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Effect of Loanable Funds and Director's Skills on Financial Performance of Non Deposit Taking SACCOS in Mombasa County

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Abstract

Kenya's financial sector includes banking Institutions, non-banking financial institutions and Savings Credit Co-operative Societies (SACCO's). The purpose of this study was to find out the effects of loanable funds and board of directors, on the financial performance of SACCO's with references to non-deposit taking Sacco's in Mombasa County. Descriptive research design was used and the target population of the study comprised of one hundred and eighty-five (185) non-deposit taking Sacco's in Mombasa County. Stratified random sampling was used to select respondents for the study from the target population. Random samples were taken from each stratum to avoid biasness and to give every individual an equal opportunity to participate in the study. The data was analyzed using both qualitative and quantitative methods also Likert scale was used to further analyze quantitative data, SPSS and formulas were used. The coefficient of determination indicated a strong positive association between independent and dependent variable. Variance analysis (ANOVA) showed that loanable fund levels and board of directors' skills influence the financial performance of non-deposit taking SACCOs. The study concluded that there was a positive and significant relationship between loanable fund and financial performance.

Keywords: Loanable Funds; Directors Skills; Financial performance; Non-deposit taking SACCOs.

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1. Background

Credit unions or Savings Credit Co-operatives, can also be defined as co-operative financial institutions that are owned and controlled by the members, they give credit at very competitive rates, they promote thrift and do offer various financial services to their members [1]. In Malaysia, co-operatives are community based, thus all members do participate or are involved in the activities and this makes them well suited for economic development and are flexible too. They enhance community spirit, create jobs, alleviate poverty and improve development and stimulate economic growth. However, cooperative societies in Malaysia are faced with many issues such as lacking of sufficient capital, corrupt governance, managerial incompetence, weak financial performance and they do not comply with the cooperative Act 1993 and other legislations. In India, co-operatives are very unique because they are formed and held together by common business challenges and objectives. The government supports them, not profit-driven but rather welfare driven. Despite all this, they are dogged by many problems such as member participation is poor, managerial skills are lacking, financial mismanagement and not forgetting inadequate capital. These challenges have increased inefficiency and competitiveness is lacking in these institutions [2]. In 1959, Africa's' first SACCO in was established in Ghana. The intention of the SACCO was to assist local villagers to enhance their living standards and economic welfare [3]. Countries such as Ghana, Uganda, Nigeria, Tanzania and Kenya were the first to adopt the idea of SACCOs. Non-English speaking countries in Africa started appreciating the idea of forming and joining SACCOs in 1960, with majority happening in 1970s [4]. In Tanzania, SACCO membership is drawn from the same employer or local community [5]. The SACCO members share same local area, members of one community, share similar employer or other similar affiliations. The members are the only, savers, decision-makers and beneficiaries [4]. However, many co-operatives and Sacco's in Tanzania, lack of working capital, mismanagement, corruption issues, business malpractices and loan delinquency rates are high [6,4]. According to the IMF Report of 2001 Uganda SACCOs have often been lending out the savings, share capital and this has led to liquidity issues because members are largely net borrowers, who want to reduce the interest rate charged on their loans. This results in poor saving culture by members and as such low capital to run the Sacco's operations. It is associated with the fact that demand for loans in SACCOs more than contribution of savings [7]. Allen and Maghimbi [8] [6] agrees with the IMF report of 2001 adding that managing liquidity and capital levels, while at the same time meeting the demands of members for finance, has been a major challenge for SACCOs in Africa. Some SACCOs have insufficient funds to lend making some members to wait for some time before they get money. Kenya's co-operative sector is best in East Africa as it the most regulated in Africa and at least for every five Kenyans, one is a member of a cooperative society. Over 20 million people depend on the cooperative movement indirectly while at least eight million Kenyans are members of cooperatives societies. Co-operatives societies in Kenya account for 45% of Gross Domestic Product, and 31% of national savings and deposits [9]. The Sacco movement has provided over two million jobs and 70 per cent of Kenyans directly depend or indirectly depend on cooperatives societies [10]. Kenyan Sacco's operate under Co-operative Societies Act of 2008, and are not regulated by the central bank. The Sacco legislation (Kenya Gazette Supplement No.98 (Acts No. 14)) was enacted and as a result the Sacco Regulatory Authority (SASRA) was established and brought about the introduction of prudential regulations that saw the entrenching of good governance and management practices, good operational and financial management systems that promote effective financial and business practices in SACCOs [10]. SASRA has the mandate of regulating, supervising and Licensing Sacco societies that are deposit taking. Deposits taking Sacco's are Sacco's that operate front office service activity (FOSA) just like banking institutions [11]. Sacco's that do not operate front office services regulated and supervised by the Ministry of Industrialization. Sacco's in the urban areas are formed mostly by members in employment, working for the same employer, and employers normally use check off system from the members' monthly contribution and loan repayments through the payroll. For rural areas, most Sacco's are formed by community and agriculture is their main activity [12]. Cooperative societies are formed to provide social, cultural and financial support to the members. In a co-operative enterprise, the members learn the principles of democratic governance, transparency and their involvement in management of a collectively owned-enterprise [13]. Kobia [13] further said that co-operatives have a unique advantage in addressing problems of poverty, wealth creation and its equitable distribution; social wellbeing and transformational development of communities and society in general. The society accepts monies from members as deposits and advance loans to them at reasonable rates among other services. They provide same financial services just like banks but are considered not-for-profit organizations [9]. Maingi [14] observed that low profitability in Saccos was not only about governance issues but also poor costing make the loans inattractive to the members; partly due to lack of knowledge or relatively high operating costs. Ombado [15] opined that some co-operatives in Kenya were finding it difficult to run their operations largely because of their poor financial state. Odepo and Nyawinda (2004) stated that, SACCO's do receive monthly contributions as shares from which, members can be loaned an amount not more than to two or three times their own savings once they are guaranteed by the membership of the co-operative society. There are approximately 49,330 SACCO's in the world with an estimated membership of 183,916,050. This membership is estimated to control a global wealth into billions of dollars (World Council of Credit Unions [16]. Statistics from Kenya Union of Savings and Credit Co-operative Societies [17] indicate that, the number of SACCOs rose from 630 in 1978 to 5,000 by the end of December 31st in 2013 while savings and share capital rose from Kshs. 375 million in 1978 to Kshs. 266 billion by December 31st in 2013. Sacco's active members numbered over 4.7 million by 2013 having risen from 378,500 members in 1978. According to KUSCCO [17] annual report, rapid growth of SACCOS in Kenya shows that they are filling a demand, which the financial institutions have not met.

2. Problem Statement

Financial performance is the primary concern of every business entity and it has implications on the growth and its survival. Good financial performance indicates efficiency and prudent use of the organizations resources and thus contributing to the economic growth. As of 2015, Sacco's in Kenya were not performing very well and therefore were not playing the expected crucial and vibrant role in spurring the growth economy and development in Kenya [18]. Non-deposit taking Sacco's are unique in that they are employee or community-based back office Sacco's where membership is limited to the employees from one employer or community from same geographical location. Many SACCOs in Kenya and especially non-deposit taking, are still under performing [19]. Previous studies have focused more deposit taking SACCOs and have paid particular attention on management issues, governance and credit risk [20,10]. These studies provide much descriptive and empirical evidence on describing behavior of Sacco's in evaluating the financial performances. Several other studies [21,22,23,24] have been conducted and focused on other aspects. According to Maingi [23] most empirical evidences have come from the developed economies like the United States of America, United Kingdom and therefore there seems to be a lack of sufficient evidence from less developed countries like Kenya. This clearly underscores the need for researchers to investigate the determinants of financial performance of non-deposit taking Savings Credit Co-Operative Societies (SACCOs), as it would undoubtedly provide appropriate benchmarking standards for their effective management. The study's main objective was to evaluate the effect of loanable funds and directors skills on financial performance of Non-deposit taking Savings Credit Cooperative Societies in Mombasa County.

3. Conceptual Framework

According to Armstrong and Kotler [25], a conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experimental and the analytical aspects of a procedure/process or system being conceived. The conceptual framework comprises of independent and dependent variables. The independent variable is presumed to be the cause of change that influences the dependent variables. The conceptual framework of this study will consist of the independent variables of Interest rates, Non-performing loans, Loanable Funds and Board of Directors' and the dependent variable of Financial Performance. The relationships are represented in Figure 2.1. The dominant direction of influence is illustrated by the direction of the pointed arrows where, the independent variables directly influence the dependent variable. The above literature will be used to develop the conceptual framework to this study.

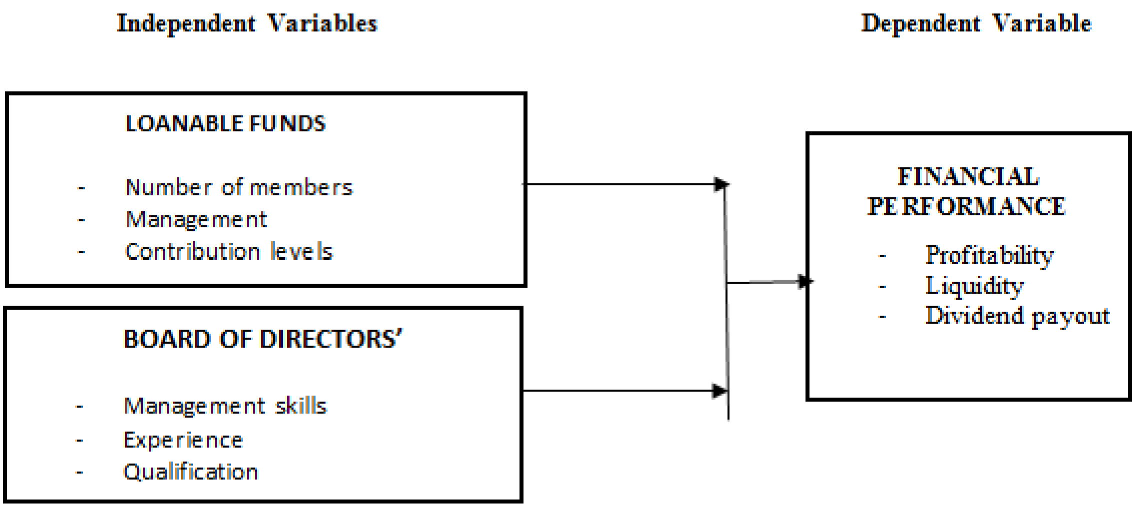

Figure 1: Conceptual Framework

3.1 Loanable Funds

In a bank run, depositors do rush to withdraw all their deposits due to expectations of a looming bank failure, and as such the bank is forced to liquidate its assets at a loss. According to Bryant [26], a bank run occurs when the total assets of the bank value falls short of its deposit holdings, which stimulates the depositors to quickly rush to withdraw all their deposits so as to cut down their losses. When depositors think that the returns on bank assets will be low, they rush to withdraw quickly all their deposits in full before the banks runs out of cash.

CBK closed down Exchange Bank when the biggest financial scandal in Kenyan history broke out in 1993 [27]. Exchange Bank was accused of securing privileges to the scrapped export compensation scheme and also for failing to honour foreign exchange contracts. According to Inter Press Service (IPS, 1998). Central Bank of Kenya (CBK) placed under statutory management the following banks; The Reliance Bank, Trust Bank and Bullion they failed to honour a total of 1,264 million shillings in cheques. CBK, which regulates the activities of Kenya's 55 banks, said the takeovers of the Reliance and Trust banks had been prompted by allegations of fraud and mis-management. One of their problems was over expansion and the other was spending. They were using short-term money to buy long-term investments, buying real estate, and also were poorly managed. Most SACCOs are heavily in debt such that they are not able to promptly and adequately disburse enough loans to their members. There is an outcry that some SACCOs take as long as three months to disburse loans to members hence forcing the members to seek quick loans from other established financial institutions which charge higher interest rates. Financial mismanagement practices and fraud accusations has caused elected officials being voted out [28]. Poor deposit mobilization has brought out a number of effects and they include being unable to meet operation costs, service Sacco debts, disburse loans to members on demand, instability of board of directors because of frequent reshuffles, falsification of financial reports and members joining other SACCOs. This has not only put financial pressure on the members but has also raised serious questions on the financial performance of the sector. Mumias Out Growers Sacco Society (MOSACCO) was closed for some time in 2009 due to majority members withdrawal from the SACCO thus the capital base was low and could not sustain its operations.

3.2 Board of Directors

In theory, the board of directors has the responsibility to the shareholders and its role is to oversee management of the company. The responsibility of the board of directors has increasingly come under probe in light of several corporate scandals such as Enron, WorldCom and HealthSouth, in which the board of directors failed to act in shareholders' best interests (Gup, 2004). Quality of board of directors can be measured by their knowledge, experience, board size, independence and other related transactions. A research by [29] revealed that that some SACCOS' commercial managers in Kenya had very little basic knowledge on functioning and the philosophy of SACCOS' and hence they could not perform their roles in accordance to the management performance standards and this influenced negatively the SACCOS' financial performance. Board of directors' appointments should be done in an efficient, effective and well managed process, so as to ensure that a balanced mix of proficient individuals are able to add value and bring prudence in the process of making decisions. The board of directors should determine the purpose, strategy of that purpose, values of the corporation, and implement its values in order to ensure that the corporations survives and thrives and also the procedures and values that protect will the assets of the corporation are also put in place [30]. A research of [31] found out that shortages in financial resources negatively affects the SACCOS' performance. They also observed that the financial discord was as a result of poor record keeping, low interest loans, poor of cash flow management, poor leadership and cooperative laws that were outdated. Ineffective and inefficient managers have been blamed on the slow uptake of the modern technological financial applications. Also, [32] raised issues on the type of leaders who manage SACCOs observing that voluntary membership and democracy in organizations allows members to elect anybody they like, who necessarily do not have the skills to effectively manage the SACCOs.

Sasaka and Kingi [33] also observed that customer relationship management is critical in enhancing performance of banks. This may equally apply to the SACCO's. Akinwuni [34] affirmed that poor financial management decisions, bad governance and leadership problems are critical elements that influence efficiency of cooperative movement not only in Nigeria but also the whole African continent. It is important that all members of the sub-committees to possess good management skills on finances. In addition, the board should at all times keep on reviewing the viability and enterprise's financial sustainability should done yearly and ensure that no one has unrestricted powers and balance of power on Board should be equal so that it can exercise non-partisan and fair decisions [30]. The board should be alert for potential problems that might be looming and should have that a proper management structure in place and ensure that it functions to maintain corporate reputation, integrity and responsibility. Monitoring, evaluation, policies and strategy implementation should be undertaken by the board so as to enhance performance. Requirements of SASRA are that statements of loans of staff members and Board of Directors are submitted to SASRA from time to time and all related transactions must be disclosed by all Deposit Taking SACCOs.

3.3 Financial Performance

This is a measure of how well a firm or organization uses its assets to generate revenues or the level of financial performance of a business over a certain period of time, which is normally expressed in terms of profits or losses at that time. Nduati [35] defined financial performance as the measure of profitability of a company being comparative to its total assets and is measured by the firm's return on investment, return on assets etc. Factors that relate to performance are improved service delivery, increased in profitability and recruiting the best personnel in crucial areas of firms' activities. SACCO's operate within the cooperative principles. Mudibo [32] summarizes the principles as 'user-owned financial services'. Therefore, these indicators of performance are growth in share capital, growth in total assets, increase in loans borrowed, increase in loans recovered, increase in revenue, increase in reserves, speed of service and innovations etc. As a financial institution, the liquidity position and solvency are important indicators. Without good financial performance, a firm or organization can easily close down its operations [24]. Successful firms or companies have always been assessed by use the financial indicators [36]. The various indicators or measures of financial performance are; return on assets (ROA) determines the organization's ability to make use of its assets, return on sales (ROS) shows how much a company earns in relation to sales, return on equity (ROE) shows what return investors take for their investments. Measurement and reporting of financial performance is perceived to be complex in many sectors including the banking sector [37]. SACCO's need to precisely measure their financial performance, this will help to establish the true and fair position of their financial situation.

4. Methodology

A descriptive research design nature was utilized. Saunders, Lewis and Thornhill [38], argue that descriptive design method is used to pinpoint and to get information on the characteristics of a particular issue where data collected are quantitative and statistical techniques are used to summarize the information. This design is flexible and provides an opportunity for exploring the various aspects of the problem.

According to [39], one principle of sample size is the smaller the population, the bigger the sample ratio has to be for an accurate sample. Zikmund and his colleagues [40] adds that the following factors are required to determine sample size: Heterogeneity of the population, magnitude of the acceptance error and the confidence level. Stratified random sampling will be used to interview the Sacco Managers, Credit Committee members and Education Committee members.

Table 1: Sampling Size

Type of Sacco's	Population	Sample size
Housing Sacco's	15	10
Transport Sacco's	15	10
General Savings & Credit Sacco's	155	106
Total	**185**	**126**

A sample of 126 respondents was selected, simple random sampling technique was used as it avoids biasness and gives every individual an equal chance from each stratum to participate in the study. Saunders and his colleagues [38] define stratified random sampling as a technique used whereby the population into two or more strata based on some relevant attributes. A subset of the population that shares at least one common characteristic is called stratum. According to [41], argues that; Stratified sampling as a sampling method produces a higher degree of representation. To select the sample size, stratified random sampling technique was used. According to Sekaran [42], most efficient among all probability design is the stratified random sampling this is because all groups are represented, sampled adequately and there is possibility of comparison among the groups.

5. Findings

5.1 Effect of loanable funds on the financial performance

The research sought to determine the effect of loanable funds levels on the financial performance of Sacco's'. The respondents were asked questions relating to the effect of loanable funds on the financial performance of Sacco's and express their view on whether they agreed or disagreed with each statement based on the five-point likert scale which had two extremes with 5 representing strongly agree and 1 representing strongly disagree. The respondent's response is discussed below. According to Figure 2 below, the respondents were asked about the amount of loanable funds. (34%) of the respondents felt that it was between 10Million-20Million, (30%) felt that it was 20Million-30Million, (21%) felt that it was below 10Million and (15%) were of the opinion that it was above 30Million Kenya shillings.

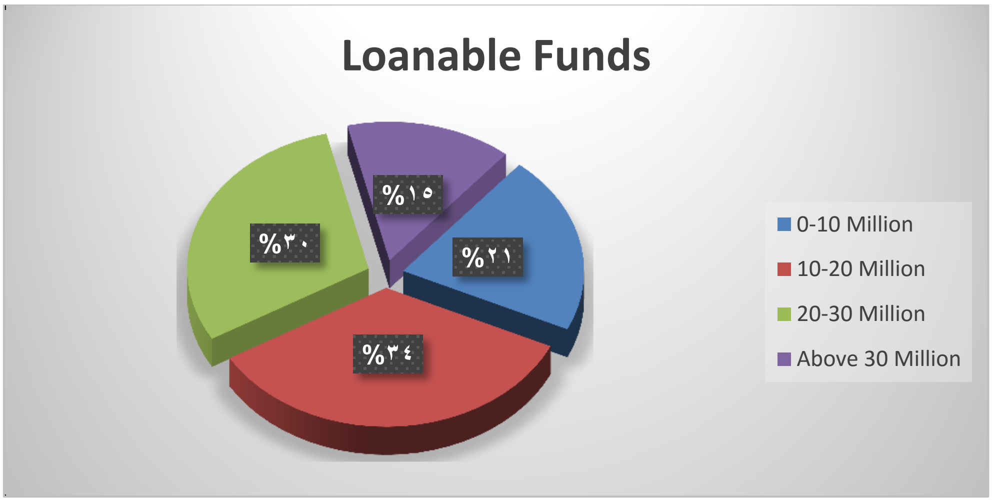

Figure 2: Loanable Funds

The results in Table 2 reveal that the mean score for the three statements used to measure the loanable fund levels was 3.686. The overall mean score of 3.686 shows that the respondents have a general understanding and are agreement that loanable funds have influence on the financial performance of the Sacco's. The respondents agreed to statements that, "loanable funds are determined by number of members" (Mean=3.83168; SD=0.722071), "loanable funds are determined by the management" (Mean=3.51485; SD=0.975847) and "loanable funds are determined by contributions" (Mean=3.71287; SD= 0.716196). This implies that the level of loanable available to non-deposit taking Sacco's have a direct influence on the financial performance of Sacco's.

Table 2: Loanable Funds

Opinion Statement	N	Mean	Standard Deviation
Loanable funds are determined by number of members.	101	3.83168	0.722071
Loanable funds are determined by the management.	101	3.51485	0.975847
Loanable funds are determined by contributions	101	3.71287	0.716196
Average Mean		**3.686469**	

5.2 The effect of Board of Directors' Skills on the financial performance

The research assessed the effect of Board of Directors' on the financial performance of Sacco's'. The respondents were asked questions relating to the effect of Board of Directors' on the financial performance of Saccos and express their view on whether they agreed or disagreed with each statement based on the five-point Likert scale which had two extremes with 5 representing strongly agree and 1 representing strongly disagree. The respondent's response is discussed below. Respondents were asked whether Board of Directors' had an effect on the financial performance. The findings of the study indicate that (44.6%) of respondents agreed, (35.6%) strongly agreed, (13.9%) were neutral and (5.9%) disagreed, as indicated in Table 3

Table 3: The directors' competence is determined management skills they possess

Scale	Frequency	Percentage
Strongly Agree	36	35.6%
Agree	45	44.6%
Neutral	14	13.9%
Disagree	6	5.9%
Strongly Disagree	0	0%
Total	**101**	**100%**

The directors' competence is determined the level of experience they possess.

Respondents were asked whether directors' competence is determined by experience they possess. The findings of the study indicate that (40.6%) of respondents strongly agreed, (33.7%) agreed, (18.8%) disagreed, while (6.9%) were neutral as indicated in Table 4 below.

Table 4: The director's competence is determined the level of experience they posses

Scale	Frequency	Percentage
Strongly Agree	41	40.6%
Agree	34	33.7%
Neutral	7	6.9%
Disagree	19	18.8%
Strongly Disagree	0	0%
Total	**101**	**100%**

The results in Table 5 reveal that the mean score for the three statements used to measure the directors' skills was 4.0099. The overall mean score of 4.0099 shows that the respondents have a general understanding and are agreement that board of directors' skills have influence on the financial performance of the Sacco's. The respondents agreed to statements that, "the directors' competence is determined by the management skills they possess" (Mean=4.009901; SD=0.854458), "directors' competence is determined by the level of experience they possess" (Mean=3.960396; SD=1.112841) and "the directors' competence is determined by academic qualifications they possess" (Mean=3.970297; SD= 0.754393). This implies that the board of directors' have a direct influence on the financial performance non-deposit taking Sacco's.

Table 5: Board of Directors'

Opinion Statement	**N**	**Mean**	**Standard Deviation**
The directors' competence is determined by the management skills they possess.	101	4.09901	0.854458
Directors' competence is determined by the level of experience they possess.	101	3.960396	1.112841
The directors' competence is determined by academic qualifications they possess.	101	3.970297	0.754393
Average Mean		**4.009901**	

5.3 Correlation

The researcher conducted a Pearson correlation on the study variables. From findings on the correlation between financial performance and various derivatives, the study found that there was a positive correlation coefficient between loanable fund levels and financial performance as shown by correlation coefficient of (r = 0.65245; p = 0.013755<0.05). Board of directors' skills had an insignificant positive correlation with performance. (r = 0.124234; p = 0.144283>0.05).

Table 6: Correlation

		Financial Performance	Loanable Fund Levels	Board of Directors' Skills
Financial Performance	Pearson Correlation	1	-.652**	.216*
	Sig. (2-tailed)		.000	.030
	N	101	101	101
Loanable Fund Levels	Pearson Correlation	-.652**	1	-.075
	Sig. (2-tailed)	.000		.455
	N	101	101	101
Board of Directors' Skills	Pearson Correlation	.216*	-.075	1
	Sig. (2-tailed)	.030	.455	
	N	101	101	101

5.4 Regression Analysis

The study was set out to evaluate the overall effect of all independent variables, that is, effect of loanable fund levels and directors' skills on financial performance of non-deposit taking SACCOs in Mombasa County. The mean scores of effect of loanable fund levels and directors' skills were collectively regressed against the mean score of performance. Multiple linear regression was computed at 95 percent confidence interval (0.05 margin error). Based on the model summary, the coefficient of determination (R squared) shows the proportion of variance in the dependent variable which can be explained by in the independent variables. It is the overall measure of strength of association between independent and dependent variable.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.729[a]	.532	.512	.47699

a. Predictors: (Constant), Loanable fund levels, Board of Directors' skills

5.5 Model Summary

The coefficient of determination R between financial determinants and financial performance was 0.729 which indicated a strong positive association between the independent and dependent variable. The coefficient of determination (R squared) of 0.532indicated that 53.2% of the variance on financial performance could be explained by financial determinants. The adjusted R square was 0.512 meant that on an adjusted basis, the independent variables were collectively 53.2% effective on dependent variable (performance of non-deposit taking SACCOs in Mombasa County). The remaining 46.9 percent can be explained by other factors not captured in the model. The Table 4 shows the findings of the study.

Table 8: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.789	4	6.197	27.238	.000[b]
	Residual	21.842	96	.228		
	Total	46.630	100			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Loanable Funds, Board of Directors'

From the table above, the processed data which is population parameters, had a significance level of 0.05% which shows that the data is ideal for making a conclusion on population's parameter as the value of significance (p-value) is less than 5%. The critical value at 5% level of significance, 4d.f, 96d.f was while the F computed was 27.23792(F 0.05, 4,96=0.0000) since the F calculated is greater than the F critical (p = 2.47), this shows that the overall model was significant at that level.

5.6 Coefficients

Table 9: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.498	.474		9.487	.000
	Loanable Funds	-.272	.108	-.285	-2.510	.014
	Board of Directors'	.124	.084	.106	1.472	.144

a. Dependent Variable: Financial Performance

From the regression equation above it was found that loanable funds and board of directors' the financial performance would be 4.498. A unit increase in loanable funds would lead to an increase in financial performance by -0.27209 and similarly a unit increase in board of directors' would increase financial performance by 0.144283 which had the greatest effect of financial performance. At 5% significance level and 95% confidence level, loanable funds had a 0.013755 significance level and board of directors' had a 0.144283 level of significance. The most significant was loanable funds with a p value of 0.013755 and the least significant was board of directors' with a p value of 0.144283 less than the critical value 0.05. The other variables were significant ($p<0.05$).

6. Summary and Conclusion

The major objective of this study was to establish determinants of financial performance of non-deposit taking SACCOs in Mombasa County. The specific objectives of the study were: to determine whether loanable funds influence financial performance of non-deposit taking SACCOs and if board of directors' influence financial performance of non-deposit taking SACCOs in Mombasa County. In this regard, the study investigated whether or not empirically identified the determinants of financial performance of non-deposit taking Sacco's in Mombasa County.

6.1 Loanable Funds

The first specific objective of the study sought to evaluate whether loanable funds have influence on performance of non-deposit taking SACCOs in Mombasa County. From this objective, a null hypothesis was developed; loanable funds do not determine the performance of deposit taking SACCOs in Mombasa County. The indicators of loanable funds taken into consideration loanable funds are determined by number of members, loanable funds are determined by management and loanable funds are determined by contribution levels.

Descriptive statistical methods were used to reach at the results. Most of the respondents agreed that loanable funds have influenced the non-deposit taking SACCOs. The overall mean score of 3.686 shows that the respondents have a general understanding and agreed that loanable funds have influence on the financial performance of the Sacco's. The respondents agreed to statements that, "loanable funds are determined by number of members" (Mean=3.83168; SD=0.722071), "loanable funds are determined by the management" (Mean=3.51485; SD=0.975847) and "loanable funds are determined by contribution levels" (Mean=3.71287; SD= 0.716196). To empirically test whether loanable fund levels had a significant influence or otherwise on performance, the study applied Pearson correlation coefficient of the independent variable against the dependent variable. The results of Pearson correlation coefficient revealed that loanable funds have a significant positive correlation with performance. (p-value = 0.013755, r-value = -0.27209).

6.2 Board of Directors'

The second specific objective of the study sought to evaluate whether board of directors' have influence on financial performance of non-deposit taking SACCOs in Mombasa County. From this objective, a null hypothesis was developed; board of director's does not determine the performance of deposit taking SACCOs in Mombasa County. The indicators of board of directors' taken into consideration the management skills they possess, level of experience they possess and academic qualifications they possess. Descriptive statistical methods were used to reach at the results. The overall mean score of 4.0099 shows that the respondents have a general understanding and are agreement that board of directors' have influence on the financial performance of the Sacco's. The respondents agreed to statements that, "the directors' competence is determined by the management skills they possess" (Mean=4.009901; SD=0.854458), "directors' competence is determined by the level of experience they possess" (Mean=3.960396; SD=1.112841) and "the directors' competence is determined by academic qualifications they possess" (Mean=3.970297; SD= 0.754393). To empirically test whether board of director's had a significant influence or otherwise on performance, the study applied Pearson correlation coefficient of the independent variable against the dependent variable. The results of Pearson correlation coefficient revealed that board of director's have a significant positive correlation with performance. (p-value = 0.144283, r-value = 0.124234).

6.3 Conclusion

The study reviewed both theoretical and empirical literature. This literature review revealed that there is an interrelationship between financial performance and the four independent variables. These variables were; interest rates, non-performing loans, loanable funds and board of directors'. This section presents the conclusions of the study.The third objective of the study sought to evaluate whether loanable funds influenced financial performance of non-deposit taking SACCOs in Mombasa County. The results of Pearson correlation coefficient indicated a strong, negative and significant relationship (p=0.013755; r-value = 0.27209). The study therefore concluded that loanable funds significantly determined financial performance among non-deposit taking SACCOs in Mombasa County The third objective of the study sought to evaluate whether board of directors' influenced financial performance of non-deposit taking SACCOs in Mombasa County. The results of Pearson correlation coefficient indicated positive relationship between board of directors' and financial performance (p=0.14283; r=0.12434). Therefore, the study concluded that board of directors' does not significantly determine financial performance of non-deposit taking SACCOs Mombasa County.

6.4 Recommendations

The findings of the study have some policy implications. Because of the adverse effect of non-performing loans levels on the financial performance of SACCOs, there is need to improve on the supervision to prevent growth of non-performing loans in the future. This can only be achieved by if Sacco's stops lending in excess, credit standards highly maintained, and over-committed members should not be loaned more monies. Non-performing loans if are high, they will pose a big burden on the economy and therefore calls for clean-up of supervision of lending. Sacco's should always source for affordable loans charged at a lower interest rate, sold to customers at a higher affordable interest rate so at increase financial performance. Internal controls should be tightened and adhered to while processing loans for example, ensuring that 1/3 rule is observed at all times. Sacco's should come up with innovative products that will boost the financial performance and also the members should be encouraged to increase their share contributions so as to boost the loanable funds and emphasize on setting targets for members on the amounts to save to help improve the financial performance of SACCOs. The board of directors should make sure that all SACCOs come up with common objectives for all members understand the strategy for the growth of the Sacco's, ensure they and also ensure that all SACCOs have effective strategic plans and policies governing the prudent way of the SACCOs which will help in the reduction of operating costs. Marketing campaigns should also be encouraged so as to boost the number of new members joining the Sacco's, because the strength of Sacco's is in numbers i.e. More members, translates to more capital being raised this is good for the SACCOs. Owing to the various challenges faced by the non-deposit taking Sacco's, the way forward is to go the SASRA way, that is merging small Sacco's and as such move from BOSA (Back Office Services Activity) to FOSA (Front Office Services Activity).

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