

THE INFLUENCE OF CREDIT HANDLING ON SAVINGS MOBILIZATION IN CO-OPERATIVES IN NYAMIRA COUNTY

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ABSTRACT

The purpose of the research was credit handling and savings mobilization in co-operatives in Nyamira County. It was conducted using descriptive research design among co-operative members in savings and credit co-operatives. The statistical sample consisted of 220 members who were randomly selected and studied through questionnaire. The questionnaire was used and its reliability was ascertained by the Cronbach's alpha coefficient which was at 0.991. The data was analyzed using STATA 13 software. The data was collated using the Likert scale. The results showed that credit

handling highly influenced saving mobilization through co-operatives among the people of Nyamira. Therefore, it is recommended that credit handling which significantly influences savings mobilization in Nyamira County should be taken seriously when dealing with savings mobilization, government policies and programmes. The findings of the study will be useful for the County and National Governments in formulating coherent Policies that address developmental challenges in co-operatives.

Key Words: *social capital, co-operatives, savings mobilization, credit handling*

INTRODUCTION

Credit provides a major source of external funding to a person or enterprise. Enterprises look for external funding when their internal sources of funding are insufficient or are tied in other investments that may not be readily liquidated. Any provider of credit will require assurances that the funds released to a borrower will be repaid at the agreed time and on appropriate terms. Members working together assist each other in building confidence and guarantee to credit. The way the credit is handled determines the lender's rate of growth and savings mobilization.

In modern practices, formal arrangements have been developed with pre-determined arrangements on how to handle community needs and assistance. One such organizational procedure is the formation of savings and credit co-operative societies. Sometimes under the savings and credit arrangements, a person was given money when a member's turn arrived without due regard whether the member needed that assistance at that time.

The development of the idea of co-operation in the nineteenth century can best be understood as an attempt to make explicit a principle which is inherent in the constitution of society but which had been forgotten in the turmoil and disintegration of rapid economic change (Carr-Saunders, 1938). Resource mobilization in co-operatives can be seen from the perspective of social capital where trust, norms, credit handling and networks of association play a crucial role (Putman, 2000). It brings together the importance of community and individual free choice, in order to create a more cohesive society. It partly enhances the success of formal and informal co-operation between co-operatives (Putnam, 1995).

The working together of people in Nyamira was motivated by strong feelings and considerations on the need to earn more through collective action by marketing their produce through co-

operatives. The people build trust among themselves, set standards and build strong co-operatives that enhanced their earnings. The predictions of the social capital theory and the entrepreneurial spirit among the members were put into practice and savings mobilization set in.

Credit Handling

Credit handling is looked at as an outcome of social capital of members. In that regard, social capital is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups (Putman, 2000). Putman argued that social capital could be measured by memberships in formal groups while Knack and Keefer (1997) argued that social capital is not associated with trust or with improved economic performance. They found trust and civic norms were stronger in nations with higher and more equal incomes, with institutions that restrained predatory actions of chief executives, and with better-educated and ethnically homogeneous populations. Social capital refers to those resources inherent in social relations which facilitate collective action. The collective action theory by Mancur Olson (1965) argued that any group of individuals attempting to provide a public good had troubles to do so efficiently (Coleman, 1966). Most analyses of collective action agree that overcoming the free-rider problem required organizing potential contributors, thus making their decisions interdependent (Marwell & Olivier, 1988). In that regard, collective action referred to action taken together by a group of people whose goal was to enhance their status and achieve a common objective (Britannica). Credit handling can be explained as that action taken by members working together to improve their access to resources.

The resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose (Hanifan, 1916) and can be measured through reciprocity, which encouraged bargaining, compromise, and pluralistic politics, belief in the equality of members, which encouraged the formation of cross-cutting groups and networks and education that enabled communication within the group and external contacts. At that point, there is convergence between economic capital, cultural capital and social capital (Bourdieu, 1983) which is an aggregate of the actual or potential resources that are linked to possession of a durable network of institutionalized relationships of mutual acquaintance and recognition.

The indicators that measure credit handling included the duration of loan application processing, loan products at the co-operative, rate of savings growth and willingness by members to guarantee each other's loan applications. Others were friendliness of loan products and services, variety of credit products, members' associations, quality of lending terms, and terms for credit service qualification.

Co-operative savings mobilization

According to the study, savings mobilization is understood as the act of assembling and organizing savings to support objectives in time of need. The process of mobilizing savings involves assessing the readiness of members' institutions, modalities of raising deposits

responsibly, financial discipline, establishing policies and procedures, developing products, devising marketing strategies, and determining the costs (Kiaehn, 2006). The purpose of voluntary savings mobilization is for members to accumulate savings from where they leverage loans at a factor of what they accumulated in savings. Consequently, co-operatives believe that internally-generated savings provide an independent and sustainable supply of funds that can be invested in the local community (WCM, 2015).

According to Gweyi et al (2013), co-operatives contribute much to the economy but attracted little interest since there was insufficient evidence to show the effect of credit handling on savings mobilization among co-operatives, especially in Nyamira County. The savings mobilization in Nyamira County was seen to be increasing across all levels of the economic strata and this phenomenon, according to anecdotal evidence, needed to be researched. The research examined the effect of credit handling on savings mobilization. The objective of the research was to examine the effect of credit handling on savings mobilization and co-operatives in Nyamira County. The research hypothesis was that co-operative societies' credit handling did not significantly affect savings mobilization in Nyamira County.

The research was undertaken to establish the influence of credit handling on savings mobilization in Kenya with the case of co-operatives in Nyamira County. The significance of credit handling in Nyamira County would make it easy for the National and County Governments to develop legislation and policies that encourage and support savings mobilization. The study targeted members of registered co-operatives in Nyamira County. Nyamira County provided a good mix of respondents who were conversant with co-operative business, savings mobilization and trends which gave pertinent information for the research. The inhabitants in the County are cosmopolitan and were presumed to have a reasonable number of entrepreneurs who were co-operators in the years 2014 to 2016.

In the research, collective action meant action taken together by a group of people whose goal is to enhance their status and achieve a common objective (Britannica) and was an indicator of increased social capital (Arefi, 2003). A co-operative was understood as an enterprise in which there is collective ownership or control of the means of production and distribution (Chambers, 2003) which members use for collective action. Credit handling is the process of managing or lending some money on condition that payment will be made within a specified period (Chambers, 2003) and how members seeking credit in the co-operative are treated. Savings mobilization is the act of making savings readily available for investment (Chambers, 2003) which shows members trust in the co-operative while credit handling is a resource inherent in social relations which facilitates collective action (Putman, 2000).

THEORETICAL REVIEW

According to Hanifan (1916:130), social capital was those tangible substances that counted for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit. Ferragina (2010; 2012; 2013) added that the level of social participation in American society was directly linked to the equality of conditions while John Dewey (1900) used social capital in *The School and Society* in 1899. According to the International Co-operative Alliance, co-operatives are membership-based organizations whose activities centered on members' economic empowerment, social inclusion and cultural participation (ICA, 1995). They bring together individuals with special interests and a common purpose. Harold Laski emphasized that organizations exist to achieve purposes or interests which a group of men have in common and that every organization presupposes an interest which its members all share (Maclaver, 1932).

In the co-operative context, individual resources strengthen co-operatives' growth and enhance economic development (ICA, 2015) because they build trust, set standards, educate members and strengthen their organizations. Co-operatives harness resources, social relations, facilitate collective action and give a multiplier effect on savings (Garson, 2006), mutual support and self-reliant economic development without need for government intervention (Fukuyama, 1995). Social capital is defined as those resources inherent in social relations which facilitate collective action (Putman, 2000) which enable participants to act together more effectively to pursue shared objectives.

The appearance of the modern social capital conceptualization was a new way to look at the debate on social capital, keeping together the importance of community to build generalized trust and the importance of individual free choice in order to create a more cohesive society (Ferragina, 2014). Credit handling can be used at various times to explain the growth of entrepreneurial firms (Stam et al, 2014) while in contemporary history and political science, sociability is thought to explain the roots of modern democracy (Foschi and Lauroli, 2014). In the co-operative context, credit handling explains how savings mobilization strengthens networks of association (Ferragina, 2014). The social capital theory is important to this study as it underpins the co-operative philosophy of people mobilizing their resources into a common pool and using them for their benevolent purposes.

EMPIRICAL REVIEW

The empirical review can be seen from the context of recent studies on credit handling in relation to savings mobilization in this study. A study by the Microenterprise Access to Savings (MABS), 2014 in the Philippines on rural financing, showed that savings mobilization was referred to as the forgotten half of rural finance: mobilizing deposit products that provided rural banks with attractive, stable sources of funds for expanding their microfinance operations. Programs were designed to address the needs of the micro-enterprise sector and low-income people through new savings and loan products. Savings mobilization was enhanced through small-value savings

accounts and members increasing their deposit balances, innovative ways to encourage clients to save more and opening of savings accounts. It was encouraged by loan collection discipline, technical assistance and training. The organizations focused on deposit mobilization strategies for raising funds from customers' savings mobilization efforts but did not give due recognition on credit handling.

A study by Prakash (2013), on the role Japanese co-operatives played in post-war reconstruction showed that co-operatives played a critical role by disbursing farm credit, supplies, marketing and agro-processing, which was their main function in rural areas. Savings and credit co-operatives were financial intermediaries, channeled savings into loans, provided saving opportunities for the poor, especially in the rural areas. The business model of most savings and credit co-operatives was to collect savings from their members and to intermediate them into loans. That enabled the rural and poor population to deposit savings as well as to take loans (Distler & Schmidt, 2012). The way credit was handled and its influence on savings mobilization is not clear.

A study by Mwalughali (2013) on the impact of Community Savings and Investment Program (COMSIP) activities on household income and credit of member households of COMSIP groups in Kasungu District in Central Malawi found out that the impact of savings activities was strong. The study found that the variables such as sex of household head, age of household head, credit per capita, land per capita and distance of location of household to the COMSIP office, determined household decision to join COMSIP groups. Membership to a group reduced the probability of default and the likelihood that the lending institution will not recover its loans. The members of the primary co-operatives utilized their saved incomes to prudently invest in productive ventures. The way credit handling influenced savings mobilization is explicit.

A study by Wanyama (2013) on the significance of co-operatives in the Kenyan economy found out that co-operatives contributed significantly to economic growth, and grew to demonstrate their economic, social and political strength through hard work, organizational and management capacities and capabilities. The co-operatives were spread into all sectors with over 63 per cent of the Kenyan population deriving their livelihoods from co-operative related activities and the volume of their assets. The co-operatives provided many job opportunities despite challenges that made their performance poor. Similarly, co-operatives continued to grow in numbers, membership and income while diversifying their operations and innovated to respond to members' needs making them post better returns. However, the co-operative growth does not mention access to credit, its handling and influence on savings mobilization.

A study by Uchenna (2007) on Management and Challenges of Operating Co-operative Small Business in Imo State of Nigeria, found out that co-operative enterprises gave individuals an opportunity to pool resources together for carrying out small-scale businesses that improved people's social, cultural and economic conditions. Co-operatives provided job opportunities through associated economies and showed resilience during economic crises by reducing poverty

and exclusion. The possible sources of raising capital for co-operative business were share contributions, bank loan, members' contributions, members' personal savings, government grants, development partners, borrowings from friends, borrowings from members, and co-operative finance agencies. The co-operatives needed entrepreneurial education on policy/objective setting, sustained training, and consultation with experts. However, the study did not mention access to credit, its handling and influence on savings mobilization.

CONCEPTUAL FRAMEWORK

Credit handling enables people to come and work together through a co-operative enterprise that facilitates savings mobilization. The standards they set, the trust they build within themselves affects the interactions at the co-operative and the rate of savings mobilized. The study hypothesis that robust standards were operationalized on savings mobilization through co-operatives was not influenced by credit handling in co-operatives in Nyamira County was explained by looking at indicators of social capital and people as shown in figure 1.

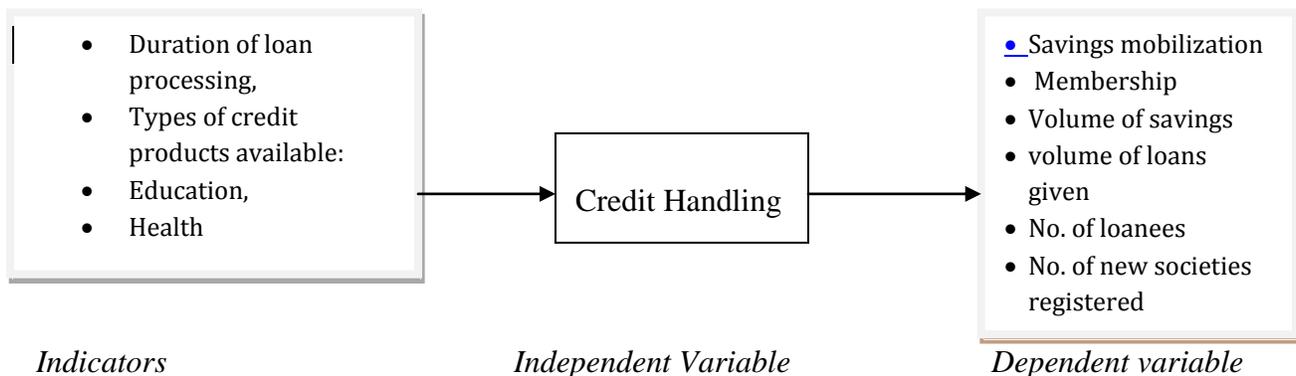


Figure 1: Operational Framework Structure

RESEARCH METHODOLOGY

Descriptive research design was used as the study was to determine the current status of credit handling in co-operatives. The study was an analysis on the influence of credit handling on savings mobilization in co-operatives. Respondents were selected using proportionate stratified sampling and systematic random sampling so as to cover the whole County. The research collected both qualitative and quantitative data to enhance the reliability and validity of the results with the unit of observation being the member of the co-operative society. The approach was dictated by the study objectives which required both types of data. According to Sekaran (2009), some objectives were better assessed using qualitative data while others were better assessed using quantitative data. The qualitative data provided an in-depth explanation of the phenomena and variables under study. The quantitative data provided the objectivity inherent in numerical data, impact and spread (Bryman and Bell, 2014).

In the study, the target population was taken as the total savers from the 108 registered co-operative societies in Nyamira County. The total number of registered co-operative societies in the County was 40 marketing co-operatives, 41 SACCO's, 25 other co-operatives and 2 unions totaling 108 as shown in Table 1. The study sample of 220 members was randomly selected from all the 108 registered co-operatives in the County and were requested to fill questionnaires. The unit of analysis was taken as the members of the registered co-operative societies in Nyamira County.

Table 1: Registered Co-operative Societies in Nyamira County by type and Sub-County

Category	Population (No. of Registered co-ops)					Total
	Borabu	Nyamira South	Nyamira North	Masaba North	Manga	
Marketing co-operatives	10	10	3	12	5	40
SACCO societies	5	19	4	10	3	41
Other societies/unions	6	4	9	6	2	27
Total	21	33	16	28	10	108

Source: MITC Annual Report, 2015

Quantitative data was analyzed using descriptive statistics, measures of central tendency and inferential statistics, specifically correlation and regression analysis. Cronbach's alpha coefficient of correlation was used to analyze data obtained through the Likert-type of questions to determine the significant effect of each variable on savings mobilization. Qualitative data was categorized into themes, guided by the study objective from which interpretation and conclusion was made. The Cronbach's Alpha Coefficient was used on credit handling and its reading was 0.991.

The research took a sample from the target population of 220 members which was requested to fill questionnaires. From the three main activities, 87 members from marketing co-operatives were taken, 106 members from SACCO societies were taken and 27 from other co-operative societies were taken. Because of the large area covered by the population and the generality of the number of members who filled questionnaires, a sample of 220 members was considered adequate for the study as supported by Sekaran (2009) who contends that if the purpose of the study is to understand phenomena, a sample of 30 per cent of the is almost always used. The degree of confidence associated with this estimate was pegged at 95 per cent, taking into account the sample size (Pervez and jell, 2002).

A questionnaire was used to collect data for the research. A pre-test study of 10 questionnaires was undertaken to test the accuracy and relevance of the data collected. Necessary adjustments were made to the questionnaire before it was administered. A self-administered questionnaire was applied to collect data. The data was collated using the Likert scale. The questionnaire

comprised an assessment of credit handling in co-operatives. The measurable parameters are shown below.

Table 2: Measurable parameters

Credit handling	<ul style="list-style-type: none">- The number of people taking credits- The amount of credits taking- The frequency of loans given- Duration of the loans given- Lending conditions in the co-operative- The number of loan products like emergency, school fees, development- The impact of loans acquired on loanees
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Analysis for the data from each block was done by regression analysis. Data collected was analyzed using quantitative and qualitative methods. Quantitative data was analyzed using descriptive statistics, measures of central tendency and inferential statistics, specifically correlation and regression analysis. Pearson's coefficient of correlation was used to analyze data obtained through the Likert-type of questions to determine the significant effect of each variable on savings mobilization.

Correlation and regression analysis was used to determine and explain the relationship between credit handling and savings mobilization. The formula the researcher used for regression model was:

$$Y = \beta_0 + \beta_1 X + \mu$$

Where Y= savings mobilization; β_1 =Beta coefficient; μ = disturbances, and X, was the credit handling.

Qualitative data was categorized into themes, guided by the study objectives from which interpretation and conclusion was made. The analysis provided a prediction about the dependent variable (savings mobilization) based on its covariance with all the independent variables (Kothari, 2004). The STATA computer programme was used to analyze data (Saunders et al, 2003).

RESEARCH RESULTS

The model summary showed the number of entries that were returned being properly filled and acceptable for analysis were 186 questionnaires. The study established that the probability of F *Calculated* was greater than zero and the R- square (R^2) was 0.3044 and R^2 adjusted was 0.2890 which showed that there was no multi-collinearity problem in the model. The calculated 't'-value for credit handling was 6.01 which was greater than the critical t-values from the statistical tables

for a model with 1 degree of freedom and 185 variables while the critical value is 1.96. The conclusion was that credit handling influenced savings mobilization in Nyamira County.

The findings showed that there was a positive inter-correlation between savings mobilization and credit handling. The item-test correlation coefficient for credit handling was 0.6069. The low reliability levels given by the Cronbach's Alpha coefficient could be explained by the large figure of the sample according to Gujarati (2004). The average level of credit from co-operatives per member over the past three (3) years prior to the research revealed a strong sense of savings mobilization by members in support of their credit requirements. It showed the members saved through their co-operatives because they needed services that were easily and conveniently available through co-operatives.

There was gradual growth of the average credit given to members over the three years as shown in table 3. The percentage of the average loans of less than KShs. 50,000/= given to members was 68.5 per cent but in the second year, it reduced to 54.4 per cent and in the third year, it reduced farther to 52.2 per cent. The trend was the same for the next band of average credit of between KShs. 50,000/= and KShs. 100,000/= where it reduced from 22.5 per cent in the first year to 18.5 per cent in the third year. In the third year, 4.4 per cent of the members had been given loans of an average of more than KShs. one million. The same trend was true for the cumulative percentage where the lower averages reduced with time while the higher averages gained. For example, in the first year, more than 91 per cent of members had credit of less than KShs. 100,000/= but the figure reduced to 76.3 per cent in the second year and 68.8 per cent in the third year. Whereas only 0.5 per cent had saved over KShs. 500,000/= in the first year, the percentage had improved to over 10.2 per cent in the third year. The level of savings also improved from less than KShs. 20,000/= to the middle level thereby bringing in more savings into co-operatives (table 4). Over 77.4 per cent agreed that savings was influenced by the credit products available in the co-operative. The credit handling influenced over 52 per cent of savings mobilization and there was a corresponding change on the level of savings with members' age.

DISCUSSIONS

The findings explain the observed behaviour of members when in need of solutions to financial issues. The approach to credit was individualistic and to satisfy lending conditions as long as the member accessed it. The lending terms included loan products, members' savings targets, amounts of loans needed, and basic qualifications. While credit was sought at individual level, the cumulative effect had a significant impact on the borrower, family, the organization, society and the local economy.

The finding agreed with observations in most SACCO societies where members saved more as they aged in the service because of their understanding on the management and use of credit. Similarly, members got more demands for funds as they got involved in family commitments whose credit qualifications relied on their savings. It is also known that as people got more

exposed; they acquired more knowledge, new tastes sophistication and associations which dictated a new lifestyle and a higher degree of spending. The new demands made the member to save more so that they could borrow more in order to respond to the dictates of the transformed lives or pressure from peers.

The findings showed that savings mobilization was positively influenced by the level of education among members of co-operatives since it had a positive correlation as the years increased, the membership also expanded and the level of education went up. The effect of increased co-operative activities created more avenues for social entrepreneurship. The businesses' savings found their way into co-operatives where they formed a strong base from which members borrowed for investment and hence more savings at their co-operatives. The new investments in turn boosted members' incomes out of which more savings would be made at the co-operative where trust and the ability to get more credit were some of the major motivating factors. The important observation from the finding was that members made savings in order to access a service even though they may not be agreeing with part of the co-operative membership.

The finding made sense because co-operatives do not accumulate resources at corporate level but only traded with what they raised through members' involvement. It was noted that each loan product had a savings component as a qualification for loan processing. As a consequence of increased product diversification within co-operatives, savings improved and members became contented with their co-operatives. When the wealth of members was affected, the savings level was negatively affected.

The general conclusion was that co-operative services and loan products were important in the expansion of co-operatives and they positively influenced savings mobilization. The willingness by members to guarantee each other's loans was an important factor which influenced savings mobilization. The more the members that joined the co-operative because of the quality of services that they got at the co-operative due to good credit handling, the more they saved. With the findings, it was clear that the services offered at co-operatives influenced savings mobilization and therefore co-operatives in the County would be advised to strictly abide by members' resolutions.

Table 3: Average level of credit to members

Amount of loan (KShs. '000)	Year 1			Year 2			Year 3		
	Frequency	Per cent	Cum. %	Frequency	Per cent	Cum. %	Frequency	Per cent	Cum. %
	1	0.54	0.54	0	0	0	2	1.08	1.08
Less than 50	129	69.35	69.89	93	50.0	50.0	83	44.62	45.70
50 - 100	39	20.97	90.86	51	27.42	77.42	42	22.58	68.28
100 - 500	12	6.45	97.31	32	17.20	94.62	39	20.97	89.25
500 – 1,000	5	2.69	100	8	4.30	98.92	14	7.53	96.77
Over 1,000	0	0	-	2	1.08	100	6	3.23	100

Table 4: Average level of annual savings per a member

Average savings (KShs. '000)	Year 1			Year 2			Year 3		
	Frequency	%	Cum. %	Frequency	%	Cum. %	Frequency	%	Cum. %
	2	1.08	1.08	1	0.54	0.54	2	1.08	1.08
Less than 20	94	56	57.08	62	33.33	33.87	56	30.11	31.18
20 – 100	81	38	95.08	72	38.71	72.58	53	28.49	59.68
100 – 200	5	2.7	97.78	33	17.74	90.32	34	18.28	77.96
200 – 500	3	1.61	99.46	13	6.99	97.31	22	11.83	89.78
More than 500	1	0.54	100	5	2.69	100	19	10.22	100
Total	186	100		186	100		186	100	

CONCLUSIONS

The conclusions from the study on credit handling and savings mobilization through co-operatives in Nyamira County showed that credit handling significantly influenced savings mobilization and co-operatives in Nyamira County. The research established that there was gradual growth of the average level of credit given to members for the three years preceding the study as 86.56 per cent made their savings through co-operatives. 81.71 per cent made their savings from all sources of income. 80.11 per cent agreed that member numbers influenced savings mobilization. 84.49 per cent agreed that the loan products, size, processing and lending terms influenced savings mobilization. The research concluded that credit handling significantly influenced savings mobilization in Nyamira County. It showed how a simple econometric model could be used to explain an important economic phenomenon like savings mobilization in Nyamira County and the whole country.

RECOMMENDATIONS

From the study of credit handling and savings mobilization in co-operatives, it is recommended that credit handling be super and clear as any deviation from accepted lending policies would discourage members from patronizing co-operatives and recruiting others who would have joined the co-operative thereby weakening the co-operatives' financial base. The strength brought into co-operatives by large memberships should be understood and leadership stratified.

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