MICROFINANCE SERVICES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

DT SACCOs are financial institutions which offer micro credit services to their members and as a result pivotal contribution towards poverty eradication and creation of jobs arises. However, the conceptual linkage between the aforementioned services they offer to their members and the fluctuating financial performance is still controversial. The academic concern of the current study was to interrogate the causal effect of micro finance services on financial performance of those DT-SACCOs carrying out their ordinary business activities in the County of Nairobi City Kenya. More precisely, the study aimed determining the effect of micro credit on financial performance of DT-SACCOs in Nairobi City County, Kenya. Microfinance theory and bank-led theory are the two key suppositions underpinning the current investigation. Since the populace was made up of 42 unit of analysis which was the DT-SACCOs operating in Nairobi City County, survey approach was be relied upon by the researcher when collecting the necessary data. During the actual data collection exercise, the approach of drop and pick the questionnaire was relied upon by the researcher. The unit of observation was the corresponding 42 top management members of each SACCO aforementioned. A data collection schedule was most appropriate and was used for collecting the secondary data. Descriptive, correlational and inferential data analysis were performed after the diagnostic test was completed. It was revealed that micro credit influenced financial performance which was statistically significant and of direct nature. The management group of DT-SACCOs domiciled in the Nairobi City County, Kenya will benefit from the research findings for well-informed decision making will be much in order as far as financial performance improvement is concerned. The point here is that those financial institutions will be able to project the profitability in future with micro credit which they are aware of its prediction power when considered in isolation. SASRA which is a government arm will benefit from the research findings for the contextual viewpoint addressed herein pinpoints areas of enabling policy making to create user-friendly techno financing environment for DT-SACCO members which by extension will promote the social-wellbeing of the nationals in Kenya through more job creation. This study is of its kind in the academic frontier for the scholars will have a cornerstone to guide them on identifying the other relevant contextually researchable areas. That is the study outcome is a reliable empirical anchorage for the linkage between other micro finance services and profitability where by other unit of analysis such as commercial banks, Microfinance Banks which are financial institutions can be brought to research books. Therefore, more suitable empirical models may be created by factoring other micro finance service aspects which significantly address each financial institution.

Keywords: Micro Credit, Financial Performance.

INTRODUCTION

The SACCO fraternity where DT-SACCOs are domiciled are known for the crucial socio-economic role they play such as provision of intermediate services. That is services such as accepting withdrawable and non-withdrawable services which benefit members directly and indirectly. They also facilitate savings affiliated services which aid the end users to plan to invest in profitable projects (Kaleshu & Temu, 2012). The aforementioned financial institutions are started by the members from a small beginning where by the members' start contributing at some internals which are equidistant. These firms allow their members to save in small quantities for the sake of future investment. So these institutions are low-cost source of funding for the member's investment opportunities arising. However, their financial sustainability through increased profitability is a major concern to many interested parties. To achieve this goal, the DT-SACCO need to grow to outperform the daily expenditures such as administration costs, administrative costs and provisions brought forward cost related issues (Co-operative Societies Act 1997 No.12 1997).

Basically, such financial institutions operate like commercial banks for they usually collect deposits from the members and also consider the savings the members make their convenience and then they use the same financial resources to issue loan facilities (Nduati & Wepukhulu, 2020). On the other hand, the members repay those loans at a user friendly terms which forms part of the returns of the DT-SACCO. Later, such wealth is retained for future investment and some amounts may be distributed to the owners of the society at the board's discretion but within the set policies of doing so (Obim, 2023). Membership for DT-SACCO is free entry free exit. In other words, registration to become a member is out of free will as long as one is ready to comply with the set rules and regulations regardless of race (Ede & Elikwu, 2018).

Although DT-SACCOs are classified as financial institutions, they bridge the gap between the banked category and the unbanked ones in the society (Nsengiyumva & Harelimana 2020). As a result, they play a keynote role of boosting economic growth and development in any country for they offer credit facilities, give financial advisory services to members and create jobs to many just as it is with other finance based institutions such as commercial banks and Micro financial firms. Hence meeting social economic needs of so many people locally and internationally (Mwangi, 2011). The success of the aforementioned missions is pegged on the degree to which the DT-SACCOs are able to financially perform. That is the productivity levels of these SACCOs which is a subjective gauge of assessing the extent to which the firm can utilize the available resources to maximize shareholder's wealth also represents the financial health of that business (Sayankar & Mali, 2022).

It is in record that there exist on approximation around 800,000,000 SACCO members all over the world. For instance, in the European Union region, around 14 million members are affiliated to 58,000 SACCOs. Edna, (2015) also noted that the in USA, there were over seventy-two thousand SACCOs which were characterized by over 140,000,000 members who were able to generate on average over 1,000,000,000 USD as income on a yearly basis. In other developed economies such as United Kingdom (UK) and Latin America, the same cooperatives which are commonly referred to as credit unions are also know for members generating substantial returns (Lydia, 2018). In a nutshell, all credit unions in those aforementioned global zones such as Ireland, Brazil, and Latin America are by law authorized to take deposits from their union members; and so is with the Cooperative Banks in South Africa, India, and continental Europe as cited by the study carried out by (Ngui and Jagongo 2017).

In Malaysia, Nduati & Wepukhulu (2020) observed that the rate of DT-SACCO growth was characterized by a decline over the years. The key drivers to such a go slow was factors such as cases of management committee's incapacitation via lack of the right managerial knowledge, members showing less interest in participating on the activities of the respective SACCO. Again, other issues arising were less accountability and transparency levels and failure to get back up from NGOs and other supporting institutions. It was also noted that the members did not notice profitable opportunities coming their way via the organization. It was also observed that in comparison between the young and the ageing SACCOs, there existed a disparity when it comes to financial performance. It was noted that it was the young SACCOs which outperformed the mature and ageing ones. However, on matters to do with cost minimization, the large SACCOs were found to do better than the new ones. For instance, in India, it was established that the level of ROE was higher than other places although they poorly managed their expenses.

Munene (2019) opined that DT-SACCOs is very instrumental in the Kenyan financial terrain for it plays a pivotal role of extending credit facilities to its members, advising the same team on how to save. In return, it further aids in improvement of liquidity levels and boosting of GDP growth rate via profitable investments (Kiaritha, 2016). Apart from the positive contribution DT-SACCOs are involved in, their nomenclature is twofold, those DT-SACCOs which are deposit taking and these ones are characterized by offering both withdrawable and non-withdrawable financial services. The latter kind of service aforementioned involves a case whereby the non-withdrawable aspect can only be used as collateral when a member is getting a loan but it cannot be withdrawn unless a member has declined from being one. While the other category is the DT-SACCOs which does not accept deposits from the members. They are commonly referred to as non-deposit DT-SACCOs (Ngui and Jagongo, 2017).

DT-SACCOs origin is cooperative movement and membership is on open voluntary basis and currently the world record portrays that income from the sphere's 300 topnotch Sacco's translated to USD2.5 trillion (International Co-operative Alliance (2021). Out of the total cooperative membership of one billion, approximately 240,000,000 represent the SACCOs (Daniel and Abdul, 2018). Further, the global structure depicts that the so called credit unions on the other hand are over 60,500 in number and they cut across 109 republics of the realm

(World Council of Credit Unions, 2017). Now, regardless of locality, SACCOs membership minimal number is ten with no maximum as it had been mentioned earlier. The members also contribute for membership and in addition continue saving for future investment purposes on a monthly basis where by the amount to save is pegged on one's monthly income. In fact, they work like commercial banks (Empower, 2016). Kenya takes the lead when it comes to the SACCO's size domiciled herein as far as aggregate assets to GDP ratio criteria (International Co-operative Alliance, 2021). For instance, the African based ranking, Ethiopia takes the second runners up (i.e. 0.7 percent), Rwanda takes the first runners up (i.e. 3.0 percent) and Kenya tops with 5.7% (Ntoiti and Jagongo, 2021).

In the recent past, Kenya Financial Sector Stability Report noted that DT-SACCOs have proven to have grown tremendously via adoption of new technology and innovation assimilated to the financial products they provide to their members which has opened up their membership structure to accommodate even those who are not basically sharing the same interest (Kenya Financial Regulators, 2021). The aspect of growth has also been exaggerated by the correction measures done on the legal and regulation environ which has boosted the SACCOs further member registration to around 28.4% of the country's mature populace as at 2019 which broke the African records as far as Sacco total assets/GDP quotient of African based publics is concerned (Kenya Financial Regulators, 2021 &Kinyagu, 2021).

It is worth noting that, adequate management of financial services in financial institutions such as SACCOs is key for such firms' growth rate. In the current business world, all businesses, SACCOs inclusive are struggling to come up with strategies that enable them to outperform their competitors. DT-SACCOs are also not an exception and therefore the reason why most SACCOs are adopting micro financial services. Their main aim is to enable them to control the activities within the DT-SACCOs to enhance their financial performance (Nyumoo, 2020).

Statement of the Problem

A pivotal role played by DT-SACCOs such as eradicating poverty through job creation directly or indirectly and also positively donate towards the GDP of the country which has pushed economic development to a higher notch from the global to lower domain of the local economies of many countries is commendable (Otwoko, Maina and Kwasira, 2021). However, their productivity (financial) over the last five years from 2019 to 2023 has portrayed mixed trends in terms of Returns on Equity (ROE) especially in Sub-Sahara regions (Otwoko, Maina & Kwasira, 2021).). More specifically, in Kenya, these institutions have been experiencing profitability and liquidity challenges not only occasionally borrow from external sources to service member's loan demands but also do so to investment in capital projects to increase their financial performance. Within the aforementioned time period, Return on Equity has been fluctuating consistently. The records portray that in 2016, the ROE was 2.45 percent. In 2017, the figure went up to 2.67 percent but then a remarkable decline took place in 2018 when ROE registered a 2.4 percent value (SASRA, 2017 and SASRA, 2018). In the preceding year of 209, there was some improvement again to 2.60 percent, then further to 2.65 percent which was an additional increment of 5 percent from the previous year. The biggest drop occurred in 2021 when the ROE went down to 1.59 percent (SASRA, 2020). This was a sharp decline for that matter. The survival of those SACCOs is dictated by many factors of both internal and external nature (Ndonye and Ambrose, J. (2023).

There has been a controversial debate amongst corporate finance affiliated scholars on the subject matter of conceptual link between financial services and financial performance of DT-SACCOs which have raised unresolved questions. Various constructs has been utilized as predictor variables to explain the aforementioned concept with contextual insight in place and the findings has portrayed dissimilar outcome cutting across different organizations, namely microfinances, commercial banks, DT-SACCOs and manufacturing firms just to mention but a few. The methodology of data analysis and sampling also varied from one study to another.

Again, past studies as aforementioned portrayed diversity of predictor variables proposed and the dependent variables even were similar researchers were being carried out. This represents conceptual and methodological gaps that need further interrogation. Therefore, it is against this backdrop that the current study aims at incorporating micro credit service affiliated construct, namely micro credit to explain financial performance variances observed with DT-SACCOs where ROE was used as proxy for it is the parameter contextually advocated for by SASRA and directly representing the interests of the DT-SACCO members.

Research Hypothesis

There is no significant effect of micro credit on financial performance of DT-SACCOs in Nairobi City County, Kenya.

Theoretical Review

The following section of this study is a discussion on the specific theoretical framework which guide and underpin this study concept used herein. The theories incorporated here are two, namely; microfinance theory and bank-led theory.

Microfinance Theory

Microfinance theory is another claim associated with Fischer, & Ghatak (2011) who were termed as the first proponents. In their suggestion, it is depicted that the success of debt repayment is pegged on the logic of joint liability approach. In this case, the debt borrower must have other peers who guarantee the lender the repayment of the loan on behalf of the borrower. For this logic to work, the aspect of joint punishment is instilled to the concerned members. Such punitive actions may include and not limited to deny the guaranteeing members to any credit facility in the future. Since this logic of joint liability was suggested by many scholars although oppressive to the struggling borrower, it was commonly agreed that it can extensively reduce the menace of skyrocketed rates of interest by the lenders and again, the problem of screening, monitoring, auditing and enforcing borrowers along the process of payment where by the lender need to rely on the locally available information (Ghatak (1999 & Adewusi, 2015).

When comparing the two approaches, namely the joint liability and the conventional stand-alone bank issuance, it was portrayed that the joint approach is cheaper and convenient in every other way for the borrower's information needed to extent credit is already available. The other justification is that joint liability can translate to win-win results but for the traditional banks, they have limited leeway of demanding loan repayment especially from the poor for the law has it that if they are not able to pay then the commercial banks has to leave it at that due to the fact that they are poor.

Apart from the joint liability approach to push repayment of debts by the poor, other microfinance theories have deviated to adopt the so called frequent and sequential repayment methodology. For the case of frequent repayment of debts, this is how it goes, immediately the loan is issued, the borrower is expected to spontaneously start repaying for this builds a good fiscal culture eliminating any chances of failing to pay in the future. This concept was supported by a renowned scholar by the name Jain and Manuri (2003) who is quoted in the study by Adeusi (2015) for he portrayed that the approach helps in eliminating the problems of monitoring the borrower's actions by the lender. Such problems faced by the lender such moral hazard is what has pushed the lenders to innovate other ways as the ones aforementioned which really fixes the un informed lender to an awkward position. The alternative two which is sequential lending is a repayment program that entails poor borrowers being in a position to clear their debts with easy. This is because the loans are issues in piecemeal approach where the first group is issued with their loan amount then the rest gets their share if and only if the first team of borrowers clear their debt. This increases the security element during repayment.

Bank-led Theory

The keynote proponents of this theory were three scholars, namely Lyman, Ivatury and Staschen (Lyman, Ivatury and Staschen, 2006). The concept advocates for a physical detachment between the client and the commercial bank employees in the whole loan processes. In this case, the matter goes like this, the financial transactions is supported by
A series of microfinance agents who are off the respective bank branches and workers. So, the accounts for the client is maintained at the bank's premises and the daily loan transactions are handled by the agents who are off the bank locality but they are allowed to transact on behave of thesuch financial institutions. Such agents transact in cash, take deposits from the bank's customers and deal with matters of cash withdrawals using the branch-based teller points.

The whole process of serving the bank as an agent is virtual and therefore one can act as a retailer to the bank just the way we normally have it in the normal merchandized trading. Then the agent carries one responsibility of electronically communicating with the respective banks to disclose the transactions undertaken thereof. So, it is only the agent who comes face to face with the client. The process is achievable by using physical electronic gadgets such as mobile phones, or use of Point-of-Sale (POS) terminal that reads cards. In the case of processing a loan application, the matter entails opening of the account of the customer through the physical banks office and once the account is opened and loan approved, the client can proceed to the agent to undertake the rest of the transactions from there. The supposition is affiliated to this study for the predictor variable used in this study is micro credit whereby for the concept to practically work, there must be a point of depositing the cash or the cash equivalent by the client. In this case the DT-SACCO members who access the micro credit facilities for this nature of financial institutions.

RESEARCH METHODOLOGY

Target Population and Sampling

The populace chosen was the whole universe of the study subject and this definition is in tandem with that of Mugenda & Mugenda (2009) who opined that a one hundred percent group of the subject matter being studied represents the study population and should have similar observable characteristics. The target population was the 42 SACCOs which were members of SASRA (SASRA Report, Kenya, 2022) and Nairobi City County based SACCOs in Kenya.

Data Analysis

Once data was at hand, the researcher carried out editing, sorting and data entry processes. This process aided the actual data analysis process to get initiated effectively.

RESEARCH FINDINGS

Correlation Analysis

The researcher sought to establish nature of relationship between the study variables, whether there was any significant link and if there was, whether the connection was weak, moderate or strong. Pearson Product-Moment correlation coefficient was utilized for this purpose and the results were as follows as indicated in Table 4.9

Table 1: Results for Correlation Analysis

		FP	MC
FP	Pearson Correlation	1.000	.343**
	Sig. (2-tailed)		.000
MC	Pearson Correlation		1.000

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

According to Table 1, micro credit related in a direct manner with financial performance which was a strong connection where by a unit change in micro credit resulted to 0.343 units change in financial performance with (p=0.000) at 0.01 significance level.

Simple Regression

The last aspect of data analysis entailed the testing of the respective null hypothesis which was done using simple regression analysis where by the aspect of micro finance services, namely; micro credit was considered. The null hypothesis which stated that “There is no significant effect of micro credit on financial performance of DT-SACCOs in Nairobi City County, Kenya” was subjected to test and the outcome shown in Table 2

Table 2: Results of Micro Credit Services and Financial Performance of DT-SACCOs in Nairobi City County, Kenya

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.660[a]	.523	.478	.60778

a. Predictors: (Constant), MC
b. Dependent Variable: FP

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	113.605	3	36.569	161.22	.000[b]
1	Residual	34.786	39	.263		
	Total	148.391	42			

a. Dependent Variable: FP

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.148	.227		.640	.523
	MC	.573	.077	.343	5.748	.000

Table 2 showed that the F statistic of model 1 on the degree to which micro credit services influenced on the Nairobi City County based DT-SACCO financial performance in Kenya. From the results gotten, F assumed 161.22 with (p=0.000) value implying that micro credit services and financial performance model was conceptual at 95% confidence level for it was statistically significant.

At 95% confidence level the overall model was proved to be an appropriate estimator of the variances observed on the financial performance of DT-SACCOs in Nairobi City County, Kenya. Further interrogation on the aspects of goodness of coefficient of determination and test of the slope (β). The results are as indicated as follows;

The coefficient of determination for model 1 from Table 2 mentioned above was (Adjusted R^2 =0.478), which portrays that all the predictor variables describing micro credit services explained 47.8% of changes in financial performance of DT-SACCOs in Nairobi City County, Kenya. Whereas, 52.2% of changes on financial performance of those SACCOs was predicted by other variables which were not incorporated in this equation.

After carrying out the test of the slope for the three variables associated with micro finance services, the outcome of each one of them was as follows; a unit change in micro credit resulted to 0.343 unit change in financial performance which was statistically significant and of direct nature with (p=0.000).
After the above empirical interpretation, the resultant formula came in to being as indicated below;

LP= 0.148 + 0.343MC
Where;
FP is Financial Performance
MC is Micro Credit

Past studies where undertaken which portrayed similar research outcome. Some of those studies were such as that of Habamenshi & Uwubaha (2024) in Rwanda which portrayed the concern to establish the conceptual connectivity between the extents to which microfinance firms reduced poverty levels in the country. It was established that savings product portrayed significant influence to poverty reduction. On the other hand, credit facilities extended to the members had a direct connection to poverty reduction and technical input had similar results like the case of credit facilitation.

Ndugbu, Ihejirika & Chidinma (2024) examined financial services products such as Micro saving and microcredit on ROA. It was then established that based on the data analysis outcome, the two independent variables had statistically significant influence on ROA. The connection was direct. In other words, the study found that 92.6 percent variations in return on assets of the microfinance banks were accounted for by the independent variables. Micro saving and microcredit have positive relationship while relationship with return on assets of the micro finances banks. Locally, especially in Kenya, Mutuma, (2020) aimed at determining the extent to which Meru based Small and Medium Enterprises (SMEs) financial performance was influenced by the following determinant. That is microfinance services. After regression analysis was done, the outcome portrayed that the profitability of the Meru based SMEs influenced by microfinance services which was significant.

Angweye & Otinga (2019) focused on the DT-SACCOs domiciled in Kakamega County Kenya. The thematic concern was to establish if there exists significant conceptual connection between loan insurance policy and productivity level of the Sacco's expressed in terms of financial performance. On relying on multiple regression analysis method, the results gotten depicted that the independent variable significantly influenced the SACCO's financial performance. Hassan (2020) focused on two variables of SMEs domiciled in Nairobi City County Kenya. That is microfinance service related aspects as the explainer construct and SME's profitability as the outcome construct. Results portray that only micro training which did not influence the outcome construct. Variable. Otherwise, the rest of the predictor variables influenced SME's performance in a better way which was significant.

Conclusions

Failure to accept the null hypothesis (H_{01}) translated to acceptance of the alternative hypothesis which states that; "There is significant effect of micro credit on financial performance of DT-SACCOs in Nairobi City County, Kenya." This shows that when micro credit namely; micro development loans, micro emergency loans and micro educational loans were incorporated by the DT-SACCOs, this positively and significantly contributed to increase in financial performance.

Recommendation

The benefits derived from the research findings of this study are manifold. There are several stakeholders who will be guided by the research outcome which include SACCO insiders, the government and the academician category. One, the DT-SACCO management team will be in the light of the best modelling for explaining the variances observed in the dependent variable for DT-SACCOs that they operate in. The more suitable methodology of gauging the specific variables, namely microcredit provides a more informing report on the mechanism behind the influence of financial performance which in return will guide in decision making to ensure no closure threat on those organizations.

The central government and by extension the County governments will be in apposition to build decision making models that ensure there exists an enabling environment for the DT-SACCOs. You see, the fact that the conceptual linkage between the predictor and the dependent variables is well articulated, the government will revise their policies to capture the innovation and technological advancement revealed in the model arrived at. This further guarantees the government of continued GDP contribution from the DT-SACCOs and also job creation to many people. To the academicians, the research revelation will be advantageous for the new conceptual and contextual knowledge will give a research gap insight to the already existing body of knowledge using an empirical model will act as a spring board to base further similar studies in the future. That is, the conceptual correlation realized and as expressed using the empirical expression is an academic foundation in this domain of study.

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