

## **Influence of Credit Availability Disbursement on the Level of Savings Among Members of Deposit Taking SACCO's in Nyeri County**

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### **ABSTRACT**

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*One of the key goals of the SACCO movement is to mobilize savings. However, despite having the largest SACCO sectors in the world, available data shows there is a low personal and household savings rate in Kenya. The majority of Kenyans do not have a savings culture and live each day as it comes. Kenyans are thought to save only 12% of their incomes on average, which is insufficient to support any serious investment in any sector of the economy. The current study therefore sought to assess the influence of credit availability disbursements on the level of savings. This study was guided by the permanent income hypothesis and loanable funds theory of interest. The study adopted a descriptive cross sectional survey research design. The target population was 156,000 active individual members of the 8 deposits taking SACCOs in Nyeri County. The sample of size was 400 respondents derived purposively. To obtain data, the researchers employed a standardized self-administered questionnaire. A pre-test was undertaken in deposit-taking SACCOs in Murang'a County to determine the instrument's reliability and validity. The data was analyzed using descriptive and regression analysis. In the analysis, the Statistical Package for the Social Sciences (SPSS) version 24 was utilized. Tables were used to present the data. Majority of the members agreed that loan ratio/multiplier was applied when granting credit facility. The study concluded that there was a positive significant relationship between credit availability disbursements and member's savings level in the SACCOs. The study recommended that short-term promotional incentives may be one strategy to encourage people to save more, although evidence on their effectiveness is limited. The study recommends to SASRA to accommodate the total savings and deposits when ranking the performance of deposit taking Saccos other than considering only the total assets parameter.*

**Key Words:** *Credit availability, Deposit Taking SACCOs, Innovative Savings Products, Levels of income, Personal Saving, Savings mobilization*

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## **1.0 Introduction**

### **1.1 Background of the study**

Saving is money set aside for future use, reducing current spending and increasing capital available (Jayasinghe et al., 2019). A savings rate is a percentage or ratio that represents how much money a person deducts from their discretionary personal income to put aside as a nest egg or for retirement. Personal and savings provide a buffer against future contingencies, whereas national savings supply the funding required for development activities (Abebe, 2017). Savings are significant drivers of economic growth and are required for the long-term viability of pension systems and the international trade balance. Despite the rising economy, the already low personal saving rate has fallen even further in recent years.

Savings rates have doubled in East Asia but have stagnated in Sub-Saharan Africa. Despite financial liberalization and solid macroeconomic policies, efforts to improve domestic savings rates in low-income countries, particularly in Sub-Saharan Africa, have mostly failed, according to the United Nations (2018). From 1960 to 2020, personal savings in South Africa averaged 4.62 percent. In comparison to many other African countries, Ghana's Gross Domestic Savings as a proportion of GDP has been low, averaging 6.4 percent between 1980 and 2001, compared to 37.4 percent in Botswana, 21.4 percent in Cameroon, 21.6 percent in Nigeria, 13.9 percent in Kenya, and 7.3 percent in Malawi (Chamon, Liu & Prasad, 2013).

Kenya like many other developing countries is faced with a large household and personal savings gap to spur and sustain a desirable rate of economic growth. In comparison to many other African countries, Ghana's Gross Domestic Savings as a proportion of GDP has been low, averaging 6.4 percent between 1980 and 2001, compared to 37.4 percent in Botswana, 21.4 percent in Cameroon, 21.6 percent in Nigeria, 13.9 percent in Kenya, and 7.3 percent in Malawi (Chamon, Liu & Prasad, 2013). According to the World Bank's (2020) Development Indicators, gross domestic savings as a proportion of GDP has decreased from 9% in 2008 to 5.32 percent in 2018. Personal savings in Kenya ranged from 12.54 percent in 2004 to 14.80 percent in 2013, with a high of 14.80 percent in 2008, (Trading Economics, 2021). In light of the low personal savings in Kenya, this study seeks to investigate SACCO management practices and the level of savings among members.

### **1.2 Statement of the Problem**

Kenya had historically been identified as having one of the lowest savings rates in the area. Saving deposits have dropped from 444,777 million in 2015 to 350,802 million in 2018, according to the 2020 economic survey (Kenya National Bureau of Statistics, 2020). Only 0.7 percent of Kenyan bank accounts have balances of more than Sh1 million, while 99.3 percent have savings of less than Sh1 million. According to the Census and Economic Information Center (CEIC), Kenya's Gross Savings Rate fell from 11.7 percent in December 2007 to 6.1 percent in December 2018. (2019). The World Bank (2020) estimates gross domestic savings at 5.3 percent of GDP. Despite possessing one of the world's largest SACCO businesses, statistics suggests that personal and household savings rates are low. Kenya is frequently referred to as a country with a poor savings culture. The majority of Kenyans does not have a savings culture and live each day as it comes. According to Wamuyu (2016), 41% of Kenyans do not save regularly because they cannot afford to save for a rainy day. Kenyans save barely 12% of their salaries on average, according to the Ministry of Finance (2017), which is insufficient to support any meaningful investment in any sector of the economy. The mobilization of savings data in deposit-taking SACCOs demonstrates that, despite the management of SACCOs increasing the interest rate on dividends and savings,

saves growth is slowing. According to the SASRA (2018) report, average dividends and interest on SACCO savings deposits climbed from 7.65 percent in 2017 to 8.25 percent in 2018. Despite the fact that SACCOs are expected to mobilize funds first and then lend to their members, according to SASRA (2017), the demand for loans by SACCO members has continued to outnumber the deposits mobilized. The growth rate of loans in 2017/2018 also exceeded the growth rate of total deposits which is a demonstration of the higher demand for loans in SACCO's than the rate of mobilization of savings. The rate of growth in total deposits has been going down from 14.8% in 2015 to 11.99% in 2018 .2018/2019 growth rate dropped to 11.27%, (SASRA, 2016, 2017, and 2019).

This shows that the SACCO movement has not achieved much in encouraging savings among Kenyans. Authorities are anxious about Kenyans' low savings rate because they believe they are not saving enough for pension or for financial catastrophes like as layoffs and huge medical bills. SASRA board through the SACCO supervision report 2019 are also concerned on mobilization of savings and they are recommending the introduction of a functional central liquidity facility for SACCO's to see whether it will improve the capacity of Deposit taking SACCO's to efficient mobilize, retain and intermediate savings and deposits from their membership and also to see whether member confidence in SACCO's as trustworthy investment destination for member savings will improve. This is even after putting measures to address this imbalance at operational, policy and legal levels. The reasons for this phenomenon are not clear. In addition, majority of available studies have concentrated on the lending role of SACCOs and performance of SACCOs. Available studies on the savings mobilization role of SACCOs are scarce. The objective of Mbuthia's (2011) research was to look into the underlying elements that influence a family's decision to save. Njunge (2013) wanted to see if there was a link between gender and saving behavior in Kenya. However, none of these studies was conducted in SACCOs. In addition, none was conducted in Nyeri. To fill this gap, the study sought to assess SACCO management practices and the level of savings among members.

### **1.3 Purpose of the Study**

The purpose of the study was to investigate the influence of credit availability disbursement on the level of savings among members of deposit taking SACCO's in Nyeri County.

## **2.0 Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Permanent Income Hypothesis**

Friedman is credited with developing the Permanent Income Hypothesis (PIH). In other words, consumers will spend money in proportion to their long-term average income (Khan & Nishat, 2011). This concept is predicated on the assumption that consumers would want to smooth their spending rather than have it fluctuate due to short-term income fluctuations. According to the hypothesis, even if economic policies are successful in increasing income, they may not result in a multiplier effect on the economy due to increased consumer spending. Consumer spending may not pick up until workers feel confident about their future earnings.

The hypothesis's assumptions of a relatively constant willing to spend and a marginal inclination to consume from transient income equal to zero were both highlighted as fundamental weaknesses (Palley, 2010). According to Gerlach-Kristen (2011), the theory is difficult to adapt to poverty, and the empirical model's results do not accurately match observable patterns of poverty

persistence. Furthermore, the permanent income hypothesis does not accommodate for changes in an individual's income stream, such as when they become incapacitated. This is a significant disadvantage when studying poverty transitions, as one of the key goals is to determine the impact of events on poverty, such as a change in handicap or marital status.

### **2.1.2 Asymmetric Information**

Akerlof was the first to establish the concept of asymmetric information (1970). He framed current arguments on information asymmetry by linking quality and uncertainty. Asymmetric information, often known as "information failure," occurs when one party of a financial activity has more physical knowledge than another (Tabarrok & Cowen, 2015). In credit markets, the adverse selection issue occurs when the creditor lacks comprehensive knowledge on the borrower before the parties sign a loan contract. When adverse selection is increased, the majority of the prices in the sample rise, the majority of the quantities decline, and the majority of the defaults climb (Halaburda & Yehezkel, 2013).

Credit markets are regularly impacted by defects due to the existence of asymmetric information (Okuyan, 2014). Lenders may lack the knowledge necessary to set loan costs that reflect borrowers' riskiness, or chance of default. Lenders would pay costs in screening safe applicants from dangerous candidates and monitoring borrowers' behavior as a result, and they might charge higher fees or pass on transaction costs to borrowers as a result. A large number of studies suggest that asymmetric knowledge can cause market failures such as credit rationing, inefficient service, risk mispricing, and, in the worst-case scenario, market breakdown (Halaburda & Yehezkel, 2013). Information asymmetry can also be found in Savings and Credit Cooperatives, which serve as a saving mobilization mechanism. Credit accessibility and interest rates levied on loans are influenced by information inequalities (Essendi, 2013). Because of the relatively high cost of loans, the impoverished may make it difficult to access funds through SACCOs. Most SACCO customers are data opportunistic, which helps to explain why lending carries a large risk premium, resulting in higher interest rates. Our notion is crucial in this study, which aims to establish the impact of credit availability disbursement on deposit-taking SACCO savings in Nyeri County.

## **2.2 Empirical Review**

Stewart et al. (2010) discovered that both micro-credit and micro-savings enhance impoverished people's savings, expenditure, and asset accumulation. Some data suggests that microfinance helps impoverished individuals cope better with shocks, although this is not universal. However, Kenya was not included in this survey. The current study will therefore provide data for the Kenyan context. The drivers of the aggregate household saving rate in Malta were investigated by Gatt (2011). The real deposit rate was a major predictor of saving behavior. Over the 13 years examined in this analysis, both the saving rate and the real deposit rate have been on the decline. During the time period studied, credit changes did not appear to have a significant impact on saving decisions. This could be related to the fact that Malta's credit boom happened in the late 1980s and early 1990s, as previously mentioned. Credit was most likely having an impact on family saving choices at this time. The gap of this study lies in the fact that it was conducted in Malta, which has a more advanced financial system to that of Kenya.

To quantify the effect of involvement in microcredit on household savings, Aktaruzzaman *et al.* (2016) employed a unique data set obtained from 69 villages in Bangladesh. The credit impact was discovered using a regression discontinuity design (RDD). The authors found no evidence that the driving variable at the threshold was manipulated to invalidate the RDD. The findings revealed

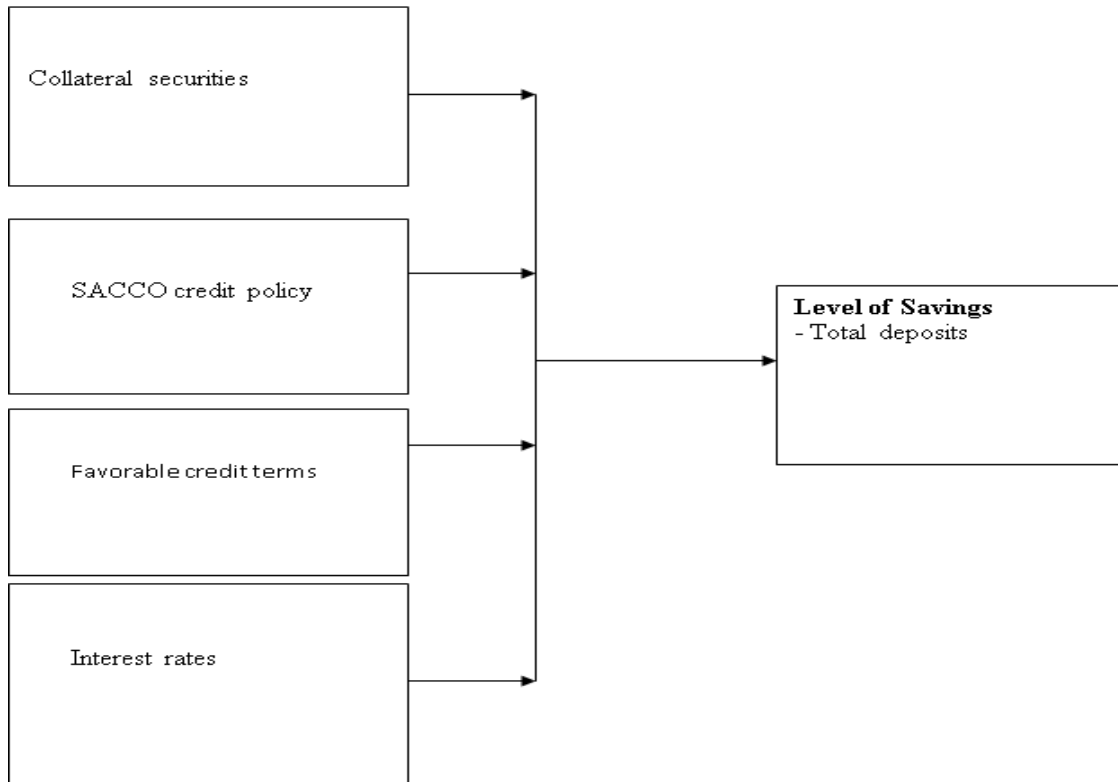
that borrowers' savings grow when they have access to loans. This research was carried out in Bangladesh, which has a different microcredit program than Kenya. The impact of microfinance on household income, expenditures, and savings was investigated by Ariful *et al.*, (2017). Our research revealed that when ASA consumers used microfinance for their intended purpose, their income, expenditures, and savings grew dramatically. Because the poor's income is sometimes unpredictable throughout the year, ASA encouraged their borrowers to continue saving with their institution. As a result, poor individuals could spend their savings anytime they needed money. As a result, ASA pushed its borrowers and save as much money as they could each week for their future benefit. This study looked at household savings, whereas this one looks at personal savings.

Borko (2018) investigated the factors that influence household savings in the Ethiopian town of Boditi. Household credit availability is one of the model variables in this study. The variable is positively connected, as predicted, and the coefficient is statistically different from zero at the 5% level. When access to credit is changed from "no access" to "credit access," the probability of saving improves by around 22.8 percent. The outcome was attributable to the fact that having access to credit increases one's ability to invest and participate in various income-generating activities, hence increasing both income and savings. In Odisha, India, Reji *et al.* (2012) investigated the extent of social mobilization and access to financial services for the underprivileged through Self-Help Groups (SHGs). SHGs aided in the development of savings habits and the acquisition of credit from official financial institutions. Savings and credit, on the other hand, are still at very low levels. Teshome *et al.* (2013) used survey data from 700 sample households in Ethiopia to analyze saving practices among rural households in East Hararghe Zone, Oromia Regional State, Ethiopia. According to the findings of descriptive and macroeconomic analyses of the drivers of household savings, 79.2 percent of sample households saved an average of 11365.3 Birr. It was crucial to have access to credit services. The focus of this research was on saving in all banking firms. This research focuses on SACCO savings.

The impacts of loan access on household savings in Kenya were investigated in Mutia's (2020) study in Kenya. The differentiated access to lines of credit and usage of savings products, the effects on credit facilities on domestic savings, and other drivers of domestic savings in Kenya were studied using the 2019 National Commission FinAccess survey data. Availability of credit has a detrimental influence on household savings in Kenya, according to the results of the calculations. In Kenya, order to support was influenced by income, education, gender, and the age of the family head. This study focused solely on domestic savings, whereas this one examines individual savings. Waithaka *et al.* (2014) looked into the role of microfinance institutions in the growth of MSEs in Nairobi's Business District (NCBD). According to the report, access to credit provides the most to MSE growth, followed by savings, while entrepreneurial development contributes the least to MSE growth. The difference here is that the unit analysis was MSEs, but this study is on private money.

### **2.3 Conceptual Framework**

Figure 1 shows the conceptual framework for the study.



**Figure 1 Conceptual Framework**

### 3.0 Research Methodology

A descriptive cross-sectional survey research design was used in this study. The target population were the active individual members of deposits taking SACCOs in Nyeri County. According to SASRA (2019) there are 8 deposits taking SACCOs which have their headquarters registered in Nyeri County. There was 156,000 active members in the eight deposit taking SACCO's. Individual members were preferred as respondents because they were the ones who make the decision to save and as such, they are important sources of information on what affects their level of savings in deposit taking SACCO's in Nyeri County. Sample size determination was conducted based on Formula by Slovin.

$$n = N/(1+Ne^2) \text{ (Tejada \& Punzalan, 2012)}$$

"n" denotes the sample group, "N" denotes the populace, and "e" is the error margin.

Therefore in a population of 156,000 active members

$$n=156000/(1+156000*0.052) =398.97$$

The study therefore used a sample of 400 members. The respondents in the survey were chosen via purposeful sampling. To obtain data, the researchers employed a standardized self-administered questionnaire. The information gathered were coded and entered into a computer program called SPSS. The data was analyzed descriptively and statistically. Frequencies percentage mean standard deviation were used.

## 4.0 Study Findings

### 4.1 Descriptive Analysis Results

The study sought to determine the effect of credit availability disbursement on level of savings by members in SACCOs in Nyeri County, Kenya. Table 1 shows the results obtained.

**Table 1 Credit Availability Disbursement**

Statement	Mean	Std. Deviation
In my SACCO, members with saving accounts are offered higher access to loans	2.4365	1.4351
Savings can be used as a collateral for loan	4.3756	1.3305
Instant credit facilities are available if I have operational savings accounts	4.2659	1.2310
Deposit/savings to loan ratio/multiplier is applied when granting credit facilities	4.5037	1.2367
My SACCO offers both short term and long term credit facilities to the members with savings account	4.5672	.3738
My SACCO offers low interest rate on credit facilities compared to banks	2.4873	.3908
My SACCO has tailored loan products to meet the needs of the diverse memberships	2.4649	.5687
My SACCO offers convenient terms on our loan products	2.2482	.5674
I can access credit facilities through mobile platforms	2.3144	.4650
<b>Aggregate Score</b>	<b>3.2960</b>	<b>0.9381</b>

**Source: Researcher (2022)**

The aggregate score indicates that the mean was high at 3.2960 and the standard deviation was low at 0.9381. These indicates that majority of the respondents moderately agreed with the statements on credit availability disbursement and that the response variation was minimal. Majority disagreed with the statement that members with savings account were offered higher access to loans. The statement was supported by the fact that management put more emphasis on the back-office deposits other than the front office savings when granting credit facilities. Majority concurred that savings both for front office and back office was used as collateral for loan. Majority agreed that instant credit facilities were available if one had an operational savings account since one would qualify for a short-term credit facility. Majority agreed that loan to deposit ratio/multiplier was applied when granting credit facility. Majority agreed that the sacco offers short term loans for those who have savings account and long term loans for members with the back office deposits.

However, majority of the respondents disagreed that their Saccos offered low interest rate on credit facilities compared to banks. They argued that, for the banks they were regulated by CBK on capping of interest rate on credit facilities but for the Saccos it is the management who decide on the rates. Majority of the members disagreed that their Saccos have tailored loan products to meet the needs of diverse membership. They felt that the Saccos have not done much as far as segmentation of their products is concerned for they were tailored based on the original members' tastes and preferences. Further, majority of the respondents disagreed that their Saccos offered

convenient terms on loan products since the management has not done much as far as segmentation is concerned. Additionally, majority disagreed that they can access credit facilities through mobile platforms.

The study supported Stewart *et al.*, (2010) results that both micro-credit and micro-savings enhance impoverished people's savings, expenditure, and asset accumulation. The study was further supported by Gatt (2011) that credit was most likely having an impact on family saving choices at this time. Aktaruzzaman *et al.*, (2016) findings revealed that borrowers' savings grow when they have access to loans. The study was supported by Borko (2018) that when access to credit is changed from "no access" to "credit access," the probability of saving improves. The outcome was attributable to the fact that having access to credit increases one's ability to invest and participate in various income-generating activities, hence increasing both income and savings.

#### 4.2 Inferential Statistics

Correlation showed the strength and nature of relationship amongst variables. Table 2 shows the results obtained.

**Table 2 Correlation results**

		<b>Income Levels</b>
Credit availability	Pearson Correlation	.176**
	Sig. (2-tailed)	.102
	N	299

**Source: Researcher (2022)**

The findings indicated that the correlation between credit availability and level of savings was strong and significant (Pearson= 0.531, sig=0.000). The study agrees with Kast and Pomeranz (2014) that income levels, savings product and interest rates have strong and positive effect on level of savings. Further, Ashraf *et al.*, (2015) found that income levels, savings product and interest rates have strong and positive effect on level of savings.

### 5.0 Conclusions and Recommendations

#### 5.1 Conclusions

Based on the summarized findings the study concluded that there was a positive significant relationship between credit availability and savings level was positive and significant.

#### 5.2 Recommendations

Understanding why households struggle to save and how to address the issues is a critical policy subject. Short-term promotional incentives may be one strategy to encourage people to save more, although evidence on their effectiveness is limited. Offering greater short-term interest rates on savings accounts would increase bank account utilization. Individual bank account interest rate promotions would enhance household income through entrepreneurship. Majority of Saccos in Nyeri are granting loans with a multiplier factor of five i.e loan/deposit ratio which serves as part of collateral, this means the member deposits will be multiplied by 5 to get a credit facility of a certain amount. By so doing Saccos will tend to grant more credit but mobilize less savings. The study recommends a multiplier factor below 5 to enable the Saccos to mobilize more savings as well as provide credit facilities. SASRA as the regulator always issue the SACCO supervision annual report every year on summary of the performance of deposit taking Saccos by total deposits.



SACCOS are categorized into 3 tiers i.e large tiered, medium tiered and small tiered, the ranking in each category is based on total assets and the main total assets in Saccos is the members loans. This means that the ranking is promoting more on the provision of credit facilities other than savings mobilization and that might be one of the reasons why Saccos are granting more loans than mobilizing savings. The study therefore, recommends the regulator other than the total assets parameter to accommodate the total deposits/savings when ranking the performance of deposit taking Saccos.

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