and are giving out loans without asking for any savings. As a result of this, many Sacco members have moved to borrow from the commercial banks rather than their Sacco societies. If this trend continues unchecked, the Sacco societies might die. Hence, there is a need to find out the factors leading to the increased borrowing from commercial banks by members of Mwalimu Savings and Credit co-operative society.

The researcher's general objective was to determine the factors leading to the shift in borrowing from Sacco societies to the banks. The specific objectives were to; determine why Mwalimu Sacco members opt to borrow from commercial banks, assess the impact of the shift of the borrowing on the future of the society and suggest policy matters to save the societies from possible collapse. The research adopted a descriptive research design.

The population of the study was all the members of Mwalimu Savings and Credit Co-operative Society of Meru North District, which was estimated at 650. The research adopted a purposive sampling design where a sample of 100 was used in collecting primary data while literature reviewed, published financial statements and reports formed the basis of secondary data. The data collected were analyzed by way of tabulation, frequency tables and percentages.

From the study, it was found out that most Sacco members had opted to borrow from commercial banks as compared to the Sacco societies. It was clear that Sacco societies were facing stiff competition from commercial banks and this threatened the life of Sacco societies. Following this findings the researcher thus recommended that Saccos need to revise their lending policies for them to survive in the market.

Key Words: Borrowing, Commercial Banks

INTRODUCTION

Co-operative societies have a special position in the economic development in many countries of the world. Since this concept of co-operation was formally articulated by Rochdale pioneers, it has spread like bush fire across all continents of the world (Kibanga 2003). A co-operative society is made up of a group of people, who join together voluntarily to achieve common social and economic objectives (Ouma, 1987).

The first successful modern co-operative was founded by the Rochdale pioneers co-operative society in 1844 (Ouma, 1987). These people lived in Rochdale village in England. However, other types of co-operative societies followed soon thereafter. For instance, agricultural co-operatives were initiated and organized by Raiffeisen in Germany and credit unions initiated in the United States of America (Kuria, 1990).

The Rochdale pioneer co-operative society was a consumer co-operative society. During this period it was difficult to obtain the basic needs because of scarcity as a result of war. The rich people including the landowners, who owned shops, were not only charging exorbitant and high prices, but also were selling poor and aldultered commodities. Thus, the consumer co-operative was formed in order to supply to the members pure goods and at fair reasonable prices.

The modern co-operative organizations came into being in Kenya, by the establishment of Lumbwa farmer's co-operative society in 1908 (Ouma, 1987). This was formed by the European settlers. But those organized by Africans were not founded until 1930's (Ouma, 1987). However owing to lack of support and encouragement by the colonial Government, progress of co-operatives organized by the Africans was very slow. The British Government considered Africans so illiterate, and that it would not be possible to find capable people to manage and keep books of accounts for these co-operatives.

The first co-operative societies ordinance (Act) was passed in 1931 and replaced by another in 1932 (Kibanga, 2003). However; this was replaced by the 1945 co-operative societies ordinance. The 1945 ordinance was passed after an investigation was ordered by the colonial government. It was conducted by Mr. Campell who recommended and affirmed that co-operatives could play an important part in the economic development of this Nation. He recommended that Africans should be supported and encouraged to organize themselves into co-operative groups. The recognition by the Government was followed by the creation of co-operative department in 1946 (Ouma, 1987). The registrar, now called the commissioner for co-operatives development, and a small supporting staff was recruited. He was charged with the responsibility of promoting and registering, controlling and supervising co-operatives.

Most of co-operatives during this time were marketing co-operatives. However, after independence, the role of co-operatives was recognized much more than ever before. This was especially so because co-operatives proved to be best system for mobilizing and raising funds for the purchase of businesses and big settlement farms, which were previously owned by Europeans and Asians.

However, these co-operatives were faced with a number of problems, including dishonesty, misappropriation and misuse of society's funds and assets amongst officials. The 1945 co-operative societies act was later found to have loopholes and lacked definite measures to protect these organizations. It was therefore necessary that it be revised. Hence, the passing of co-operative society's act of 1966, together with co-operative development was empowered to control co-operatives and to improve their budgets, including approval of expenditure; to carry out the societies effectively and efficiently (M'itiiri, 1979).

Statement of the Problem

Saccos were established with an objective of mobilizing savings from members and then providing them with credit at affordable interest rates. Since the introduction of Saccos was based on employment as a common bond and following the check-off system, Saccos have made a breakthrough and have succeeded in a big way. By 1966, there were 3031 Saccos with 1,962,471 members who had saved Kshs. 20,788,047,000 and had outstanding loans amounting to Kshs. 18,237,657 (MOCD, 1977). This clearly shows a tremendous growth in both numbers and members of Sacco societies. It should be noted that lending to salaried people had been viewed by commercial banks as uneconomical due to the allegedly small amounts of loan for which they apply. But, in the recent past, the bank's policy seems to have changed. These banks have mounted aggressive marketing of their products.

Within the last four years, Saccos have faced stiff competition from these commercial banks. However, these Sacco Societies have failed to institutionalize micro-finance services to their members. This has therefore resulted into adequate provision of money needed by their borrowers. It is apparent that many of their members do business and do not bank with these societies. Thus, if Sacco mobilized these resources from commercial banks for on-lending to their members, they would be liquid and stable. But, the introduction of unsecured personal loans by commercial banks in year 2003 and 2004 has led to increased borrowing from commercial banks by Sacco members. If this trend continues unchecked, Sacco societies might die since lending or loaning is the major and obvious product of any Sacco. Death of Sacco societies will lead to loss of jobs to their staff, loss of business to their suppliers, loss of liquidity to members, loss of a secure saving plan to members and loss of revenue to the Government among others. Hence, the need to carry out the study on the factors leading to increased borrowing from commercial banks by members of Mwalimu Savings and Credit Co-operative Society.

Objectives of the Study

The general objective of the study was to determine the factors leading to the shift in borrowing from Sacco societies to commercial banks. The key objectives were to determine the effects of Collateral, Pro-rata share contribution, Repayment period and Rate of interest on shift in borrowing from Sacco societies to commercial banks with specific reference to Mwalimu Sacco members.

Research Questions

The research questions used by the researcher were:

- What is the effect of collateral on shift in borrowing from Sacco societies to commercial banks?
- To what extend does Pro-rata share contribution affect the shift in borrowing from Sacco societies to commercial banks?
- How does Repayment period affect the shift in borrowing from Sacco societies to commercial banks?
- What is the effect of Rate of interest on shift in borrowing from Sacco societies to commercial banks?

Scope of the study

The research targeted Mwalimu co-operative savings and credit society. The Sacco is a huge co-operative society with members from 40 branches in Kenya numbering around 44,000. A representation sample was obtained from each of the 40 branches. The researcher targeted all the members from one branch as they represent all the members of Mwalimu Sacco. The members are also found within the same proximity, which facilitates easy data collection.

LITERATURE REVIEW

Sacco loans

The processing of loan applications from members is a very sensitive issue among Sacco Societies and their members. The members are never sure that their loans shall be processed and funds released on time to meet their financial commitments. The waiting period may range between three and twelve months. The delay in itself defeats the very core objective for the formation of saving and credit societies whose business is to encourage savings and extend credit as required by members (The co-operative magazine, 1997 – 2002).

A major study on Saccos' lending to their members was commissioned by Kenya Union of Savings and Credit Co-operatives (KUSCO) in 2002. The study revealed out that Sacco Societies faced a number of threats in the lending business to their members. First, the cost of borrowing from financial institutions that is banks had become prohibitive. Because of this high cost of borrowing, access to credit by Saccos to the financial institution became very limited.

Secondly, the cost of living in the years from 1997-2002 had drastically gone up, hence Sacco members could not live comfortable without getting supportive credit from Saccos. This created a high demand for loanable funds whose supply was constant or diminishing. And since Saccos could not easily meet that high demand for loans, member's loyalty was in jeopardy.

Third, many workers had been laid off, and this affected the savings capacity of Saccos considerably. Because of these identified threats, the study recommended that there was a serious need for the Saccos innovative products that will help circumvent the threats. The study revealed out that Saccos are financial business organizations operating in the market place with other players in the market competing for the same clients. Therefore, the Sacco's survival and existence shall depend on prudent, business practices but not ideologies, which promote social and communal responsibilities.

Growth of co-operatives in Kenya

There has been a steep rise in the number of co-operatives societies in Kenya since independence with 1064 co-operatives in 2004 from 1030 co-operative societies in 1963 (M'itiiri, 1979). Today, the ideas of co-operative seem to have permeated all the sectors of the economy. By 2004, the 1064 registered co-operative societies had a membership of over 6 million (GOK, 2004). Out of these all co-operative societies, 46% are agricultural based, 38% are savings and credit co-operative societies (Saccos), and 16% represent other co-operatives such as housing and multipurpose co-operatives (GOK, 2004).
Co-operative sector contributed 35% to the economy between 1972 and 1976. This fell to 31% between 1986 and 1990. The contribution fell to 28% in 1991 to 1994. Currently co-operative sector is contributing around 24.5% to the economy. This fall had been due to difficult financial situations in the country (GOK, 2004).

Co-operative societies, because of their ideas and recognition of the need for fair distribution are suitable vehicles for economic and social development. Currently, there are around 4474 Saccos with a membership of 1.8 million and a share capital of Ksh 74 billion (Ministry of co-operative development and marketing, 2004). The Saccos were started with two fold objectives of mobilizing savings from salaried workers for investment and affording loans to their members at a reasonable rate of interest.

Though these societies have been an effective tool for eradicating poverty in the country, nevertheless, the performance of the Saccos and the co-operative movement as a whole has been unqualified success. It has been faced with a variety of setbacks, including lack of integrity on the part of society committee members and employees, misappropriation and misapplication of funds and the general inefficiency in the business operations of the movement.

These shortcomings in turn have been caused by serious lack of basic understanding among co-operative members about the purpose and the functions of the co-operative movement, and also due to lack of managerial and technical knowledge and experience on the part of employees of the co-operative (GOK,1970).

Management of Co-operative Societies

The co-operative societies act, cap 490 was enacted in 1966 and it gave the Government wide supervisory powers over the co-operative movement. Between 1966 and 1990, the minister and commissioner for co-operative development issued rules and regulations regarding various aspects of co-operative management to such an extent that co-operatives were considered an extension of Government (GOK, 1987).

By 1990's, a new economic order was replacing the old. State controls were caving into forces of a free economy. The tight Government involvement over institutions, including co-operatives, was to be relaxed through globalization and liberalization. The policy and legislative instruments that had given the state unfettered and unchecked powers were to undergo thorough reform and restructuring (Kibanga, 2003).

The Sessional paper number six (6) on co-operatives of June 1997, Liberalized the co-operative movement and gave societies power, among other things, to invest where they get best returns subject to approval by members at Annual General Meetings (A.G.M). This was legalized via the enactment of "The co-operative societies act, No. 12 of 1997" which removed all powers previously vested in the Government and vested them to the Annual General Meeting (A.G.M) of the members.

Government's role in development and management of Sacco's

The rapid growth in Co-operative since independence was fuelled by heavy Government support through direct assistance and subsidized services. This Government assistance, though well intended has indeed produced positive results and also created many other problems related to dependency that now require to be seriously addressed. These include:-

- Direct intervention to Government in the day-to-day management of co-operatives in Kenya highly comprising the universally accepted co-operative principles and values.
- Heavy Government involvement hindering emergence of members controlled and member managed societies as members rely on the Government to safeguard their interests. This has compromised society's values that include self-help, self-responsibility, democracy, equality, equity and solidarity.
- As a result of continued involvement in co-operative societies in form of free technical and financial assistance as well as development of management and financial system, the society have almost become wholly dependent on the Government. This has hindered the consolidation of society's values of self-responsibility, self-reliance and self-control.

Arising out of the foregoing, there is therefore dire need for the Government involvement in co-operative societies to be substantially reduced. Although not empirically proved, Okoth Ogendo (1986), argued that the success of societies depends on strong international organizational structures especially where these are also independent in practice and politically on the enormous powers vested in co-operative commissioners.

Hyden (1973), highlights that Government interventions tend to stifle co-operative initiative, limiting their ability to changing circumstances needs and investment opportunities. In some instances decisions have to be made shrewdly changing economic conditions. However, this may not be the case where for example in the Saccos, everything has to be referred to the commissioner.

Sessional paper No. 6 (1997), stated that in order to professionalize and democratize the management of the co-operatives and enable them to be member-based and member controlled self reliant organizations that will be in a position to compete more effectively with the rest of the private sector, the Government involvement in the day-to-day management of co-operative will be reduced substantially.

Sacco's operations

Saccos obtains deposits from their members, which are borrowed at a reasonable rate of interest. Since the introduction of savings and credit based on employment as a common bond, and following check-off system, these co-operatives have made a breakthrough and have succeeded in a big way. By a common bond, it is in this way that regular savings are accumulated and from these savings, loans are given (Kuria, 1990).

After sufficient funds have been accumulated through member's savings the next stage is to give loan to members. The loans are for productive and provident purposes. A member is allowed to borrow a loan, which is usually more than two times his/her share contribution depending on the society's by-laws (GOK, 1997).

Mwalimu Sacco

Mwalimu co-operative and savings credit society was formed and registered as a co-operative society in 1974. It is huge co-operative society with members from 40 branches in Kenya numbering around 44,000 who are active members employed by TSC (Mwalimu Sacco newsletter, 2004). The headquarters of Mwalimu Sacco is in Nairobi but represented in all 40 branches by elected officials or delegates. The delegates who number between four and ten in every branch act as link between the headquarters and the members in that branch. In other words delegates are representatives of their members to the society just as members of parliament represent their constituents in National assembly.

There are two types of membership, namely, active and dormant members. Active members are those who make share contributions regularly whereas dormant are those members who have either died, changed services or stopped contributing although their names still appear in the members register (Mwalimu Sacco news letter, 2004). The co-operative society also has provision for members who change services. The provision states that as long as one has been a teacher and a member of Mwalimu Co-operative society, membership continues even if one has changed services.

Generally speaking, co-operative societies are vast trading and social organizations instituted and maintained in the belief that the principle of co-operation is natural and desirable (Chambers encyclopedia, volume iv 1979). Mwalimu co-operative society was set up mainly to promote savings and advance credit to teachers. The society is restricted to salaried earners because the employer can accord payroll check-off deduction facilities with regard to contribution from members. Money deducted from members' salaries includes; share contribution, loans repayment, interest on loans, and Burial Benevolent Fund (B.B.F.), Withdrawable Savings Fund (W.S.F), and risk fund. This payroll check-off system is efficient because it ensures regular and steady growth of total membership's savings and guarantees loan repayment.

A Sacco is a service provider. The services provided by the Sacco to its customers are the products. Lending money or loaning is the major and obvious product of any Sacco. The common types of loans offered by Mwalimu Sacco include; normal loans, emergency loans, school fees and top up loans negotiated with co-operative bank (Mwalimu Sacco newsletter, November 2004). Benefits enjoyed by members of Mwalimu co-operative society include; interest on share contributions, dividends, and savings and loans for development. This is because co-operative societies are usually started with the aim of uplifting the economic and social welfare of their members, largely because economic and social problems are issues of extreme importance not only to teachers but also to workers in other sections of the economy (Abell, 1988).

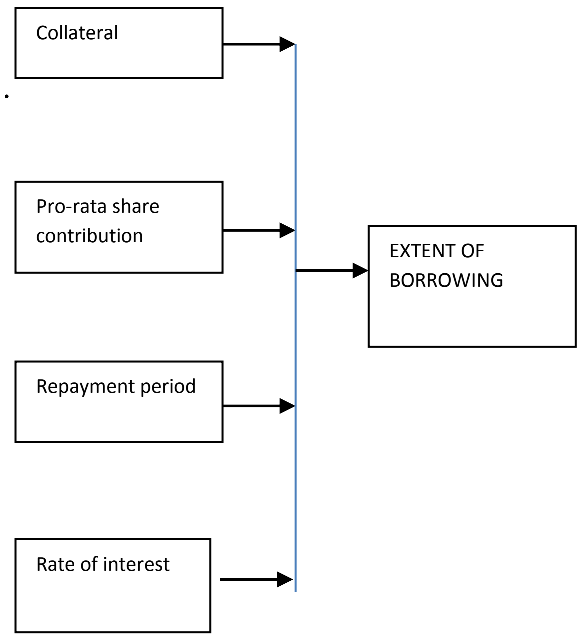
Financial market

According to the Mwalimu Sacco National Chairman's address during the Mwalimu Annual delegates meeting (A.D.M), it highlights that in the Year 2003 and 2004, most commercial banks introduced personal loans, which appeared more competitive than the Sacco ones. They had longer repayment periods, required no deposits and did not care so much about the net salary a member remained with after loaning. This therefore posed a challenge for higher loans to the Sacco members. In this regard, it became abundantly clear that the society had to come up with incentives to maintain the member loyalty.

According to a newsletter of Mwalimu Sacco, May 2006, it argues that owing to the high level of liquidity in the country, commercial banks have tended to market their loan products at the expense of other services. Lending to salaried people had been viewed as un-economical due to the allegedly small amounts of loan for which they apply. However, in the recent past, banks policy seems to have changed. Such borrowers hardly default in the loan repayment and commercial banks have now realized that they are credit worthy and hence need to be talked and listened to.

As a strategy of getting borrowers from this segment of customers, commercial banks have applied all the available marketing strategies. They strategize on how to fill the gap left by Sacco societies in terms of amount and speed of delivery.

Conceptual framework



Independent variables   Dependent variables

Figure 1: Conceptual Framework

Collateral

These include pledges inform of articles like share certificate, pay slips, land title deeds or insurance policy up to a surrender value. Saccos in turn must deposit such articles in a bank for safe custody, but should be handed back immediately the loan balance equals the shares. Confirmation as regards the validity of the articles so pledged from the issuing authority must be obtained before such documents are admitted as security for the loan. Mortgage in real estate can be taken as security for a loan exceeding two thirds of the mortgage value. The member pays the valuation and the valuer should be a person registered under the law and acceptable to the ministry of Co-operative Development.

Pro-rata share contribution

A search into the society's archives indicates that pro-rata has been in existence since 1982. The invention of pro-rata was as a result of need to accumulate the value of one share and the minimum allowed by the law at the time (Mwalimu Sacco newsletter, 2006). Pro-rata is an English word that means 'in proportion to'. Pro-rata share contribution therefore means a members minimum share contribution will be proportionate (actually 0.9%) to the loan granted.

The concept was therefore meant to address the following: Build strong capital base for the lending, Reduce queuing for loans-a major inconvenience to members at the time, Reduce corruption and favours, which were inherent with queuing for loans and improve on loan amounts granted to members.

Pro-rata eliminates the old practice where members used to walk away with huge loans but reduce their monthly share contribution to Ksh 500, effectively reducing cash inflows to the society.

Pro-rata Amendments to Date

Members demand for more loans has always been with the Sacco. In January 1996, it was noted that there would be no cash for dividend payment. A drastic measure was taken in the Saccos lending conditions;

- House allowance was removed as ability for loan.
- The refinancing (Normal loan or Top–up of existing one was also done away with).

For about five years members were obtaining very low amounts because the available funds could not sustain the demand at the lending rate of 2.6 times of a member's savings (Mwalimu Sacco newsletter, 2006).

In 2000, the board decided that the lending rate be improved to 3 times and 50% of the house allowance be allowed as ability for the loan repayment. However, to sustain the new conditions, the pro-rata was now pegged to 1% of the loan granted and the maximum was also expanded to catch up with those taking much bigger loans. In 2004 the percentage was reduced to 0.9% of the loan. However, this has not been very popular with the members. Some of the criticisms include; members felt they are forced to save, and secondly, members are faced with financial constraints after one has borrowed a loan since there is a large deduction to the share contribution as a result of the pro-rata hence the net salary is very little to sustain the employee.

Repayment period

The repayment period of normal loan is 36months or as determined by the management committee but in all cases should not exceed 40 months. Emergency loans and school fees loans are repaid within 12 months. Recovery for a loan repayment commences the month following that in which the loan was granted to the member. Loans are repaid from a member's salary and no member is allowed to suffer total deductions (including savings, loan repayments and interest) in excess of two thirds of his/her loan and interest in whole, or part, prior to its maturity.

Basic salary excludes automatic house allowance. Owner occupier house allowance is considered only on production of written advice by the employer and to the extent that the allowance is in excess of monthly mortgage instalment, if any. The employer advices on the actual owner occupier entitlement of the individual member concerned. While a member is free to repay a loan from any other sources besides the individual salary, under no circumstances should these other sources be taken into account in determining the member's ability to repay the loan at the time of loan granting.

Rate of interest

The rate of interest on all loans inclusive of all charges incidental to granting of the loan shall be (one)1% per month, on reducing balance or any other approved by Annual Delegates Meeting. The normal loan lending rate shall from time to time be reviewed depending on the availability of funds.

Extent of borrowing

The maximum amount of loan granted to a member shall not exceed four times member's shares but subject to a maximum of 5% of the society's total share capital and reserve in accordance with by-law No. 86. Where total deductions exceed two thirds of member's basic salary, the loan shall be reduced accordingly. The normal loans are granted at the rate of 2.6 times of savings subject to member's ability to repay.

Mwalimu Sacco society shall maintain 10% cash reserve of the total member's savings in accordance with by-law No.97 (Cash reserve). At least 50% of the cash reserve shall be kept in deposit account and will not be available for granting loans. Provided that a member is qualified, central management committee subject to availability of funds can grant an additional loan.

Emergency loans are granted according to individual member's ability to repay but should not exceed Kshs. 50,000. School fees loan are granted according to the individual member's ability to repay but should not exceed Kshs. 50,000. Additional loans and loans exceeding Kshs.200, 000 are appraised by the General Manager, approved by the credit committee and endorsed by executive committee.

The above are the lending policies contained in the circular issued by the commissioner for co-operative development and other subsidiary legislation Mr. R.W. Bommet (1997).

RESEARCH METHODOLOGY

Research design

Research design facilitates the smooth running of various research operations thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money (Kothari, 2005).

Target Population

The population for this study was all the members of Mwalimu Savings and Credit Co-operative society of Meru North District, which were estimated at 650. The District has four divisions namely; Igembe with around 200 members, Tigania West with around 180 mambers, Tigania East with around 150 members and Ntonyiri with around 120 members.

Sampling Design and Sample Size

The research adopted purposive and cluster sampling design. This sampling method involves deliberate selection of the particular units of the universe for constituting sample, which represents the universe (Kothari, 2005).

The sample size was 100. The researcher arrived at this figure by getting members from each of the four divisions in Meru North District proportionately. Thus, those from Igembe were 200/650*100 =31, Tigania West were 180/650*100 = 28, Tigania East were 150/650*100 = 23, and Ntonyiri were 120/650*100 = 18, totalling to 100 members which is a representation of all the members from the district. The researcher then finally picked the required members to constitute the sample from each of the four divisions purposively. This can be shown by use of the table below.

Table 1 Mwalimu Sacco members from Meru North District

Division	Number of members	Percentage (%)	Sample size
Igembe	200	31	31
Tigania West	180	28	28
Tigania East	150	23	23
Ntonyiri	120	18	18
Total	**650**	**100**	**100**

Data collection procedures

The researcher visited the various institutions from which selected sample for the study was drawn. The researcher sought permission from the heads of institution to conduct the study that allowed him issue the questionnaires to the respondents on a "drop and pick" later technique. This was used because all respondents were literate. However, this was supplemented with personal interviews to clarify worrying issues to both parties. That is, the respondent and the researcher.

Data collection tools

The primary data collection instrument was by a structured questionnaire, which was designed for the whole sample, where both open-ended and closed ended questions were employed. The questionnaire was divided into two sections. Section A; generated general information while Section B; addressed the objectives. Secondary data was from the literature reviewed, published financial statements, reports, books and research papers.

Data analysis

The data collected from research was analyzed using univariate statistical analysis. The first step in the analysis was to clarify and tabulate the information collected. After tabulation, the information was then presented in form of frequency tables and percentages that facilitated comparison of the data.

FINDING AND DISCUSSION

Demographic characteristics of the respondents

The total number of respondents interviewed was 90. Out of these, 64% of them were male while 36% were female. 29% of the respondents were aged between 20-30 Years, 60% were aged between 31-40 Years, and 11% were aged between 41-50 Years. 91% of the respondents were married and only 9% of them were single. 64% of the respondents had attained up to the University level of education while36% of them had up to a college level. 6% of the respondents have been a member of Mwalimu Sacco fo a period of 1 – 10 Years, 45% for a period of 11-20 Years, 40% for a period of 21-30 Years and 9% have been members for a period of 31-40 Years.

Out of all respondents, 96% of them admitted that they borrowed from Mwalimu Sacco while only 4% said that they have never borrowed from the Sacco. Those that had never borrowed from the Sacco cited the duration that they had stayed as members had not matured for them to qualify for a loan i.e one has to be a member of the Sacco for at least six months in order to qualify for a Sacco loan. Some were just ignorant of the Sacco loan, while others were put off by the pro-rata policy from borrowing from the Sacco.

Most of the members of Mwalimu Sacco had acquired a normal loan represented by 95%. 30% of the respondents had acquired an emergency loan, 14% of them had a school fees loan and 7% of the respondents have acquired a refinancing loan from the Sacco. This is an indicator that majority of Mwalimu Sacco borrowers acquired a normal loan. However, there were members who had acquired more than one category of loan, hence this made the total percentage of the categories of loans more than 100%.

Repayment period

76% of the respondents were not comfortable with the repayment period of Mwalimu Sacco loan while 24% of them were comfortable with Mwalimu Sacco Loans repayment period. Those that were comfortable with Mwalimu Sacco loan repayment period said that it was short and this allowed them clear their loans fast. Out of those that were not comfortable with Mwalimu Sacco loan repayment period, majority of them said that the period was short hence made them not to take a huge amount of loan, which would otherwise have been spread over a long repayment period.

Table 2: Comfortable with repayment period of Mwalimu Sacco loan.

Factor	Response	Frequency	Percentage
Repayment period	Yes	22	24
	No	68	76
Total		**90**	**100**

Pro-rata share contribution

98% of the respondents were aware of Mwalimu Sacco Pro-rata contribution policy while only 2% were not aware of the Saccos Pro-rata share contribution policy

Table3: Members awareness about Mwalimu Sacco Pro-rata share contribution policy.

Factor	Response	Frequency	Percentage
Pro-rata share contribution policy	Yes	88	98
	No	2	2
Total		**90**	**100**

91% of the respondents said that pro-rata share contribution policy should be removed. 3% of them wanted it retained while 6% of the respondents said it should be revised. It was clear that majority of the Sacco members wanted the pro-rata policy scrapped off from the Saccos lending Policies. The argument from most of the members was that pro-rata policy forced members to save hence led to financial constraints after one had acquired a loan since there is a large deduction to the share contribution hence leaving one with a net salary that is too little to sustain him/her. The proponents of pro-rata on the other hand argued that it helped members to save hence leads to increased savings at the end of the day. However, those that wanted it revised said that if the policy was revised down, then it will allow a member to save as well as sustain himself/herself with the net salary left after the loan repayment deductions.

Table 4: Members views regarding Pro-rata share contribution policy

Factor	Comments	Frequency	Percentage
Pro-rata share contribution policy	Removed	82	91
	Retained	3	3
	Revised	5	6
Total		**90**	**100**

Collateral

66% of the respondents said Mwalimu Sacco requires collateral from members for them to qualify for a loan while 34% of them said Mwalimu Sacco does not have any collateral as a requirement for loan qualification. Majority of the respondents said collateral, as a requirement by Mwalimu Sacco was inform of member's salary (payslips), savings, guarantors and the employer. The researcher found out that majority of Mwalimu Sacco members were aware of the personal bank loans and had actually acquired them. The members argued that the bank loan required less collateral as compared to the Sacco loan. The collateral required for one to acquire the unsecured personal bank loan was the member's salary (payslips), and the employer.

Table 5: Collateral Requirement by Mwalimu Sacco for loan qualification.

Factor	Response	Frequency	Percentage
Collateral	Yes	59	66
	No	31	34
Total		**90**	**100**

Rate of interest

53% of the respondents admitted that Mwalimu Sacco rate of interest is low as compared to the bank's rate of interest, 36% said it was medium, 4% said it was high, 6% said it was very low while only 1% of them said the Sacco rate of interest was very high. This clearly shows that majority of the respondents admitted that Mwalimu Sacco rate of interest was low compared to the commercial banks though their interest. The researcher found out that members opted to borrow from commercial banks though their interest rate is slightly higher than that of Mwalimu Sacco because banks gave them huge amounts of money that are payable over a long period of time, banks have high efficiency in delivery of loans, no savings are required and banks do not have Pro-rata share contribution.

Table 6: Comparison of Mwalimu Sacco rate of interest with commercial banks interest rate.

Factor	Response	Frequency	Percentage
	Very low	5	6
	Low	48	53
	Medium	32	36
Rate of interest	High	4	4
	Very low	01	1
Total		**90**	**100**

SUMMARY OF FINDINGS

From the study, the researcher found out that the extent of borrowing is of paramount importance to the future success of Mwalimu Sacco Society. It was clear that Saccos have to improve their lending conditions so as to increase the members borrowing or else they will lose their members to the commercial banks. Thus, for a bright future, Mwalimu Sacco should move with the market trends by listening to the plight of members and offering consumer tailored products.

The study revealed that most of the acquired category of loan from the Sacco was the normal loan while refinancing loan was the least acquired. This can be explained by the increasing demand for large amounts of loans following the increased teacher's salaries. Of the factors leading to reduced borrowing from Mwalimu Sacco in favour of banks, Pro-rata policy featured most with majority of the members saying that it forced them to save. Members too, expressed their dissatisfaction with the repayment period of Mwalimu Sacco loan with majority arguing that the duration should be extended so as to allow them qualify for large amounts of loans with little ease in repayment.

The researcher found out that Mwalimu Sacco Loan required collateral, which was in form of members savings and guarantors. Most of the members were not comfortable with this since majority said some members of Mwalimu Sacco had defaulted in repayment of their loans intentionally and guarantors had to repay these loans. Members said this system was unfair since guarantors suffer in repayment of the defaulters' loans even in cases where the defaulters had enough savings with the Sacco to offset the loans. On the other hand, Mwalimu Sacco members felt dissatisfied with its lending policies since one could not acquire a loan equivalent to three times his/her savings as stipulated in the Sacco by – laws.

However, from the research findings, members said that though the interest rate of Mwalimu Sacco was lower compared to banks rate of interest, most members preferred to borrow from the banks because they gave them large amounts of money as compared to the Sacco. On efficiency, members were dissatisfied with the Sacco speed of response to their loan demands. Majority of the members said they were unhappy with the slow processing speed of some of the categories of loans like emergency loans which in most times ended up lacking its meaning.

From the research findings, it was clear that majority of Sacco members have borrowed from Commercial Banks and had the intention of acquiring their next loan from commercial banks. Among the factors that they gave as leading to the shift of borrowing from their Sacco Society to the banks were that banks had a longer repayment period, banks required no guarantors, no collateral, no Pro-rata share contribution, high efficiency in delivery of the loans, there were no savings required in order for one to qualify for a loan and availability of huge amounts of loans from the banks.

Conclusion

The study found out that Mwalimu Sacco loans are good since they charge lower interest rate compared to commercial banks. However, with cutthroat competition from commercial banks, Saccos need to revise their lending policies for them to survive in the market. They should also diversify their services and offer consumer tailored products. Saccos should therefore offer a wide range of services that will ensure that they have more members hence increase the borrowing from their members.

Recommendations

Following the discussion of research findings, the researcher recommended the following:

- The study revealed that Mwalimu Sacco was experiencing stiff competition from commercial banks. The management of the Sacco should come forth and revise their policies so as to attract their members and reduce the trend of increased borrowing from commercial banks by their members.
- The Pro-rata policy that automatically increases a member's share contribution proportionately to the amount of loan he/she has acquired should be abolished. This is because it increases the total member's deductions from the gross salary hence leaving the members with very little net pay to take care of his/her daily expenses.
- Mwalimu Sacco should embark more on marketing of their products and enlightening their members on the benefits of supporting their Saccos.
- Mwalimu Sacco should look for better ways dealing with those that default in loan repayment. Some of the members have in the past suffered as a result of having guaranteed borrowers from the Sacco who default in repayment hence end up in paying the loan on behalf of the member even in cases where the defaulter has enough savings with the Sacco that could be used to offset the loan.
- Mwalimu Sacco should listen to the plight of its members by having an Annual General Meeting (A.G.M). This will make the members feel that the members feel that the Sacco belongs to them by having legal right to give their views concerning the Sacco.

Recommendations for further research

The study focused on factors leading to increased borrowing from commercial banks by members of Mwalimu Savings and Credit Co-operative Society of Meru North District. This study was descriptive in nature. A further study could be carried out based on a more detailed analysis of the factors identified in this study. It was also restricted in terms of the fact that it was only done in Meru North District. Other studies could be done in other districts of the country to establish whether Saccos share a common range of factors leading to increased borrowing from commercial banks by their members. Further studies could also be done to find out the marketing strategies that the Saccos use to cope with competition from commercial banks.

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