Determinants of credit utilization among SACCO members in Soroti District, Uganda

D. ALIO, *[1] J.J. OKIROR,[1] J.G. AGEA, [1] F.B. MATSIKO [1] and W. EKERE [2]
[1]Department of Extension and Innovation studies, Makerere University, P.O. Box 2062, Kampala, Uganda
[2]Department of Agribusiness and Natural Resource Economics, Makerere University, P.O. Box 7062, Kampala, Uganda
***Corresponding Author:** deborah.alio@yahoo.com

ABSTRACT
Savings and credit cooperatives have been seen as the most appropriate institution to serve rural households and contribute to poverty alleviation and rural development. However they have been characterized by inadequate credit monitoring and control mechanisms, inefficient loan collection mechanisms and inappropriate loan delivery systems leading to poor loan repayment rates, high loan defaults, and diversion of credit to consumption purposes. This study examined the household dynamics that affect productive use of credit among members of Savings and Credit Cooperatives (SACCOs) in Soroti district, Uganda. The findings indicated that women were excluded from institutional credit due to loss of respect and cooperation from their husbands. Consequently women allowed their husbands to control the cash transaction in order to preserve their marriages. Household size was a key significant factor influencing productive use of credit. Therefore, there is need for investment in attitudinal change in men and women in order to reduce gender differences within the household concerning credit use decisions. There is also need to strengthen cooperation among family members in order to utilize the free labour they provide as well as support provided by the different family members especially during repayment of credit.

Key words: Credit utilization, intra-household dynamics, SACCOs, Soroti, Uganda

RÉSUMÉ
Les coopératives d'épargne et de crédit ont été considérées comme l'institution la plus appropriée pour aider les ménages ruraux et contribuer à la réduction de la pauvreté et au développement rural. Toutefois, ces coopératives sont caractérisées par des mécanismes de surveillance et de contrôle du crédit inadéquats, des mécanismes de recouvrement des prêts inefficients et des systèmes de prêts inappropriés conduisant à des taux de remboursement médiocres, taux d'impayés élevés et détournement du crédit. La présente étude a examiné les dynamiques qui affectent au sein des ménages l'utilisation productive du crédit par les membres des coopératives d'épargne et de crédit (COOPEC) du district de Soroti, en Ouganda. Les résultats indiquent que les femmes ont été exclues du crédit institutionnel en raison de la perte de respect et de coopération de leurs maris. En conséquence, les femmes permettaient à leurs maris de contrôler les transactions monétaires afin de préserver leurs mariages. La taille du ménage a été un facteur clé important influençant l'utilisation productive du crédit. Par conséquent, il est nécessaire d'investir dans le changement d'attitude chez les hommes et femmes afin de réduire les disparités entre sexes au sein du ménage en ce qui concerne les décisions d'utilisation du crédit. Il est également nécessaire de renforcer la coopération entre les membres de la famille pour mieux bénéficier de la main d'œuvre gratuite et du soutien fournis par les différents membres de la famille, surtout lors du remboursement du crédit.

Mots clés: Utilisation du crédit, dynamique intra-ménage, COOPEC, Soroti, Ouganda

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BACKGROUND

Credit is a crucial factor for increased agricultural productivity and for breaking the vicious cycle of poverty among small scale farmers (Shiferaw *et al.,* 2016). About 68% of the world population relies on credit for diverse uses in household domestic needs, nation building and rural development (Qureshi *et al.,* 2014). However, provision of credit is not useful without its proper utilization. Credit can be utilized for two purpose; for production purposes (income generating activities) and for consumption purpose (for meeting personal needs) (Jain and Parveen, 2014). Developing countries like Uganda provide credit to the poor in the rural areas through microfinance schemes (Peace, 2011; Wale *et al.,* 2013), including Savings and Credit Cooperatives (SACCOs). A savings and credit cooperative also known as a credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purpose of providing credit at low interest rates and providing other financial services to its members (Ikua, 2015). SACCOs are expected to play their share of bringing about broad based development and poverty alleviation (Tesfamariam *et al.,* 2013).

Savings and Credit Cooperatives (SACCOs) are registered and regulated under the Co-operative Societies Act, and are accorded the same treatment as producer or marketing cooperatives. To qualify for registration, they are not required to raise any capital. In addition, SACCOs are restricted in terms of where to invest their funds. Even with these restrictions, SACCOs remain the most important players in provision of financial services to rural households and have deeper and extensive outreach than any other types of financial institutions (ICA, 2002). They offer a diversity of financial services which include loaning, members' welfare fund, risk management fund, credit facilities, savings facilities and insurance services to a large portion of the population (Momanyi and Njiru, 2016). SACCOs grant loans on the basis of member's savings. The loan may be more or less than the savings of the borrower. Loans less than the member savings are secure and the repayment is secure. Loans in excess of member savings must be guaranteed by other members. Loans that are not recovered are considered to be defaulted. All shares owned by defaulters and any dividend due to them are used to offset the loan, any balance remaining will be deducted from guarantor's share (Keitany, 2013).

In Uganda SACCOs have been viewed as accelerators of development (Kariuki and Rai, 2010). They are seen as an appropriate Microfinance Institutions (MFIs) to serve rural markets which formal financial institutions may not find financially viable. This is because of their simple and cost effective organizational structures and ability to respond to client needs since they are member owned and governed used. The Uganda Cooperative Societies Statute of 1991 and the Cooperative Societies Regulations 1992 govern SACCOs in Uganda (Kamuhanda, 2010). Despite the popularity of SACCOs as the most appropriate institution to serve rural households and their contribution to poverty alleviation and rural development, SACCOs have been characterized by inadequate credit monitoring and control mechanisms, inefficient loan collection mechanisms and inappropriate loan delivery systems leading to poor loan repayment rates, high loan defaults (Abdi, 2013; Ikua, 2015) and diversion of credit to consumption purposes (Sebhatu, 2012; Muhumuza, 2013; Akerele *et al.,* 2014). In Poland, Petrick (2014) explained that due to the interchangeability nature of credit and difficulties in supervising thousands of rural borrowers, funds may be used for consumption rather than productive activities. In Nigeria a study by Akerele *et al.* (2014) found that 31.7 percent of the members used their business loans for paying school fees, building houses and purchasing vehicles, a situation that greatly affected their repayment.

Proper utilization of loans by SACCO clients can lead to significant impacts on the livelihood of the rural people. On the contrary, if loans are not poorly utilized, it is not easy to realize significant impacts of loans (Kwai and Urassa, 2015). Better understanding of household dynamics and how these influence credit utilization is hypothesised to lead to improved returns to credit. The purpose of this study was to examine the influence of intra-household socio- economic characteristics on credit utilization among members of Savings and Credit Cooperatives in Soroti district, Uganda. Specifically the study examined the socio-economic characteristics of households and determined the socio economic factors influencing credit utilization.

METHODOLOGY

Theoretical framework. The Permanent Income Theory states that people will spend money at a level consistent with their expected long term average income (Friedman, 1957). The level of expected long term income then becomes thought of as the level of "permanent" income that can be safely spent. Following the permanent income theory, an individual's' capital value or wealth is determined by a borrower's assets; both physical factors such as livestock ownership, the personal attributes of the individual borrower such as education, experience, saving habit and investment planning, personality and the attributes of the economic activity of the individual such as the occupation followed or main source of income, diversified sources of income and sources of credit available to the borrower (Abdi, 2015). These factors influence household decisions to use credit. Earlier in 1949, Duesenberry posited the relative income hypothesis that the percentage of income consumed by an individual depends on his/her percentile position within the income distribution (Alvarez-Cuadrado, 2011). However, men and women have varying consumption and borrowing behavior. The differences in their social roles and norms dictate the segregation of activities by gender, where women mostly concentrate on household chores, while men undertake income generating activities (Goetz and Gupta, 1996; Mpuga, 2010). This is further exacerbated by the different power relations between men and women where the latter have limited control of assets especially land and houses that can be used as collateral for credit. Therefore, the activities in which credit is invested or used are expected to vary by gender.

Empirical model

The estimated model for determinants of credit utilization was implicitly stated as follows:

$Ln (P_i/l-P_i) = A_0+A\ _1X_1+.........A_6X_6+ei$

Where;

P_i = Whether household head utilized credit for production

$l-P_i$ = Whether household head utilized credit for consumption

AQ= intercept

AI (1, 2. 3, 4..........6) = regression coefficients

X_i (1, 2, 3, 4 ....6) = independent variables

And ei= error term

The independent variables specified as factors influencing credit utilization were derived through literature and are defined below:

X_1=Age (Years)

X_2=Household size (Number of members in household)

X_3=Sex (Dummy, 1= male, 0=Otherwise)

X_4=Marital status (Dummy, 1=married, 0=Otherwise)

X_5=Education level (years)

X_6 = Position in household (Dummy, 1=husband, o= otherwise)

Data collection and analysis. Data were collected using a structured questionnaire and in-depth key informant interviews. Quantitative data were analyzed using Statistical Package for Social Scientists (SPSS) for descriptive statistics like means, ranges and standard deviation, frequencies and percentages and binary logit regression analysis was used to determine factors influencing credit utilization.

RESULTS AND DISCUSSIONS

Results show that an average member of a SACCOs in Soroti is male (75.5%) with an average household size of nine members. Household size is the number of people that are dependent on the household head. They could be children, wives or relatives (Ibrahim *et al.,* 2009). A greater number of family members implies free labour and thus leads to increased production (Isitor *et* *al.,* 2014). The average age of the household head was 44 years most of whom had attained primary education (46.3%). Age of the household is one of the factors that affects family knowledge and experience in credit use as well as increase in family labour source. Ibrahim and Zareba (2015) affirmed that presence of an experienced household head has great impact on investment activities and that elder borrowers accumulate more wealth than youngsters and they feel more responsibility for the loan. Majority (87.8%) of the households were married. Marital status has been observed as source of family labour in farming (Ebong and Edet (2014).

Table 1. Socio-economic characteristics of households

Variable	Values
Mean age of household (Years)	43.99
Mean household size	8.73
Mean years of education	7.17
Sex (in %)	
Male	75.5
Female	24.5
Marital status (in %)	
Married	87.8
Single	7.5
Divorced	1.4
Widowed	3.4
Position within household (%)	
Husband	82.1
Wife	17.5
Child	0.4

In depth interviews with households revealed male dominance in borrowing where women were excluded from credit use decision mainly due loss of respect and cooperation from their husbands. For example one Ocen aged 52, a borrower from Awoja SACCO, explained that:

"Women are untrustworthy and poor planners, and hence do not deserve to be involved in profitability planning but should follow what a man has decided," He further added that when women own businesses they become uncooperative and lack respect for their men, and this was the reason he hardly involved his wife in profit investment plans.

Male dominance in credit utilization was also attributed to the fact that men are considered as bread winners and in other instances women generally submitted cash transactions to their husbands in order to retain their marriage and to ensure support during credit repayment. Agnes, a female borrower from Kamuda SACCO explained that, *"She equally believes in her husband's involvement in credit use decisions. She appreciates his role as the head of the household and as such should be kept in the know of every single transaction*." She later added that this keeps her at peace in her marriage. Agnes also notes that her husband most times support her during credit repayment challenges. This implies that women have been excluded from institutional credit opportunities through gender divisions in control of cash proceeds within the household. Goetz and Gupta (1996) explains that men have greater economic control over household income and with the main responsibility for cash transactions. They further explained that men are regarded as the family income generators regardless of the contributions of other family members. According to Goetz and Gupta (1996) gender divisions around control of cash proceeds affects the way credit is utilized.

Utilization of credit by SACCO borrowers in Soroti. Responses regarding the actual activities for which credit was utilized were also captured (Table 2). Regarding actual utilization of credit, 51.4% of households utilized credit for paying school fees, while 43.9 % utilized credit for expanding or starting business. Only 35.3 % of the households utilized credit for improving existing farming. Disaggregation by gender indicated that 56.2 % of the female and 49.7% of male utilized credit for paying school fees and meeting other household demands. More male (44.8 %) than female households (42.6 %) utilized credit for expanding and starting small businesses. This corroborates the findings of Goetz and Gupta (1996) that men have greater control over income generation than women. On the other hand more female (26.2%) than male (22.7%) households utilized credit for improving existing farming.

Table 2. Mode of utilization of credit by sex of Household head

Mode of utilization of credit	Male (%)	Female (%)	Total (%)
Improving existing farming	22.7	26.2	23.6
Buying improved farm equipment	6.6	8.2	7.0
Household consumption	8.3	16.4	10.3
Expanding/starting business	44.8	42.6	44.2
Education	44.8	52.5	46.7
Sickness/medical care	1.7	3.3	2.1
Construction of house	6.1	4.9	5.8
Total	74.8	25.2	100

In depth interviews confirmed that there was less involvement of households in agricultural activities compared to business activities due to the short term returns from business activities. For example one of the borrowers explained that:
"No agricultural loans are disbursed by the SACCO because their returns take long to be earned. The SACCOs give loans to business people only because they are able to earn daily income which enables them repay their loans promptly."

This supports the findings of Adeyemo and Agbonlahor (2007) that more members were involved in non-farming than farming business. This has serious implications for agricultural production since agriculture is the back born of Uganda.

Households' general attitude towards credit utilization. In measuring attitude, expressions strongly agree and agree were regrouped in to agree; strongly disagree and disagree were regrouped into disagree while neutral was left intact (Table 3). The variables used were based on (Jebarakirthy and Lobo, 2014)'s model. Over all there is a positive mind set towards credit and credit use amongst borrower households. Households (94.9%) perceived that credit improved their household welfare; 77.6% reported receiving support from family members during utilization of credit while 74.7% perceived credit as a means of acquiring assets and for solving immediate household demands. This implies that household generally had a positive attitude towards utilizing credit as it improves the family welfare but were reluctant to borrow due the fear of losing collateral. Other complementary data from key informants and FGDs also alluded to the same facts that credit utilization improves on the wellbeing of poor people. For example, a borrower from Kamuda SACCO commented that:
"They have also saved the lives of many people in the community especially for treatment of sick people at clinics, the Health Centers and hospitals. This I have seen with my neighbor. His child was critically ill and he had no money, but he went to the SACCO, got credit and used it for paying for the medical bills and the child got well up to now."

A borrower from Soroti (a technician) also had this to say:
"For me I have managed to use credit to buy a plot in Kampala and I have managed to construct my houses for the family and now I do not rent."

This finding is reinforced by the findings in Kenya by Omoro and Omwange (2013) who found that utilization of microfinance loans resulted in improved health and sanitation, enhanced household consumption and living standards, earning of extra income as well as reduction of unemployment. However, these households also strongly (60.2%) contend that credit diversion is a common challenge amongst borrower households whereby credit was diverted majorly for meeting emergencies and for paying school fees. For example the manager of Soroti Women Cooperative Union explained that:

"Emergencies usually occur before the repayment date of credit for example if your child is sent back home because of school fees, when you have credit with you, you will be forced to use it for school fees, borrowers getting sick or their immediate partners which will make them stop working or using the credit to solve that immediate problem."

This finding is in line with Chahal (2011) who noted that 17.43 percent of institutional credit was diverted to diversified purposes. This implies that strategies that ensure use of credit for production need to be strengthened.

Determinants of credit utilization. The determinants of credit utilization were analyzed using the Logit regression model. A number of variables were hypothesized to determine the household's decision to utilize credit in the study area such as age, sex, level of education, marital status, and position in the household. The result of the Logit regression analysis is presented in Table 4. The significance of the diagnostic statistics (log-likelihood value) shows a good fit for the model. The result showed that the household size was significant ($p< 0.1$) and positively associated with credit utilization.

Table 3. Household head attitudes towards credit utilization (n=257)

Attitude toward credit utilization	Agree (%)	Neutral (%)	Disagree (%)
Perceived benefits:			
Credit utilization improves household livelihoods	94.9	4.3	1.6
Credit utilization is a means of acquiring assets	74.7	10.9	14.4
Credit is the best option for solving problems	56.8	18.3	24.9
Default risk perception:			
I always do not divert my credit no matter what problem	28.0	35	60.2
Most of my family members fear losing collateral	68.1	11.8	25.3
Credit utilization brings divisions among members and non-members of Sacco	63	6.6	23.3
SACCO committee monitors credit utilization	12.8	4.3	60.3
Family norms:			
My family members always support in credit utilization	75.5	8.9	15.6

Table 4. Regression results of determinants of credit utilization

Variable	S.E	Exp(β)	P value
Age of respondent	0.013	1.018	0.161
Sex	0.411	1.119	0.784
Marital status	0.269	1.005	0.985
Level of education	0.591	1.067	0.456
Household size	0.035	1.065	0.073*
Position in household	0.44	0.746	0.507

2 Log likelihood=325.849, * significant at 10%

This implies that the larger the size of household the more credit will be borrowed for use in productive purposes since family labour is readily available. The is in line with the findings of Isitor *et al.* (2014) that a greater number of family members implies free labour and thus leads to increased production. This finding however disagrees with Orebiyi *et al.* (2012) who indicated that large households are more likely to divert credit for consumption purposes.

CONCLUSIONS AND RECOMMENDATION

The purpose of this paper was to examine the influence of intra-household socio- economic characteristics on credit utilization among members of Savings and Credit Cooperatives in Soroti district, Uganda. The findings suggest that women were excluded from institutional credit due to perception of loss of respect and cooperation from their husbands and women allowed men to control the cash transaction in order to preserve their marriages. Men were involved in production activities while women concentrated on consumption activities. Household size was a key significant factor influencing credit utilization. Based on the results obtained in the study it is recommended that: First, there is need to invest in attitudinal change in men and women so as to reduce gender differences within the household concerning credit use decisions. Secondly, there is need to strengthen cooperation among family members in order to utilize the free labour they provide as well as support provided by the different family members especially during repayment of credit. Third, there is need to strengthen management of SACCOs especially their monitoring role to ensure proper use of SACCO funds. Fourth, Governments should invest more in SACCOs since they serve to improve the welfare of especially rural households and improve their incomes.

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STATEMENT OF NO CONFLICT OF INTEREST

The authors declare that there is no conflict of interest in this paper.

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