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EFFECT OF INTEREST RATES CAPPING ON FINANCIAL PERFORMANCE OF SACCO'S IN BOMET COUNTY

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Abstract: **Savings and Credit Co-operatives Societies sector in Kenya has been very vibrant. It has grown to touch every part of our society and sector. The purpose of this study was to investigate the effect of interest rates capping on financial performance of SACCOs in Bomet County. The study was be based on four specific objectives Therefore the objective of this study was to provide an understanding of how interest rate capping affects the financial performance of SACCOs in Bomet County, and bridge the knowledge gap that exists. The study adopted descriptive research design study in which Primary Data was used from respondents. The study made use of regression analysis to analyze the data by equating dependent variables to the independent variable. It ensured that variables in the selected sample represent the study population proportionally. The researcher collected primary data by use of questionnaire. The researcher ensured that the questionnaire was be aligned to the literature review to strengthen the results of the study participants in the pilot study was be purposively excluded from the main study to avoid any possible respondent bias. Reliability was ensured by collecting data from both the management and the staff who was aim at ironing out any significant inconsistencies or biases in the data. Collected data was edited, coded and checked to have the required quality, accuracy and completeness. Thereafter; analysis of these variables was done. This is because there was more than one variable affecting the dependent variable. The study was collate data into tables, frequency tables was be useful methods. The coefficient of determination which is the proportion of variance in the dependent variable that can be explained by the independent variables. Thus, the independent variables account for 57.7% of the variability of the dependent variable. This means that independent variables account for 57.7% of financial performance of the SACCOs. The difference of 42.3% (from 100%) is accounted by other factors which were beyond the scope of this study. The research challenges the management of SACCOs of Bomet County to consider the operating cost they charge on members as compared to other financial institutions because if featured as the major challenge to financial performance of SACCOs of Bomet County. Operating cost should be reviewed frequently depending on the prevailing need of SACCO operation and size. The management have given a lot of attention to increased marketing to increase membership but this alone was not be of much benefit if the whole business environment is not brought into the picture. This should include the services given to customers and the time taken to give these services.**

Keywords: **financial performance, SACCOs, financial institutions independent variables.**

1. INTRODUCTION

Background of the Study:

Financial and non-financial institutions are gradually changing and responding to ever changing economic and social environment by adopting new approaches and models which must be guided by written policies. These guidelines assist them to develop financial and legal support systems pertaining to financial transaction to suit different environments and operations, Al-Jarhi, et al., (2010). Interest rate capping is a form of government control in the financial sector. Over the recent years, there has been a deadline on the number of countries using this form of control mainly because most countries are aiming at having liberal financial policies. There are several reasons why government may opt to use interest rate caps, most of which are political and economic. One of them could be to support an industry or sector where there is a market failure or in areas where a greater financial resource is needed. Precisely, the SACCO sector in Kenya is very vibrant and therefore to ensure stability, loan policies are key pillars to this key sector in the Kenyan economy (WOCCU, 2013). Ironically, the management committees of these church based SACCOs are at the same time the spiritual leaders of the borrowers. Therefore familiarity between the SACCO members and management committees may result to less compliance and sidestepping of such policies which affect the SACCO's financial performance.

Loan policies, being internal guidelines on loan transactions are very vital for any microfinance success regardless of the sector and environment in which they operate. In some instances trust may override the internal controls instituted by the management due to familiarity. Market failures usually result from market information asymmetries , moral hazards, adverse selection or the inability of financial institutions of differentiate between high and low risk clients. Therefore according to Miller (2013), interest rate caps are useful tool to support a sector until it is able to sustain itself. Since the capping of interest rates has a tendency to distort the market and cause adverse biases financial institutions tend to favour their lending to low risk clients which in turn leads to inefficiencies in the financial intermediation process. According to Ramsey (2013), this discrimination leads to a situation where those in dire need of financial assistance being locked out of the available finances because they are considered high risk. Financial institution ca however, still remain profitable in the midst of interest rate capping by the Government by venturing into other sources of income such as non-funded income as well as cutting their costs.

Restrictions brought by interest rates capping may lead into alternative lending by the financial sector such as lending to the government and in the extreme cases where the capping may become unprofitable, Banks, SACCOs and Microfinance institution may withdraw from certain locals such as rural areas or from expensive market segments because they cannot cover their costs. This is scenario in turn leads to low income, high risk borrowers to turn to shylocks and pothers unlicensed money leaders for funding and too often these comes at a very high cost. According to evidence, interest rate caps on loans discourage microfinance non-finance non-governmental organizations (NGO) and other sources of finance for the poor from converting licensed financial institutions (Helms &Reille, 2004)

Financial performance is the outcome of an organization's policies and procedures in monetary terms. Therefore, SACCOs' financial performance is a result of several activities undertaken by the management guided by the laid down loan policies. This is indicated by operating income, return on assets and earnings before interest and taxes, which are computed by comparing different items in financial position statement and the statement of comprehensive income, Nancy (2011).

Financial performance involves gauging the results of a financial institution's policies and operations in financial terms. This has been done by calculating the firm's return on investment and return on assets (ROA).This falls within the realm of performance measures on the ability to generate income based on SACCO's assets, Gatuhu (2013). Nancy (2011) asserts that a loan either long term or short term is a major asset and revenue generator of a SACCO which affects the financial performance of all types of SACCOs. The financial performance of financial institutions depends on return on assets (ROA) invested in the business. Therefore when analyzing these SACCOs' financial performance the researcher is concerned with loans advanced, the non-performing loans and insurance premiums recovered in a given financial year, all these expressed to total assets and total value of loans respectively.

Statement of the Problem:

The concept of common bond of SACCOs in Kenya is changing and evolving. Initially SACCO formation involved interested members who are in the same occupation, activities or geographical area (Mwalimu SACCO, Matatu SACCO, Ukulima SACCO,). However SACCO industry has witnessed opening up of the common bond such that a teacher based SACCO is now serving business persons, farmers, employees of other organizations. A farmer based SACCO is equally serving the entire community so long as such persons are economically activeIn light of these various scholars such as Hakelius (2006), Kiaritha (2009), Unal, Gulclusoy and Franquesa (2009), Bhuyan (2007), Nyoro and Ngugi (2007, Chombo (2009), Pollet (2009), have conducted studies on financial performance within the SACCO movement and using various variables namely Completion from Commercial Banks; members royalty and active participation; financial, organizational, educational factors, membership and legislative support; members satisfaction and members participation economic factors, management committee and staff members; voice and effective representation of SACCOs respectively as key issues contributing to the financial performance and survival of SACCOs. However, none of these scholars has studied the effects of interest rate capping on financial performance of SACCOs in Bomet County in their studies. This study was be thus different from the previous ones as it adopts the interest rate capping phenomenon in determining the factors that influence the financial performance of SACCOs in Bomet County, Kenya.

While the above research outcomes provide insights on various applications, there is no known study to the researcher which has been done on effects of interest rate capping on financial performance of SACCOs in Bomet County, Kenya. Therefore, the knowledge gap was whether SACCOs in this sector are affected by recent interest rates capping. Thus, this study was pursuing to ascertain the effects of interest rate capping on financial performance of the SACCOs in Bomet County.

Scope of the Study:

The study was meant to determine the effect of the interest rate capping on financial performance on SACCOs in Bomet County. Bomet County has an area of 947 Square Kilometres. The Bomet County is situated in the South West part of Kenya with a population of 900,000 people (KBS Census of 2009). There are 30 SACCOs in Bomet County (SASSRA, 2016) and there are 6 sectors of the economy represented namely; Agriculture, transport, Education, Civil Servants, Health and MSEs

2. LITERATURE REVIEW

Theoretical Review:

This section discussed various theories that show the relationship between interest rates capping and financial performance. Theories relevant to this research were discussed below.

Lending Pricing Theory:

This theory explains why it is not prudent for banks or SACCOs to set high interest rates to optimize profit from loan sales. Lenders should consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship (Stiglitz and Weiss, 1998). If lenders set interest rates too high, they may induce adverse selection problems because high risk borrowers are waiting to accept these high rates. Once these borrowers receive the loans, they may develop moral hard behavior or so called borrower moral hazard since they are likely to take on highly risky projects or investments i.e. The higher interest rates would later act as an incentive for the risky borrowers to consider adding more risk to their investment portfolio due to high affinity for high returns (Chodecai, 2004).

Delegated Monitoring Theory:

This theory was developed by Diamond (1996), and it explains the process by which financial institutions and SACCOs are significant in providing financial intermediation services. According to this theory, funds are transferred from savers who make deposits and ultimately enabling SACCOs to act as the delegated monitors by advancing loans to borrowers. The key element in this theory is the analysis of the cost benefit of recovering funds advanced. This is possible through the collection of the required borrowers' information with the aim of minimizing loan default. In addition, these financial institutions impose terms and conditions on the borrower such time and interest. These terms and conditions ensure efficient loan recovery by restricting the borrowers from shifting priority to other obligations other than honoring their SACCO loans.

Liquidity Preference Theory:

The concept was first developed by Keynes in 1936. Keynes stated that the demand for money is expressed as a fraction of level of income and interest rate. MD = (Y, r)

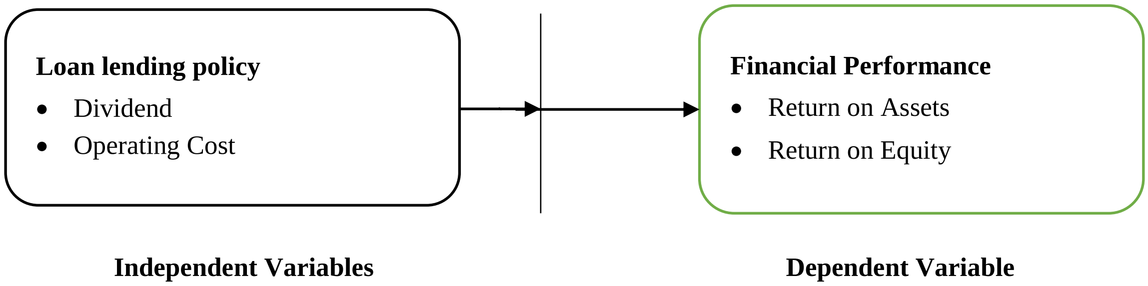
Where MD = Money Demanded, Y = Level of Income and r = interest Rate. This frameworks holds that the interest rate is determined by the intersection of supply and demand of money stock. The liquidity theory preference approach views interest rates from the supply and demand of the stock of money in the financial system. According to Keynes (1936) money is demanded mainly for the following motives transaction, precautionary and speculative motive. Keynes further stated that investors was always prefer short term securities should yield higher interest than short term bonds.

Client Cross Borrowing Theory:

Estimates of the incidence of cross- borrowing vary. Krishnaswamy (2007) has estimated that in one state in India, the incidence of cross- borrowing is about 7%. In Bolivia in the late 1990s, close to a 33% of SACCO clients had cross-borrowed. In Andhra Pradesh, a study conducted just before the 2010 crisis suggests that 3% of households' cross-borrow. Of those households with SACCO loans, the great majority, 82%, have other formal loans. The findings of Krishnaswamy suggest that cross-borrowing is caused by clients' opportunistic and collective behavior and the desire to invest. A study entitled Multiple Memberships by Khalily and Faridi (2011) shows that individual overlapping rate was 31% in 2009, while the household overlapping rate was approximately 43%. The research shows that cross borrowing had occurred because of up scaling of enterprises, client's lumpy expenditures, incidence of shocks, repayment of previous loans, and leasing-in of land. The main cause of cross-borrowing was demand for enterprise financing. A study entitled Multiple Borrowing and Loan Repayment of Microfinance clients in Tanzania by Mpangole (2012) shows that over 70% of 250 microfinance clients sampled have at least 2 loans from different MFI at the same time and about 16% had loans from individual lenders.

Conceptual Framework:

The conceptual framework interlinks the dependent and independent variables. The independent variables. The independent variables demonstrate activities that remain unchanged in the study. These include, saving, borrowing level, saving mobilization, liquidity level and Cross Borrowing. Dependent variable changes when subjected to independent variables in this case the financial performance of SACCOs subjected to independent variables above.



Loan Lending Policy and SACCOs Financial Performance:

These are terms and guidelines which any borrower should adhere to before and after loan advancement. They are the most key features of any financial institution and cannot be ignored by any enterprise engaged in money lending business regardless of nature and environment of their operation. The terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution. Drzik, (2012) discussed these policies as interest rates, time and the procedures the lender was use to collect all the amount due from the borrower.

Normally loan principal is recovered in installments including the loan interest. The loan policies dictate installment periods and the interest rates, which vary from one loan to another. For instance in some SACCOs loans recovery may be thirty six months and below while in others the period may be extend up to seventy two months. The interest rate may vary from the recommended 12% to 15% per annum depending on the loan type. These are internal controls applied by the SACCO management in the administration of different loans (Nancy 2011).

Lending terms of financial institutions presented a moderate positive correlation between borrower's loan size and repayment period as opined by (Ozdemir, 2004) in Turkey. In his study, he revealed that the amount of loan advanced is influenced by the borrower's level of income. He argued that the starting point of any sound lending terms must begin with establishing legitimate financial needs of the potential borrower but not the financial performance of the microfinance firm. Therefore, the lending institution must ensure that loan terms are constantly updated because they was affect the growth, stability and economic wellbeing of the financial institution. However, there was no mention on how these lending terms affect financial performance in his study. In Nigeria Chigozie et al., (2013) focusing on the SACCO sector, observed that although risky, lending is the key business of any financial institution. They argued that lending was evil and management of this microfinances are advised that they should put in place sound loan administration policies and an effective and efficient machinery to monitor loan repayments with well established guidelines. Nevertheless, they only gave general knowledge on this loan guidelines therefore the researcher has made effort to relate the loan policies to the financial performance of the church based SACCOs.

Locally, studies have been done on this topic but concentrating on Deposit Taking SACCOs (DTS) and on specific counties and sectors. For instance, Ngugi (2015), Ikua (2015) and Damaris (2014) all opined that credit terms and guidelines have a positive correlation to the financial performance of DTAs. However, this study has created diversity by looking at lending terms and on SACCOs operating in different environments and specifically in a church set up . Financial performance of SACCOs can also be affected by financial innovation, credit management and working capital management as concluded by (Kennedy et al., 2016) on their study. These variables tested positive in relation to financial performance on their study on factors influencing financial performance of SACCOs in Kilifi County.

More research has been done on SACCOs characterized by a common check off system environment. For instance, in the study by Ndubi, (2006) on how SACCOs are responding to the changing operating environment he didn't mention social environment, which is a characteristic of this church based SACCOs. Others like Ajiambo, (2010), Nzaywa, (2013) who studied on the relationship between loan policies and financial performance, concentrated on SACCOs in Nairobi County, and there was no mention of social based SACCOs. This research has diversified on SACCOs operating in different environments, look at specific lending terms and how collecting defaulted loans affect financial performance of church based SACCOs. In any financial institution the management has the responsibility of putting in place these terms and conditions within the confines of their finance management practices and environments Pandey, (2012). These was also ensure that the borrowers are aware of the requirement of each loan and that the same credit issues are not discussed, visited and reviewed every time a member puts forward a loan request. This was also ensure that decisions are consistent and fair and that members applying the same type of facility get standard treatment Dermine et al., (2006). Whether the application of these loan policies affect the financial performance of these church based SACCOs was a research question of this study. No prior well-known study has examined these church based SACCOs which are volatile since they are built on faith and trust.

Critique of Existing Literature Review Relevant to the Study:

Lenders should not consider the problems of adverse selection and moral hazard since it is very difficult to forecast the borrower type at the start of the banking relationship. (Stiglitz and Weiss, 1998) if lenders set interest rates too high, they may induce adverse selection problems because high risk borrowers are wasting to accept these high rates. Once these borrowers receive the loans, they may develop moral hard behavior or so called borrower moral hazard

Diamond (1996), this process of financial institutions and SACCOs are significant in providing financial intermediation services. According to this theory, funds are transferred from savers who make deposits and ultimately enabling SACCOs to act as the delegated monitors by advancing loans to borrowers. The key element in this theory is the analysis of the cost benefit of recovering funds advanced.

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Research Gap:

Most of the studies reviewed on different SACCO sectors do not focus on the effect of loan policies on the financial performance of the SACCOs. Therefore, there is evidence of a gap in the empirical literature available. The analysis drew the need of developing good loan policies and practices in order to achieve the ultimate goals of setting up these SACCOs in the church environment, which was result to maximizing loan recovery, adherence to loan terms, maintenance of sound return on assets and credit risk hedging.

According to Mwangi and Shem (2012) wealth was used as proxy for ownership of assets such as cattle and mobile phones is a key determinant of access since the wealth can be turned into cash and deposited in bank accounts. Having a mobile phone, on the other hand, is important because it facilitates the use of M-Pesa, which provides savings, credit, and money transfer services. Ngendakuriyo (2014) showed that wealthier households and individuals with high levels of education had a high probability of saving in banks, SACCOs, and microfinance institutions than in informal institutions and secret places.

Gitaharie et al., (2014) found that the probability of a household to access credit for businesses from banks, non-bank, and individuals was influenced by income-related factors such as employment status and poverty level. Banking public education programs also improved access by creating awareness on the available and benefits of financial services in the country. Ownership of assets such as a house, computer, and a phone also influenced access to credit. This suggests that wealth positively affects access to credit services since it can be used as collateral in the formal and informal sources of credit. However, this is inconsistent with Malapit (2012) who found that lenders in the informal sector depended more on the borrowers' creditworthiness rather than wealth to evaluate loan applications.

Mwalughali (2013) showed that land per capita had a positive effect on access to credit. This means that having adequate collateral is a key determinant of access to credit. This is based on the fact that financial institutions prefer to provide secured loans to avoid default risks, especially among poor customers with no steady sources of income. A key challenge in providing credit based on collateral is that poor households, especially those who reside in rural areas may not have access to collateral. As a result, they was remain locked out of the formal financial system.

3. RESEARCH METHODOLOGY

Target Population:

According to Ngechu (2004) a population is well-defined set of people, services, elements and events group or household being investigated. This investigation ensured that population of interest was homogenous. The population of this project were all 117 employees of the 12 small Licensed SACCOs in Bomet County. The population of this study comprised of 90 members of staff of all sampled SACCOs in Bomet County. Confirmation of the current number of staff was obtained from the Human Resource Manager and the same was verified from the annual reports. The units of analysis was the study population which included all the SACCOs in Bomet County which are 30 in total. The unit of observation which was the target population of the study were the 12 active SACCOs registered and operating in Bomet County which were selected from different sectors and in each; two SACCOs were targeted based on performance i.e. the best performing and the worst performing each sector.

Table 1: Target population

	Name	Sector	No. of employees
1	Imarisha SACCO	Education	16
2	Stegro SACCO	Agriculture	7
3	Bomet Transporters SACCO	Transport	8
4	Kipsigis EDIS SACCO	Education	14
5	Hazina SACCO	Civil Servants	5
6	Sukuma SACCO	MSE	8
7	Narok line SACCO	Transporters	6
8	Tenhos SACCO	Health	15
9	Mali Mali SACCO	MSE	6
10	County Govt of Bomet SACCO	Civil Servants	14
11	Tumoiyot SACCO	Agriculture	8
12	Afya SACCO	Health	10
	Total		**117**

Table 3.1 gives individual SACCOs, their sectors and the total number of employees per SACCO. There are 117 members of various SACCOs as shown. The number of respondents were guarded on the sampling frame for the research. To ensure proportional representation of each sector in the sample, size, the number in each sector was considered. Proportionate sampling was then used to yield 100 respondents who constituted the sample size shown in the table above.

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4. RESEARCH FINDINGS AND DISCUSSION

Effect of interest rate capping on financial performance of SACCOs in Bomet County:

Interest rate capping was identified as the major factor affecting financial performance of SACCOs. The study was interested in ascertaining factors shown on the objectives viz-a-viz financial performance of SACCOs in Bomet County. The researcher wanted to find out the views of respondents on the current interest rates charged across all the financial institutions. This is further explained in the following subthemes.

Loan Lending Policy:

SACCOs' financial performance was affected by loan lending policy. When there isloan lending collateral goes up then the loan to be advanced goes down. The researcher sought to establish views of respondents on loan lending policy and if this affects the financial performance of SACCOs.

Table 2: Loan lending policy requirement

Loan Lending	Frequency	Percent
Very High	10	13.1%
High	39	51.3%
Moderate	27	35.6%
Total	**76**	**100%**

Table:- shows that out of the 76 respondents, 39 (51.3%) rated the level of loan lending policy being high, 27 (35.6%) said moderate while the smallest group10 (13.1%) said it was very high. This show the reason why some SACCO members of management said the loan lending policy is high. Loan lending policy is a factor beyond the control of the SACCO therefore the SACCO should look for other ways of controlling its loan lending policy like trying to minimize other operations cost.

Table 3: The results were presented using the likert scale below.

Loan Lending Policy	1	2	3	4	5	Total
Managers give Saving Mobilization service in SACCOs	55%	25%	10%	10%	0	100%
Managers qualification is important for SACCOs performance	45%	55%	0	0	0	100%
Saving Mobilization is of more benefit compared to its cost	40%	40%	10%	10%	0	100%

Regression Analysis:

The multiple regression model given below was applied to establish relationship between the independent variables and dependent variable:

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$

Where;

(Y)- is the value of the Dependent variable (financial performance of the SACCOs)

β_0- is a constant, β_1 - β_4 are the coefficients of the independent variables measuring the strength of the relationship between the independent variables and the dependent variable

X_1 –Loan lending Policy, X_2Saving Mobilization–, X_3 –Liquidity Management, X_4 Cross Borrowingε - Standard error.

Coefficient of Determinations and Correlation:

Table 4: Model Summary

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.760[a]	.577	.559	5.6097

Predictors: Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing

The R column represents the value of *R*, the *multiple correlation coefficient* at 0.760, which indicates a good level of prediction (strong correlation because it is close to 1). The "RSquare" column represents the R^2 value i.e the coefficient of determination which is the proportion of variance in the dependent variable that can be explained by the independent variables (0.577). Thus, the independent variables explain/account for 57.7% of the variability of the dependent variable. This means that Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing account for 57.7% of financial performance of the SACCOs. The difference of 42.3% (from 100%) is accounted by other factors which were beyond the scope of this study.

Statistical Significance:

The ANOVA table tests whether the overall regression model is a good fit for the data. An ANOVA test or a regression analysis to find out if the means between two populations are significantly different. The table shows that the independent variables statistically significantly predict the dependent variable, $F = 4.95$, $p < 0.000$ i.e., the regression model is a good fit of the data. In other words, the data reflects the findings of this study.

Table 5: Anova

Model	Sum of squares	df	Mean square	F	Sig.
Regression	4196.483	5	1049.121	4.95	.000[b]
Residual	3076.778	71	32.387		
Total	7273.261	76			

Dependent variable; financial performance

Predictors: Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing

Estimated Model Coefficients:

The general form of the equation to predict financial performance of the SACCOs from Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing: holding these factors constant (independent variables), financial performanceis predicted at 0.830 with standard error of 6.385, whereas Loan lending policyimproves financial performanceof the SACCOs by 0.465, Saving mobilization 0.385, Liquidity management 0.218 and cross borrowing by 0.506 in improvement of financial performance. Standard errors of 0.063, 0.043, 0.032 1.344 respectively. This is presented as shown below.

Table 6: Regression Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.830	6.385	-	13.756	0.000
Loan Lending	0.465	0.063	0.176	2.633	0.010
Saving Mobilization	0.385	0.043	0.677	8.871	0.000
Liquidity Management	0.218	0.032	0.252	3.667	0.000
Cross Borrowing	0.506	1.344	0.748	9.824	0.000

Dependent variable; financial performance of SACCOs

Predictors: Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing

5. SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Introduction:

This is the last chapter on the effect of interest rates capping on financial performance of SACCOs in Bomet County. Specifically, the study sought to ascertain the extent to which loan lending policy affects financial performance of SACCOs in Bomet County.

Summary of Findings:

The key movers of SACCOs' financial performance like loan lending policy, saving mobilization, liquidity management and cross borrowing were used as the variables of this study. Interest rate capping on Bomet County SACCOs was studied for the effects of these variables on financial performance. Descriptive research design was used. Questionnaire was used as instrument of data collection.

Loan Lending Policy:

SACCOs' financial performance was affected by loan lending policy. When there is loan lending collateral goes up then the loan to be advanced goes down. The researcher sought to establish views of respondents on loan lending policy and if this affects the financial performance of SACCOs.

Shows that out of the 76 respondents, 39 (51.3%) rated the level of loan lending policy being high, 27 (35.6%) said moderate while the smallest group 10 (13.1%) said it was very high. This show the reason why some SACCO members of management said the loan lending policy is high. Loan lending policy is a factor beyond the control of the SACCO therefore the SACCO should look for other ways of controlling its loan lending policy like trying to minimize other operations cost.

The study asked the respondents if Loan Lending Policy was affect Sacco's performance. The results were presented in figure 4.5.

The study found that those who supported the introduction of management quality and qualification requirements were highest at 65%. They were followed by those did not support at 22% with the least being those who were not sure at 13%

Discussions:

In this study a thorough literature review was carried out to identify variables such as loan lending, saving mobilization, liquidity management and cross borrowing. Questionnaires were formulated with comprehensive questions and were used to collect data from SACCOs of Bomet County. The SACCO showed good operational and financial performance with increasing growth but there was weakness in product diversity. The data analysis showed that the SACCO should also review their operating cost to ensure that they are competitive. The financial status in the SACCO also shown a threat to the future financial performance of the SACCO hence the need to put in place measure to remain competitive.

In this study it was established that there was a positive correlation between duration of loan loan lending policy and Savings mobilization because the study shows that 73% of respondents who were given a reasonable advantage in SACCOs operation. Besley (2003) asserted that enforcement of loan repayment constitute a major difference between rural credit markets in developing countries and credit markets in developed countries. This means that if SACCOs becomes flexible by extending repayment period to loan borrowers they can retain their customers and increase their financial performance as established in this study.

A lot has been reviewed in terms of loan lending activities of various deposit money banks. Felicia (2011) used regression analysis to investigate the determinants of commercial banks' lending in Nigeria and the study discovered that interest rates charged has the greatest impact on the lending behavior. In this study it was established that the favorable Cross borrowingin SACCOs of Bomet County give it an increasing tread in membership enrollment. Those respondent who felt that the interest rates charged were high went ahead and sourced credit to other commercial banks while those who felt that interest rates were fair did not source credit from commercial banks.

The duration taken to process loan also affects the financial performance of financial institutions because borrowers approach lenders for loans when sometimes they are faced with urgent financial needs. In this study it was established that SACCOs of Bomet County met the specified period of loan lending policy processing as per the firms' policy, hence 94.32% of the respondents did not source for credit from commercial bank because they were satisfied that the loan lending policy was ok. In his study Nyanjwa (2008) he found that the performance of financial institutions depends on their operational efficiency. He noted that although there is no standardized performance measure tool to evaluate the status of a SACCO the borrowers expect timely services so that they can meet their business financial demands.

The general form of the equation to predict financial performance of the SACCOs from Loan lending Policy, savings Mobilization, Liquidity Management and Cross Borrowing: holding these factors constant (independent variables), financial performance is predicted at 0.830 whereas Loan lending policy improves financial performance of the SACCOs by 0.465, Saving mobilization and liquidity management improves financial performance of the SACCOs by 0.385 and Cross borrowing improves financial performance of the SACCOs by 0.218. This is presented as shown below.

It was also established in this study that the overall financial performance of SACCOs is greatly affected by the capping of interest rates. Loan lending policy was not established as big threat to the growth and expansion of SACCOs because this affects the profitability. It was established that Saving Mobilization was attached to enhancing shares and 78.2% of respondents felt that this dealt with stagnation.

Conclusions and Recommendation:

The study identified issues that affected financial performance of the SACCOs. The research challenges the management of SACCOs of Bomet County to consider the operating cost they charge on members as compared to other financial institutions because if featured as the major challenge to financial performance of SACCOs of Bomet County. Operating cost should be reviewed frequently depending on the prevailing need of SACCO operation and size. The management have given a lot of attention to increased marketing to increase membership but this alone was not be of much benefit if the whole business environment is not brought into the picture. This should include the services given to customers and the time taken to give these services.

Suggestion for Further Studies:

i. Further studies should be carried out to know the optimal loan lending policy for loan applicants for this has been seen to affect the loan repayment of SACCOs. A shorter duration has been seen to affect the customer while very long durations are known to affect profitability of the institution.

ii. The study established that the savings doesn't affect the growth in terms of expansion of the SACCO, a further study should be done to strike a balance between profitability and membership increase.

iii. The SACCO should improve on its liquidity management as this has been seen to cause a shift to other commercial banks when the duration is longer as opposed to when the duration is shorter.

iv. A study on cross borrowing can affect the growth of SACCOs as the current factor studied in this study does not affect the performance of the SACCO.

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