ASSESSMENT OF THE EFFECT OF EXTERNAL FINANCING ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES IN KISII CENTRAL DISTRICT, KENYA

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Abstract

The Kenya cooperative sector plays a significant role in the Kenyan financial sector. It contributes 45% of the country's GDP. Previously, lack of funding has been identified in a number of studies as one of the main constraint hindering the growth of this sector. In recent years, a number of agencies have made lines of credit available to SACCOs for the purpose of on-lending to SACCO clients. Despite the increase in credit, studies indicate that many SACCOs are unable to meet the demands of their clients for loans and withdrawal of savings. This brought forth the question of the relevance of external financing in promoting SACCO activities. The general objective of this study was to assess the effect of external financing on the financial performance of SACCOs in Kisii Central District. A descriptive survey design was used for the study. The target population was 243, comprising board members and management staff. Proportionate random sampling was used to obtain a sample of 100 respondents. A semi-structured questionnaire was used to collect quantitative data from the sampled SACCOs. Both qualitative and quantitative techniques were used to analyze data. Quantitative data were analyzed using descriptive statistics such as the mean, percentage, tabulation, frequency distribution and Likert scale. The results were presented in narrative form, tables, and charts. The study indicated that 88.9% of the sampled SACCOs had received external financing whereas the remainder 11.1% had not received any form of external financing. The findings showed that financial performance was influenced by financing and investment policies, and portfolio quality. The research findings can provide information and knowledge that gives practical advice and guidelines to lenders, potential borrowers, and the cooperative sector.

Key words: Gross Domestic Product, Savings and Credit cooperative Societies, external financing

1 Introduction

The study is about an assessment of the effect of external financing on financial performance of savings and credit cooperatives in Kisii Central District, Kenya.Review of the related literature has been cited from secondary sources including text books, government publications, journals, and other publications.

1.1 Background to the Study

The cooperative history dates back to 1852 when Herman Frank consolidated two pilot projects in Germany into credit unions. In 1864 another Germany, Raiffeisen founded the first rural credit union in rural Germany to cater for the needs of the rural poor. The rural communities were considered unbankable because of very small, seasonal flows of cash and very limited human resources, WOCCU (2008). Since then, there has been a rapid growth in the cooperative movement worldwide based on the organizational methods of Raiffeisen.

In Kenya Saccos remain the most important players in the provision of financial services and have deeper and extensive outreach than any other type of financial institution (ICA 2002).The government of Kenya has continuously supported the Saccos as part of its rural development initiative. By the end of 2006 there were about 4000 registered Saccos, the majority being salary Saccos catering for those in employment.

Karavan (2007) defines External financing as that money coming from somewhere that is not within the company itself. Saleemi (2009) defines external financing as that part of the total debt in a business that is owed to outsiders. The definition in this study is adopted from Karavan (2007) and Saleemi (2009); external financing is that part of the total debt in a Sacco that is owed to private commercial banks, other cooperatives, national and international financial institutions. External financing is an important ingredient for an organization's growth. Availability of finance determines the extent to which an organization will grow over time and hence its capacity to generate increased income and employment opportunities.

A company in need of funds has a choice of three types of funding: capital raised through selling ownership shares (stock), long term borrowings and short term finance. Selling shares and borrowing long term are appropriate for starting a company or financing expansions and new facilities; but once a company is in operation, it will most likely need short term sources of money to fund inventory, payroll and unexpected expenses. Pandey (2007). Short term finance is available for a shorter period of time, usually less than one year. It is required for the purchase of working capital assets and for meeting day to day working requirements (Shawn 2010).Sources of short term finance includes; trade credit, overdrafts, cash credits, loans, and discounting of bills. Long term finance is available for an extended period of time of over one year. Long term finance is needed for investment in fixed assets such as land and buildings, plant and machinery and for financing expansion programmes. Sources of long-term finance include shares, venture capital, grants, retained profits, long-term loans and sale of assets, (Pandey, 2007).

Providers of external finance include; governments, donors, commercial banks, cooperative stakeholders such as Kenya national union of cooperatives(KUSCCO), cooperative insurance company (CIC), Africa confederation of cooperatives and credit associations(ACCOSCA) and World Council of Credit Unions (WOCCU), other Saccos and international financial institutions such as IMF and world bank. All the three sources of finance have a direct influence on the performance of an organization (Pandey, 2000)). Lack of short term finance will have a negative effect on operating activities and thus profitability, whereas lack of long term finance will affect investment decisions and hence growth and return. It is therefore necessary to determine the various components of external financing and how they affect the financial performance of Saccos.

In Kenya, Saccos contribute 45 % of the country's GDP and to date the sub-sector has effectively mobilized over Kshs. 200 billion deposits and assets totaling to Kshs. 210 billion, (MCD&M 2010). These enormous resources should give Saccos a basis to compete in a liberalized environment. A recent study by FSD (2009) however, revealed that Saccos are facing severe liquidity problems and majorities are unable to meet the demands of their clients for loans and withdrawal of savings. Given this situation, clients despite their loyalty are getting anxious about the future of the Saccos. If this situation is not rectified, we may witness the demise of Saccos which will be a terrible loss for Kenyans. There is need therefore, to understand the effect external financing has on financial performance of Saccos.

1.2 Statement of the Problem

The Kenya financial cooperative sub-sector plays a significant role in the Kenyan financial sector. It contributes 45% of the country's GDP. Previously lack of funding has been identified in a number of studies as one of the main constraint hindering the growth of this sector. In recent years however, a number of agencies (donor funded, government and private) have made lines of credit available to Saccos for the purpose of on-lending to Sacco members. Despite the increase in credit, a study by KUSCCO (2009) indicates that many Saccos are unable to meet the demands of their clients for loans and withdrawal of savings. This brings forth the question of the relevance of external financing in promoting Sacco activities. This study therefore, sought to find out the effect of external financing on financial performance of Saccos in Kisii Central District.

1.3 Objectives of the Study

The main objective of this study was to assess the effect of external financing on financial performance of Saccos in Kisii Central District.The specific objectives the study were to; determine the factors influencing the need for external financing within Saccos; determine the contributions of external financing on financial performance of Saccos; establish the factors influencing financial performance of Saccos

2 Literature Review

2.1 Overview of External Sources of Finance

External financing is that part of the total debt in a Sacco that is owed to private commercial banks, other cooperatives, national and international financial institutions such as; Kenya national union of cooperatives (KUSCCO), cooperative insurance company (CIC), World Bank, among others. Howard (2008) defines finance as that administrative area or set of administrative functions in an organization which relate to arrangement of cash and credit so that an organization may have the means to carry out the objectives as satisfactorily as possible. Wheeler (2009) defines finance as the activity which is concerned with the acquisition and conservation of capital funds in meeting the financial needs and overall objectives of a business enterprise. Pandey (2005) defines finance as the collection and use of funds.

A business can grow by either using internal or external sources of financing. Internal sources of financing include all net cash flows generated by the business, such as retained profit or sale of assets. External sources of financing include bank loans, sale of a part of the business to investors (e.g., venture capital firms), grants and leasing (long-term renting of equipment) Pandey (2005). In this study the focus is External sources of financing. External financing has a number of advantages over the internal financing options including the following; Faster growth; greater economies of scale,and leveraged returns.

2.2 Long-Term Sources of Finance

Long term sources of finance are those that are needed over a longer period of time, generally over a year. Long-term finance may be needed to fund expansion, setting up new offices, buying new premises in another part of the country, development of a new product or buy another company. They include shares; debentures; venture capital, and long-term loans.

2.3 Short Term Sources of External Finance

These are those finances that are needed for a shorter period of time, usually less than one year. Short-term finance is required by business firms to meet day to day expenses. It facilitates the smooth running of business operations. It enables holding of stocks of raw materials and finished products, helps to increase the volume of production at short notice and bridges the time gap between commencement of production and realization of sales.

There are a number of sources of short-term finance, namely: Trade Credit, Bank credit including loans and advances, cash credit, overdraft and discounting of bills, Customers' advances and installment credit, Pandey (2005). Short-term finance is helpful to business in meeting temporary requirements of funds without a heavy burden of interest. It is a flexible source of finance. When necessary, it may also serve long-term purposes through renewal. However interest has to be paid on short-term borrowing, irrespective of profit or loss. It also needs security of assets to be provided by the borrower, Pandey (2005).

2.4 Challenges Facing Saccos

The Sacco Movement in Kenya has faced a number of challenges that need to be addressed in order to enable them improve on ;soundness and stability ,effectives and efficiency ,corporate governance ,product diversity and competition as well as integration to the formal financial system. The major challenges inherent in the cooperative movement in Kenya include ; poor governance and limited transparency in the management of cooperatives, lack of capacity in management , market intelligence and market research ,weak capital base and infrastructure weaknesses, high deployment and maintenance costs ,inadequate financing or adoption of "high –margin low volume" financing models ,lack of awareness and disposable income for ICTS within rural areas , competition ,taxation and HIV and AIDS (KUSCCO 2010) .

2.5 Empirical Studies on External Financing

A number of studies have been conducted on external financing and its influence on the financial performance of businesses. Alexandra, (2006) in his study 'the effects of wholesale lending to Saccos in Uganda.' Found that Saccos accessed external funding with the believe that the funds will help ease cash flow management , generate more institutional income, increase membership size and promote training and capacity building . The study found out that with the borrowed capital, Saccos were able to increase their loan portfolios thus generating more income from interest earned on the loans. In addition, with the increased capital, Saccos were able to expand their outreach thus attracting new members and retaining the current membership. This led to an increase in income from membership and entrance fees. Saccos also benefited from grants in form of training leading to an improvement in capacity and ability of the Sacco and members. However, this study cautioned that Saccos can be successful with the use of external funds if they have qualified and dedicated management and governance teams, sensitized members, good policies and effective capacity building from outside sources. He concluded that external credit if used responsibly can help a strong Sacco become stronger. However, the findings indicated that external funds would not help a weak Sacco become strong.

This is in agreement with a survey conducted by FSD (2009) which revealed that Saccos borrowed outside funds in order to increase membership size since individuals would be drawn to an institution with accessible funds for loans. A survey conducted by KUSCCO (2009) which indicated that majority of Saccos sought external credit in order to meet the demands of savings and withdrawals, loan disbursement and maintenance of operational expenses. The report attributed this scenario to financial mismanagement and undercapitalization of Saccos. Kimuyu and Omiti (2000) on the other hand, in their study found that lack of working capital is the most important reason for business closure in Kenya. They recommended for businesses to seek affordable short term bank finance tailor –made to their ability to repay. They conclude that availability of external financing is crucial for business growth and ultimate profitability.

Hansa (2009) in his study found out that, young organizations struggle to reach a critical size at which they can sustain themselves. He observes that outside funds can help such institutions to gain scale more quickly. He further noted that most Saccos which are strong can easily be able to pay the interest on borrowed funds, cover loan losses, and still make a profit which can be added to retained earnings or distributed as dividends to members. The study recommends organizations to seek external financing.

Chipembere (2010) "Unlocking funding opportunities for farmers through grass root Saccos" observed that substantial outside funds changes the character of the Sacco as a member-owned and run institution. This is especially when a Sacco receives grants. The principle of self –help, by mobilizing member savings for lending is undermined and this he found leads to lax repayment discipline and eventual collapse of a Sacco. He held that the use of external funds is not the only cause of acceleration or deceleration in the savings rate. The change in the savings rate whether positive or negative is more dependent on the management and governance structures and on the capacity building and support given to the Sacco by external agencies than the injection of external funds.

Kivuva's (2004) in his study "Financing SMEs in Machakos Township" found out that external financing (debt) will worsen the financial crises when a business has built in operating uncertainties such as ;undercapitalization, poor management practices, poorly performing portfolios and poor savings culture. The study held that efficient capacity building is crucial, since the success of external financing is largely dependent on the quality of governance and management. In addition, Andrew and Euclid (2009) in their study 'internal vs. external financing of acquisition in British companies' investigated the proposition that, the "source of financing of new investment has a bearing on its profitability". They found that, there is a negative impact on investments financed by external sources on long run profitability. This effect is attributed to the high cost (interest on long-term loans) and the increased costs and expenses of additional management needs associated with the external funds. The study recommends that organizations should utilize internal sources of finance such as retained profits to make investments especially those of long term nature.

Wanyama (2009) in his study "surviving liberalization" observes that most Saccos relied on external funding for on-lending not because they lacked enough capital but because of lack of financial management knowledge by Sacco managers and inability to compete with the mainstream financial institutions, mainly due to lack of market intelligence and research. He however, noted that very little research has been conducted on the movement. He recommended for more studies on the sector.

This is in agreement with a study conducted by WOCCU, which found out that most Saccos relied on external credit for on-lending. The survey indicated that this was because of the unstructured investments which have made it difficult for Saccos to meet the needs of their clients. The study further noted that the high loans extended to Saccos were not in line with their savings. The study recommends for a reduction in external borrowing. It is evident from the above that this research has similarities to the ones conducted by numerous other researchers. The most common similarity is the identical objective which was to determine the effect of external financing on financial performance of organizations. The difference was mainly on the demography of sample, which is the location and type of industry. This difference allowed comparisons which helped suggest possible factors behind poor performance of leveraged Saccos in Kisii Central District.

3 Research Methodology

3.1 Research Design

This study was conducted through a descriptive survey design. It is a method which investigates a population by selecting samples to analyze and discover occurrences. It is suitable in studies where the population is large. It was preferred in this study because of its descriptive nature, economy and rapid data collection.

3.2 Area of Study

This study was conducted in Kisii Central District, located in the new Kisii County, South East of Lake Victoria, Kenya. It covered all Saccos in the register of the Ministry of Cooperative Development and Marketing as at 31st December 2009.

3.3 Target Population

The study targeted a population of 243 comprising members of the board and management staff from 12 Saccos in Kisii Central District.

3.4 Sample Size and Sampling Technique

Proportional random sampling was applied to select a sample of 100 respondents for the study, comprising Asstra4; Wakenya Pamoja 32; Gusii Mwalimu 21; Kimess 6; Kisibo 5; Nass 6; Gupag 5; Gussacco 6; Kisii Twiga 3; Sansora 5; Gubogi 4; and Ram 4. This translated to 41.2 % of the total population. This is supported by Mugenda 2009, who recommends that at least 10 % of the target population is enough and representative for descriptive survey studies. Proportionate random sampling method groups a population into homogenous subsets which share similar characteristics. It ensures that variables in the selected sample represent the study population proportionally.

3.4 Data Collection instruments

A semi structured questionnaire was prepared to collect quantitative data for the study. The selection of this tool was guided by the nature of data collected, the time available as well as the objective of the study. The questionnaires were distributed to 100 respondents and were collected after two weeks for analysis and interpretation.

3.5 Data Analysis Techniques

Both qualitative and quantitative techniques were used to analyze data. Quantitative data were analyzed using descriptive statistics such as the mean, percentage, tabulation, frequency distribution and Likert scale. The research results were presented in narrative form, tables, and charts.

4.0 Data Analysis, Results, and Discussions

4.1 General profile/occupation of the membership

The research sought to find out the occupation or profession of the membership of the sampled Saccos. The findings were analyzed and presented in table 1.

Table 1: General profile of the membership of the Saccos

Profile	Frequency	Percentage
Teachers	19	23.5
Civil servants	20	24.7
Farmers	15	18.5
Private sector employees	21	25.9
Business people	6	7.4
Total	**81**	**100**

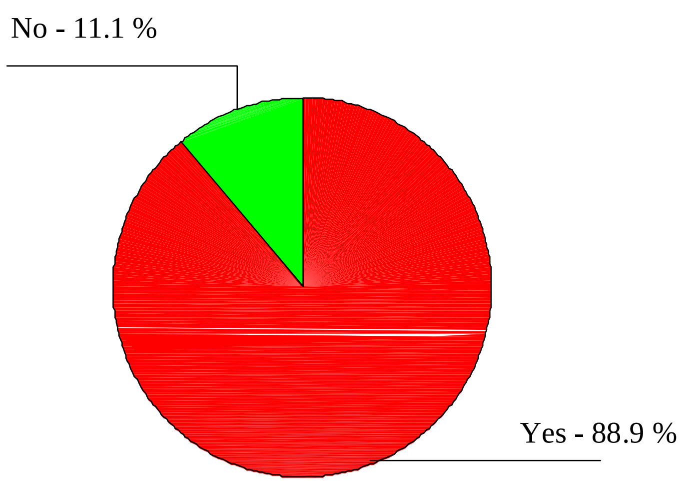
Source: Research data, 2011

The findings as shown in table 1 above indicate that of all the respondents 23.5 % of them said the membership comprised of teachers, 24.7.0% were civil servants, 18.5% were farmers, while 25.9.0% were private sector employees and 7.4 % were business people. The findings indicate that majority of the Saccos membership were private sector employees, followed by civil servants, teachers, farmers and finally business people respectively.

These findings suggest that majority of the people who were members of Saccos joined because probably they had more exposure to the external environment and information which helps them easily associate to credit sources. For instance, if one takes the target group in this study, one will realize that the level of exposure of private sector employees, civil servants and the teachers/lecturers is higher compared to the other groups like farmers and business people because they were well represented in the sample Sacco membership.

4.2 Receipt of External Financing

The researcher sought to find out whether the sampled Saccos received any form of external financing in the cause of their operation. The findings were analyzed and presented in figure 1.



Source: Research data, 2011
Figure 1: Receipt of external financing

The study result shows that of 11.1 % the respondents indicated that they had not received external financing in the cause of their operations. The implication of this result is that, Saccos relied on external financing for their operations (88.9 %). This, in view of the researcher could be due to the erratic liquidity levels experienced by Saccos.

4.3 Type / form of External Financing Received by The Saccos

Given the findings from figure 2 above, it’s imperative that seeking external financing is important in the Sacco sub-sector. In the study therefore, the researcher sought to find out the type or form of financing the sample Saccos received from other institutions. The findings were analyzed and presented in Table 2.

Table 2: Type / form of external financing received by Saccos

Type	Frequency	Percentage
Long –term loans	34	42
Short term bank finance	42	51.9
Grants	4	4.9
Others	1	1.2
Total	**81**	**100**

Source: Research data, 2011

The study result in table 2 indicate that 42% of the respondents said that they received external financing in form of long- term loans, 51.9% said they received short term bank finance, 4.9% said they received grants, while 1.2% said they received funding for training and capacity building. However, the most preferred form of external financing was short term bank finance. Therefore, short term bank finance was important in meeting any short fall in working capital for the Saccos. The implication of this finding is that the sample Saccos relied on short term bank loans and overdrafts to finance their permanent current assets (loans to members). This meant that they ran the risk of renewing borrowing again and again, thus exposing them to certain risks, for instance it may be difficult to borrow during stringent credit periods and this will disrupt operating activities.

4.4 Descriptive Findings on the Factors Influencing the Need for External Financing by Cooperative Societies

This section presents descriptive findings of the study which is linked to the first objective; "determining the factors influencing the need for external financing by cooperative societies.
A number of factors explain why Saccos seek external financing. Therefore, factors related to the participation of Saccos in external credit markets were investigated, analyzed and presented as shown in Table 3.

Table 3 Extent of external financing influence on cooperative societies operations

Cooperative operational factors	Most influential	Very influential	Influential	Moderately influential	Less influential	$\sum f_i$	$\sum w_i f_i$	$\sum w_i f_i / \sum f_i$
	5	4	3	2	1			
Increase of capital	58	04	03	04	12	81	335	4.136
Membership size	10	05	20	19	27	81	195	2.407
Operating expenses	19	05	17	15	24	81	220	2.716
Cooperative income	23	13	09	18	18	81	248	3.062
Cost of external funds	00	03	17	26	35	81	150	1.852
Membership in apex bodies	00	09	19	22	31	81	168	2.074

Source: Research data, 2011

The respondents were asked to rate the extent external financing influenced various cooperative operational variables. The survey result in table 4.7 revealed that external financing had highest influence on capitalization of cooperatives. With a weighted mean score of 4.136, it is evident that external financing requirements mostly depended on the capital needs of the cooperatives. The most important asset for Saccos is loans to members. They need enough funds at all times to be able to meet the needs of their clients for loans and withdrawal of savings. Therefore, external financing is important in enabling Saccos to meet the demands of their members for loans and withdrawals whenever there is a shortfall in internal sources of funds. The finding is consistent with Alexandria (2006) who empirically tested the effect of wholesale lending to Saccos in Uganda, and asserted that majority of Saccos relied on external funding for on-lending to members.

External financing's influence on cooperative income was rated at 3.062, meaning it is an important variable. Institutional income is important for long-term success of any organization. The higher the income generating capacity of a cooperative, the higher the sustainable growth rate. Besides equity capital, Saccos can also borrow additional funds to finance expansion. This finding is in line with Pandey (2005) who states that "external finance provides room for faster growth, allowing the company to operate on a far bigger scale, capturing new markets and providing products and services to an ever greater number of customers". Hansa (2009) also held the same view that increased funds from external sources meant disbursement of more loans to stronger members thus earning more income from interest and fees from the new members. Maintenance of operational expenses was rated 2.716. This implied the sample Saccos sought external financing in order to be able to meet any short fall in working capital. This finding agrees with, Kimuyu and Omiti (2000), who held that working capital, is the most important resource for business growth. It is also apparent from the result that external financing has minimal influence on membership sizes of cooperatives in the study area. With a weighted mean score of 2.407, the result contradicts FSD survey (2009), which held that external funds enabled Saccos to increase membership size because new members will be drawn to Saccos with accessible funds for loaning and at the same time retain the current members.

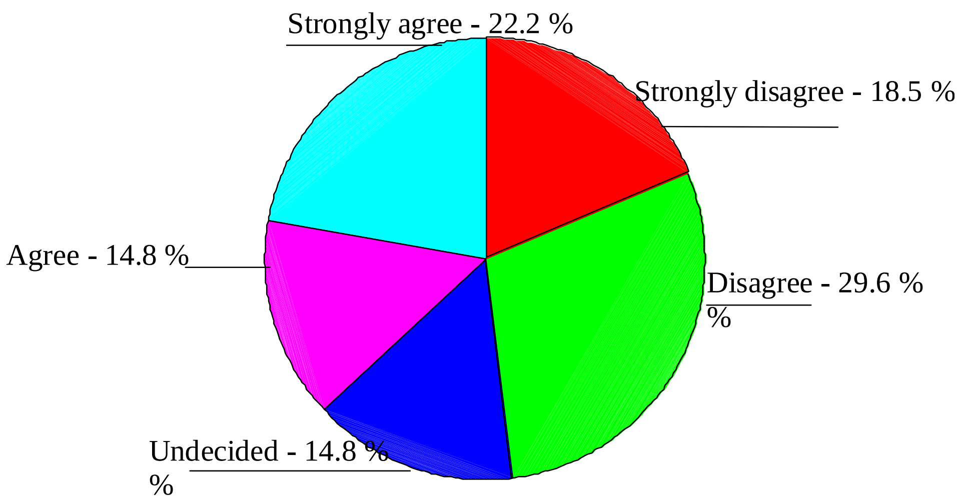
Lastly cost of external funds and membership in apex institutions were the least rated at 1.852 and 2.074 respectively far below the mean of 2.500. The result implies that there are other variables influencing the need for external funds. This result contradicts reports by the Ministry of Co-operative Development and Marketing and KUSCO (2008) which indicated that a Sacco's access to external financing was influenced by the cost of external funds from apex organizations such as ACCOSA, WOCCU, CIC and KUSCO. The implication of this finding is that, Saccos in the study area either, lacked information about the availability of cheaper external funding or the apex organizations were not marketing their products to the Saccos.

4.5 Descriptive Findings on the Contribution of External Financing on Financial Performance of Cooperative Societies

This section presents descriptive findings of the study which is linked to the second objective "determining the contributions of external financing on the performance of cooperative societies".

4.5.1 Savings Culture

Respondents were asked about the contribution of external financing to savings culture of cooperative societies. The results were analyzed and presented in Figure 4.3 below.



Source: Research data, 2011

Figure 2: Contribution of external financing to savings culture

Figure 2 above shows that 22.2 % of the respondents strongly agreed that external financing contributes to a strong savings culture, 14.8 % agreed, 14.8 % were undecided, 29.6 % disagreed, whereas 18.5 % strongly disagreed. This result implies that the saving culture of the Saccos is depended on other factors among them external financing. This is in line with Chipembere (2010), who asserted that acceleration or deceleration of the savings rate dependent on other factors like capacity and training and management and governance structures of a Sacco.

4.5.2 Loan Disbursement

Respondents were asked about the contribution of external financing to disbursement of loans by cooperative societies. The results were analyzed and presented in table 4.8 below.

Table 4: Contribution of external financing to Loan disbursement

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	4.9	4.9	4.9
	Disagree	4	4.9	4.9	9.9
	Undecided	4	4.9	4.9	14.8
	Agree	16	19.8	19.8	34.6
	Strongly agree	53	65.4	65.4	100.0
	Total	81	100.0	100.0	

Source: Research data, 2011

The result in table 4 indicate that 65.4 % of the respondents strongly agreed that external financing contributes to disbursement of larger amounts of loans, 19.8 % agreed, 4.9 % were undecided, 4.9 % disagreed while 4.9 % strongly disagreed. It is apparent from the result that external financing contributed greatly to the amount of loans disbursed by the Saccos. This scenario in the view of the researcher is informed, because external funds mean increased cash for lending to more members seeking loans. This is in agreement with Alexandria (2009), who held that wholesale loans to Saccos enabled them to disburse large amounts of loans.

4.6 Contribution of External Financing to Management Practices

Respondents were asked about the contribution of external financing to management practices. The results were analyzed and presented in table 5 below.

Table 5: External financing to management practices

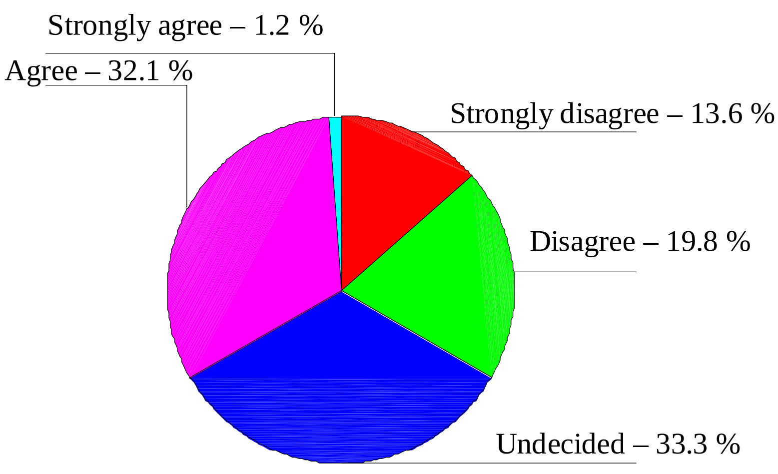
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	7.4	7.4	7.4
	Disagree	6	7.4	7.4	14.8
	Undecided	14	17.3	17.3	32.1
	Agree	38	46.9	46.9	79.0
	Strongly agree	17	21.0	21.0	100.0
	Total	81	100.0	100.0	

Source: Research data, 2011

The result in table 5 indicate that 21 % of the respondents strongly agreed that external financing contributes to improvement in management practices, 46.9% agreed, 17.3 % were undecided, 7.4% disagreed and 7.4 % strongly disagreed. The implication of this finding is that external financing contributes to improvement in management practices. This in view of the researcher can be attributed to the stringent requirements imposed by the lenders that borrowers adhere to management practices. This is in line with Alexandria, Chipembere, Kivuva, WOCCU and KUSCO studies who found out that SACCOs began using management practices after accessing external loans as a requirement of the lender.

4.7 Delinquency on Member Loans

Respondents were asked about the contribution of external financing to delinquency. The results were analyzed and presented in Figure 4 below.



Source: Research data, 2011

Figure 3: Contribution of external finance to delinquency on member loans

The result in figure 3 indicate that 1.2 % of the respondents agreed that external financing contributes to increase in delinquency on member loans ,32.1 % agreed, 33.3 % were undecided 19.8 % disagreed whereas 13.6 % strongly disagreed. This result implies that, majority of the respondents felt external credit let to high delinquency. This can be attributed to disbursement of high amounts of loans to even weaker members who are likely to default, as well as too much work resulting from the many loans issued , leading to poor or lack of portfolio analysis. This is in line with Chipembere (2010) who asserted that Saccos that received external financing especially grants assigned lower priority to repaying loans thus leading to high delinquency.

4.8 Costs and Expenses

Respondents were asked about the contribution of external financing to Sacco costs and expenses. The results were analyzed and presented in table 6 below.

Table 6: Contribution of external financing to sacco costs and expenses

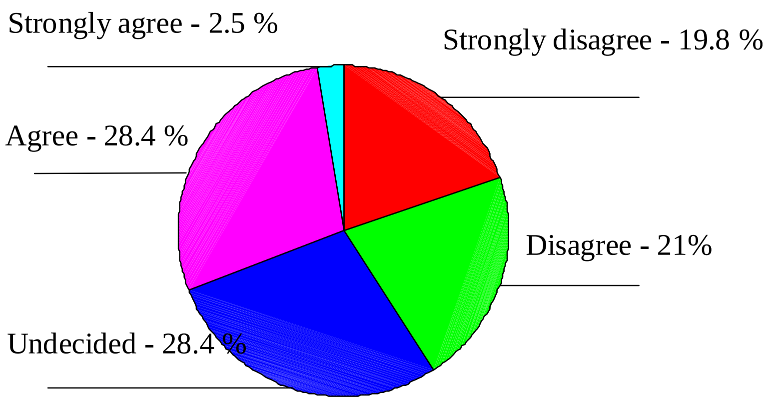
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	6.2	6.2	6.2
	Disagree	9	11.1	11.1	17.3
	Undecided	17	21.0	21.0	38.3
	Agree	47	58.0	58.0	96.3
	Strongly agree	3	3.7	3.7	100.0
	Total	81	100.0	100.0	

Source: Research data, 2011

The result in table 6 indicate that 3.7% of the respondents strongly agree that external financing leads to an increase in the Sacco costs and expenses, 58 % agreed, 21 % were undecided, 11.1 % disagreed while 6.2 % strongly disagreed. This result indicate that most of the respondents from the Saccos sampled agreed that costs and expenses increased after Saccos took an external loan. This increase may be attributed to the additional management needs associated with the external loans as well as the interest repayment on the loans. This finding is in line with Andrew and Euclid (2009) who asserted that external financing has a negative impact on investments financed by such funds.

4.9 Interest Rates Charged on Member Loans

Respondents were asked about the contribution of external financing to interest rates charged on member loans. The results were analyzed and presented in Figure 4.9 below.



Source: Research data, 2011

Figure 4: Contribution of external financing to interest rates charged

The findings indicate that 2.5.0% of the respondents strongly agreed that external financing leads to high interest rates charged on member loans, 28.4 % agreed ,28.4 % were undecided ,21 % disagreed ,whereas 19.8 % strongly disagreed. The findings suggest that there are other factors other than external financing influencing interest rates charged on member loans.

4.10 Descriptive Findings on the Factors Influencing Financial Performance of Cooperative Societies

This section presents descriptive findings of the study which is linked to the third objective "establishing the factors influencing the performance of cooperative societies". The researcher tries to explain the factors affecting the performance of Saccos from the point of view of the respondents. The findings were analyzed and presented in table 7.

Table 7: Extent of cooperative policies influence financial performance of cooperative societies

Cooperative financial policies	Most influential	Very influential	Influential	Moderately influential	Less influential	∑fi	∑wifi	∑wifi/∑fi
	5	4	3	2	1			
Financing	47	23	09	02	00	81	366	4.519
Investment	36	22	17	06	00	81	331	4.086
Information dissemination	02	05	29	32	13	81	194	2.395
Capacity building	05	09	32	24	11	81	216	2.667
Loan Portfolio quality	47	27	07	00	00	81	364	4.494

Source: Research data, 2011.

The respondents were asked to rate the extent of the influence of various cooperative policies on financial performance of Saccos. The research result as shown in Table 7 indicated that financing and investment policies and loan portfolio quality with mean scores of 4.519, 4.494 and 4.086 respectively, were mostly influencing the financial performance of Saccos in the sample area.
Management of Saccos must strive to obtain the best financing mix for the Saccos. Use of external funds affects the return and risk of shareholders. It may increase the return on equity funds but it always increases risk. A proper balance will have to be struck between risk and return so as to maximize shareholders' wealth. Therefore, financial performance of cooperative is depended on the financing policies of a cooperative. A Sacco with inappropriate financing policy will not perform better even with external financing.

Appropriate investment policy ensures that organizations make the right investments decisions. The success of external financing depends so much on investment decisions of a cooperative. This research result is in line with Wanyama (2009) and WOCCU (2010) who observe that Saccos perform poorly because of the unstructured investments which make it difficult for them to meet the needs of their clients and because they lack financial management knowledge.

Loan portfolio quality is one of the most important indicators of financial performance and future profitability of any cooperative. Therefore, financial performance of any Sacco is largely dependent on the quality of its loan portfolio. Saccos with a weak baseline portfolio quality will not perform better even with external funding. Repayment of external debt can de-capitalize the Saccos because all loan losses will be paid out of capital or member savings. This finding agrees with Alexandria (2008) who held that performance of Saccos depended so much on the quality of its loan portfolio.
Capacity building and training was rated at 2.667. This implies, it also influences the performance of Saccos, because external financing is largely dependent on the quality of governance and management teams. This finding is supported by Chipembere (2010) and FSD (2009) who asserted that performance of a Sacco mainly is determined by the management and governance structures. Chipembere also noted that growth in the savings rate of Saccos is dependent among other things, on capacity building and support given to the Sacco by external agencies.

Finally information dissemination (consumer education and member sensitization) received a weighted mean of 2.395 slightly below 2.500. This implies there are other factors affecting the performance of Saccos such as competition and government regulation. This finding contradicts Alexandria 2008 who held that an educated and sensitized Sacco membership is likely to honor repayment of loans promptly and safe regularly.

5 Summary of Findings, Conclusions and Recommendations

5.1 Summary of the findings

The summary of the findings were made in line with the objectives of the study. The factors influencing the need for external financing on performance of Saccos were studied. The reasons for the need for external financing included: increase of capital for on-lending; to increase membership size; maintenance of operational expenses; to enhance cooperative income; to benefit from competitive lending rates to Saccos; and influence of apex organizations. Majority of the respondents held that the funds were meant for on-lending to members while the least number of them said the external funds were as a result of the influence of apex organizations. Therefore, the objective of the study regarding determination of the factors influencing the need for external financing within Saccos was realized. This can be seen from the above summary. The question, therefore, as to what are the factors influencing the need for external financing within Saccos was also answered.

The contribution of external financing on the financial performance of Saccos was also investigated by the study. The research sought to find out if the external funds had an effect in one or more of the following ways; strong savings culture, disbursement of larger amounts of loans, improvement in management practices, increase in delinquency , increase in costs and expenses and increase in interest rates charged on member loans. The findings suggest that majority of the respondents said larger amounts of loans were disbursed and there was an improvement in management practices. Therefore, the objective to determine the contributions of external financing on performance of Saccos was realized. The related question as to what the contributions of external financing to Sacco performance were was also positively answered.

The factors that influenced the financial performance of Saccos were studied. Among the factors that were considered included: financing policies; investment policies, information dissemination (consumer education and member sensitization programs); capacity building and training; and loan portfolio quality. Majority of the respondents observed that financial performance was influenced by appropriate financing and investment policies, and portfolio quality. While the least number of the respondents said information dissemination and capacity building influenced the financial performance of Saccos. The objective to establish the factors influencing the financial performance of Saccos was realized as can be seen from the findings. The related question as to what the factors influencing performance of Saccos was also answered.

5.2 Conclusions

According to the respondents, majority of the Sacco members were, private sector employees followed by civil servants, teachers then farmers and business people respectively. Almost all Saccos in the study area relied on external financing in form of short term bank finance as compared to other forms like long-term loans, grants or training and capacity building. The key reason why Saccos took external funds was to enable the Saccos boost their on-lending capacity. The highest contribution of external funding on the financial performance of Saccos was loan disbursement and improvement in management practices. Financing policies were the factors that influenced Sacco performance most. Other factors included portfolio quality, investment decisions.

5.3 Recommendations

The recommendations in view of the researcher will assist the Saccos that were sampled and many others across the country and beyond to appreciate the need for best practices in management especially in making use of external financing. The results of the study suggest that there were more male employees than female employees based on the assumption that since there were more male respondents than the females. There is, therefore, need for gender- balanced employment in the Saccos. It's important to note at this point in time following the passing of the new constitution, it's no longer a favor but a requirement that in any appointments there has to be thirty percent from the opposite gender. It's therefore imperative that Saccos also comply.

Most of the Saccos had a youthful workforce. This leads to high turnover as some employees may leave to look for greener pastures. There is need to have attractive terms and conditions of work to avoid irregular recruitments and enhance retention of employees. There is need to create more awareness among the people on the importance of joining Saccos and the benefits accruing. More needs to be done on the side of farmers and business people.

There is need for the Saccos to diversify their operations in employing external funds. This is because majority of the Saccos used the funds mainly for on-lending to members. The Saccos need more training on how to benefit from external funding. This is because majority of the Saccos registered improvement in the disbursement of loans to members and management practices and slightly on savings culture. The Saccos should ensure that other areas of operation register improvement, for instance, capacity building and training, diversification of loan products and reduction of costs and expenses and delinquency.

External lenders should be more focused on helping the Saccos plan for their future so that they could avoid relying on external funding for the long term. They should require regular performance monitoring and industry accepted reporting practices.

Saccos should strive to attain adequate liquidity. This can be achieved by improved profitability through reduced interest expense or increased income, and greater financial flexibility to negotiate enhanced terms with suppliers and financiers or participate in new business opportunities.

5.4 Suggestion for Further Research

Further research can be conducted to establish if Saccos do budget for their financial requirements. This is especially because Saccos have mobilized huge resources and are big enough to become banks therefore, ought to be financially independent. In addition, further research can be done using other research instrument such as interview and observation.

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