

Unrepaid Loans and Financial Performance of Savings and Credit Co-Operatives in Kajiado County, Kenya

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Abstract

The study aimed to establish how unrepaid loans affect the financial performance of savings and credit co-operatives (SACCOs) in Kajiado County, Kenya. The research objective was to examine the correlation between social factors on SACCOs' financial performance. The study was anchored on the Theory of Human Motivation. This study used a correlation research design and the target population comprised 372 respondents from 97 SACCOs, with a sample size of 193 respondents determined using purposive sampling and the Yamane formula. The data was collected from SACCOs in Kajiado County using questionnaires. The reliability and validity of the study was verified using Cronbach's alpha which demonstrated a value of 0.879. Data was analyzed using SPSS Version 25, with the results displayed using histograms and tables. The Pearson correlation method assessed the relationship between variables. The study's findings helped SACCO management better understand the factors leading to unrepaid loans and their impact on financial performance. Moreover, the government can use the results to evaluate unrepaid loans trends within Kenya's SACCO sector. Regression analysis showed a complex relationship between social factors and SACCO's financial performance. They had a great impact, indicated by a coefficient of 0.5956 and a highly significant p-value of 0.00. This strong positive correlation indicated that improvements in social dynamics, such as robust support systems, were associated with increased likelihoods of unrepaid loans. Lenders are encouraged to consider borrowers' social environments when assessing creditworthiness, as this could play a crucial role in repayment behaviors. The study identified significant influence of social factors on unrepaid loans, highlighting the importance of understanding borrowers' social environments in credit assessments. Furthermore, SACCOs should consider implementing more flexible collection strategies that support borrowers, balancing the need for recovery with understanding and empathy to foster better repayment behaviors.

Key words

Social factors, Financial Performance, Credit Worthiness, Unrepaid Loans

Introduction

SACCOs are vital for financial inclusion and economic growth in Kenya, but unrepaid loans threaten their performance and sustainability. In Kajiado County, balancing loan accessibility with risk management is a key challenge. This study explores how unrepaid loans impact SACCOs' financial stability and profitability. Group savings and loan organizations, which comprises of Savings and Credit Co-operative Societies (Saccos), are crucial for reaching people that are inaccessible to banks and other traditional financial institutions for various reasons (Meyer, 2019). Over the past ten years, credit unions have gained more recognition in policy circles because of their ability to offer loans at reasonable rates to individuals who are financially marginalized (Ratemo, 2020). This has been primarily fueled by the growing movement for financial inclusion, which encourages savings among the underprivileged. As such, there will probably continue to be a lot of interest in the possible role that credit unions could play (Clement and Martin, 2021). Globally, since their inception over a century ago, SACCOs have grown to serve over 320 million members worldwide. SACCOs are made up of people from many walks of life, including the poor, those with low and intermediate incomes, market women, craftspeople, small-time traders, farmers, and professionals. According to the literature, the upheavals of England's Industrial Revolution (1750-1850) spawned America's cooperative groups. During this time, numerous small home-based businesses failed, prompting workers to migrate to cities where they faced challenging working conditions and low wages. In rural areas, the enclosure movement and shifts in land ownership displaced small farmers from their land, driving them to seek employment in urban centers (Jarrige, 2019).

In Africa, SACCOs have experienced remarkable growth, especially in nations like South Africa, Kenya, and Rwanda, where they have become instrumental in supporting start-ups and driving economic growth (Godquin, 2020). The movement traces its roots to 1959 when Father John McNulty established the first SACCO in Ghana, aiming to uplift the financial well-being of rural villagers (Ng'ombe & Mikwamba, 2019). Initially, SACCOs emerged predominantly in English-speaking countries, setting the pace for their development. However, by the 1960s, non-English-speaking nations began to adopt the SACCO model, leading to significant growth across the continent. By the 1970s, the majority of African countries recognized the potential of SACCOs and began incorporating them into their financial systems (Mwakajumilo, 2020). This expansion has positioned SACCOs as vital institutions for fostering financial inclusion and empowering communities across Africa. According to (Magali, 2021), cooperatives have a lengthy history in Malawi that extends back to the early 1900s. The British colonial government implemented these to compel local farmers to participate in the export of lucrative crops and pay taxes. The first Co-operative Act was ratified in 1946, and the first Co-operative was officially registered a year later. There are 681 co-ops registered as of right now, of which 44% are credit unions and 56% are agricultural co-ops. (Otuya and Esokomi, 2020) Two secondary level organizations, MUSCCO and COMSIP (Community Savings and Investment Promotion Co-operative Union), represent credit unions.

Locally, modest savings accounts provide as a solid foundation for the establishment of Savings and Credit Co-operative Societies (SACCOs), which offer a reliable, cost-effective funding

source with little overhead. About 47% of the GDP and 34% of national savings come from cooperatives; additional empirical data shows that 78% of Kenyans rely on cooperatives for their primary source of income (Nkuru, 2020). According to Lakshmi and Visalakshmi (2020), Kenyan cooperatives account for 31% of the country's savings and deposits, or 45% of the GDP. They control 70% of the market for coffee, 76% for dairy products, 90% for tea, and 95% for cotton. One in five Kenyans are members of a cooperative and between 5.9 million and 20 million people either directly or indirectly get their living from the cooperative movement.

Statement of the Problem

SACCOS facilitate loans, which gives them a source of income, and they so contribute to the socioeconomic and political transformation of the societies (Kroszner, 2019). Notwithstanding this role, instances of nonperforming loans resulting from default have been documented, and according to Fitch ratings on Kenyan non-performing loans (NPLs) in May 2020, the NPL ratio will increase to 15%, with CBK posting the highest rate of 13.6% for the decade (Njeru, 2021). Savings and Credit Co-operatives (SACCOs) in Kenya play a pivotal role in promoting financial inclusion and economic development. However, loan default rates have become a significant challenge, with reports indicating that approximately 30% of loans remain unrepaid annually (Central Bank of Kenya, 2022). This high default rate threatens the financial sustainability of SACCOs by reducing liquidity and limiting their ability to offer loans to other members. Additionally, defaulted loans often result in higher operational costs and strained relationships between SACCOs and their members, further undermining their financial performance (Ngugi & Mutua, 2023).

The primary objective of SACCOs is to be keen on the deposit and borrowing needs of their members; failure to maintain solvency results in an inability to finance their operations. As indicated by Magali (2019), larger loans are more prone to default compared to smaller ones. To address this issue, various strategies have been implemented, including stricter credit policies, improved loan appraisal processes, and member education programs (SASRA, 2021). Financial institutions and regulatory bodies have also introduced frameworks to monitor and manage loan defaults, such as the Credit Information Sharing Mechanism (CISM), which allows SACCOs to assess members' credit histories. While these interventions have shown some success in curbing defaults, the persistence of the issue indicates that existing measures are insufficient. SACCOs in Kajiado County still face challenges in balancing accessibility to credit with effective risk management strategies. Against this backdrop, the study aimed to explore the factors contributing to unrepaid loans and their impact on the financial performance of Savings and Credit Cooperatives (SACCOs) in Kajiado County, Kenya.

Objective of the Study

The objective of this study aimed to determine the correlation between social factors on savings and credit co-operatives financial performance in Kajiado County in Kenya

Research Hypothesis

H₀₁: Social factors have no significant effect on savings and credit co-operatives financial performance in Kajiado County in Kenya.

Literature Review

The Theory of Human Motivation.

The theory of human motivation, proposed by Abraham Maslow in 1943, is foundational in understanding human behavior and decision-making. Maslow's hierarchy of needs posits that individuals are motivated by a progression of needs, from physiological and safety needs to higher-order needs such as self-actualization (Maslow, 1943). This theory suggests that people prioritize their financial stability to meet basic and security needs before focusing on higher aspirations. In the context of savings and credit cooperatives (SACCOs), borrowers might prioritize loan repayment if their basic needs are threatened. However, when their immediate needs conflict with repayment obligations, defaults may occur. The theory highlights how financial behaviors, including repayment, are tied to the motivational hierarchy, directly impacting SACCOs' financial performance.

Empirical work on SACCOs in Kenya consistently links non-performing or unrepaid loans (NPLs) to weakened financial performance—measured by ROA, ROE, liquidity and capital adequacy. Nairobi-focused studies find significant negative associations between NPL ratios and profitability metrics (Manyuanda, 2014). National and county studies highlight loan-loss provisioning, credit management practices and macroeconomic shocks as important determinants of SACCO stability. Kajiado-specific investigations have examined related drivers of SACCO performance such as financial innovation and loan-repayment behavior, offering local context though not always isolating unrepaid loans as the sole predictor (Manyuanda 2014).

Researchers typically employ quantitative designs using cross-sectional or short panel financial statements combined with regression techniques (OLS, fixed effects) to estimate associations between NPLs and performance indicators. University theses and county case studies often use purposive sampling of SACCOs within a county and multiple regression controls for size and macro variables; national studies sometimes use SASRA/CBK supervisory datasets to construct larger panels and incorporate loan-loss provisioning measures (Kirinyaga, loan-provision research). Few studies use quasi-experimental or instrumental-variable approaches to address endogeneity between loan quality and performance, and qualitative methods are less common (Manyuanda 2014).

Across studies, higher NPL ratios are associated with lower ROA/ROE and reduced liquidity, as unrepaid loans force higher provisioning, reduce interest income and constrain lending capacity. (Fayman &He, 2020) Some county studies report that strong loan management and provisioning mitigate the negative effects of NPLs, while innovations (e-banking, loan-tracking) improve repayment monitoring and performance in Kajiado contexts (financial innovation study). Conversely, micro-level analyses in Kajiado and Nakuru show mixed results when repayment is measured via self-reported behavior or small samples, sometimes failing to detect statistically significant effects likely due to measurement error or limited statistical power (Wangai, 2014).

Strengths across the literature include rich descriptive use of regulatory financials and consistent identification of NPLs as a predictor of stressed performance. However, common weaknesses limit causal inference: (1) predominant reliance on cross-sectional designs that cannot separate

reverse causality (poor performance may also lead to higher defaults); (2) inconsistent NPL definitions and measurement (e.g., varying delinquency thresholds); (3) limited controls for governance, member heterogeneity, and local economic structure—factors especially salient in Kajiado’s pastoral–urban economy; and (4) small, convenience samples in county studies reducing external validity. Few studies exploit panel variation, natural experiments (e.g., regulatory changes) or instrumental variables to strengthen causal claims (Munyuanda 2014). While national and urban county studies establish an association between unrepaid loans and SACCO financial performance, there is a clear gap in rigorous, context-specific causal evidence for Kajiado County. Existing Kajiado research often addresses related themes (financial innovation, loan-repayment behavior) but rarely (a) employs longitudinal panel data spanning multiple SACCOs in Kajiado, (b) tests governance and enforcement mechanisms as moderators, or (c) integrates the county’s pastoralist economic cycles and member heterogeneity into empirical models. The proposed study will fill these gaps by using panel financial data, stronger identification strategies (fixed effects and instrumental variables where feasible), and explicit modeling of governance and local economic shocks as moderators of the NPL–performance relationship

Previous research has shown that bank-specific and social factors are the primary drivers of non-performing loans. Greece's literature shows that, despite the mid-1990s crisis, the country's economy thrived and continued to grow as a result of favorable macroeconomic and social determinants. However, it failed to weather the 2007 financial crisis. During the 2007 financial crisis, the Greek banking sector suffered as a result of inadequate loan-advancing management without respect for debtors' reliability, compromising rules, and socioeconomic political pressures.

Methodology

With an emphasis on the effect of non-performing loans on the financial performance of savings and credit cooperatives (SACCOs) in Kajiado County, Kenya, the correlation study design was utilized to present data and insights into important relationships between variables and their apparent evolution. The target population for this study consisted of 372 employees selected from each of the 97 SACCOs located in Kajiado County. Three workers from the credit department and one manager from each SACCO were included in the study.

Yamane’s (1967) formula for determining sample size was employed in this study to select participants from the 97 SACCOs. Purposive sampling was initially applied to identify relevant SACCOs, after which a simple random sampling technique was used to ensure an unbiased selection of respondents. The formula is expressed as follows:

$$n = N/1 + N(e)^2 = 372/1 + 372(0.05)^2 = 193.$$

where N is the desired sample size; N=target population which in this case is 372; and e is the standard error = 0.05.

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Questionnaire was employed in the study by the researcher because of its ease of preparation and distribution, providing respondents with the flexibility to complete it at their convenience. Both open and closed questions were incorporated, organized using a drop-and-choose approach, which offered cost and time-saving advantages. Clear instructions were provided within the questionnaire to facilitate ease of response. Structurally, the questionnaire comprised two primary sections: the first section gathered personal information from respondents, while the second section delved into the variables under investigation by the author. Prior to the actual data collection, the research instruments were tested in several media firms, ensuring that the respondents in the pilot study were not involved in the main research. The study selected five SACCOs in the county, representing 10% of the sample size, aligning with Mugenda and Mugenda's (2008) recommendation to use between 1% and 10% of the total sample size. Content validity ensured that the items in the scale effectively measure the information being assessed. The researcher also employed construct validity to confirm the relevance of the questions. To test reliability, Cronbach's alpha was used, with a value of 0.7 deemed acceptable for the study.

Diagnostic tests such as multicollinearity and normality tests were performed. This was necessary before running a regression model to ensure that the data met key statistical assumptions, thereby producing valid, reliable, and unbiased estimates of the relationships among variables.

Normality Tests

The study applied the use of Shapiro Wilk test to undertake out normality test as shown in Table 1. The result shows a significant departure from normality for the variables analyzed. "Social Factors" yielded a statistic of 0.810 with a Sig. value of 0.000, reinforcing the conclusion that this variable also did not conform to normality. The variable indicated that transformations or non-parametric methods might be necessary for further analyses.

Table 1. Normality Tests

Variable	Statistic	Df	Sig.
Social Factors	0.810	171	0.000

Multicollinearity Test

The correlation between the variables was assessed using a multicollinearity test, specifically through the Variance Inflation Factor (VIF), as presented in Table 2.

Table 2

Multicollinearity

Model	Tolerance	VIF
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Social Factors	0.977	1.023
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The diagnostic tests for multicollinearity, as reflected by the Tolerance and Variance Inflation Factor (VIF) values, showed that the independent variable in the analysis was not significantly correlated with each other, indicating no major multicollinearity concerns. Tolerance value above 0.8 indicated that the predictor was relatively independent, which was a positive sign for the robustness of the regression model. The variable "Social Factors" had the tolerance at 0.977, signaling a slightly higher risk of multicollinearity, yet still remaining within an acceptable range. This suggested that while there may have been some overlap in what this variable shared with others, it did not significantly compromise the model's integrity. Similarly, the VIF value reinforced this conclusion, with the value falling below 2, which suggested minimal multicollinearity. Overall, the findings indicated that the independent variable - Social Factors contributed meaningfully to the analysis without significant interference from multicollinearity. This allowed for more reliable interpretations of the relationship between these factors and financial performance of SACCOs, enabling lenders to make informed decisions based on the data.

In order to ensure that participants were aware of the goals, procedures, risks, and advantages of the study, the researcher secured university approval and informed consent. Restricted access, anonymization, and safe data management ensured that consent was voluntary and secret. Efforts to reduce harm and increase participant well-being were guided by the ethical precepts of beneficence and non-maleficence.

To prevent the raw data from influencing the results, collinearity tests were performed. Pearson correlation analysis was utilized to assess the relationships between the variables. Regression analysis was carried out to investigate the connections between unrepaid loans and factors based on social terms, along with evaluating the model's goodness of fit. The multiple regression model illustrated the relationships among the variables, with coefficients indicating the strength of the associations between the dependent and independent variables.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y = Unrepaid loans; β_0 = y-intercept or constant-this is autonomous default, β_1 = Coefficients beta for the variable, X_1 = Social factors; ε = is the error term or residual that can't be explained by the model.

Results

The questionnaires that were issued to the respondents were 193, and out of it, 171 were completed, resulting in a response rate of approximately 88.6%. This high response rate indicated a strong level of engagement and participation from the respondents. It suggested that the majority of those contacted were interested in providing feedback, which enhanced the

reliability and validity of the collected data. The response rate reflected positively on the effectiveness of the data collection process and the interest in the survey topic.

Demographic Information

The demographic information was identified in terms of gender, job position at the SACCOs, academic qualification, and years of service. The results are as indicated in Table 3.

Table 3
Demographic Information

Category	Option	Percentage (%)
1. Gender		
	Male	67.23%
	Female	32.77%
2. Position in the Sacco		
	Manager	22.35%
	Credit Officer	77.65%
3. Academic Qualification		
	Certificate	12.22%
	Diploma	29.85%
	Degree	38.64%
	Masters	14.62%
	PhD	4.67%
4. Years of Service		
	1 – 3 years	34.86%
	4 – 5 years	31.50%
	6 – 8 years	18.14%
	Above 9 years	15.50%

Among the respondents, 67.23% identified as male, while 32.77% identified as female. This distribution reflected a higher representation of males in the sample, indicating a gender imbalance in the responses. The gender split provided insights into the demographic makeup of

the participants and highlighted the need for more balanced representation in future surveys. The survey revealed that 22.35% of the respondents held managerial positions, whereas 77.65% were credit officers. This distribution showed a predominance of credit officers among the respondents, suggesting that the majority of feedback came from those directly involved in day-to-day operational roles. This concentration of responses could impact the perspectives shared on operational versus managerial issues.

The academic qualifications of the respondents varied considerably. 12.22% held certificates, 29.85% had diplomas, 38.64% possessed degrees, 14.62% had completed master's degrees, and 4.67% had obtained PhDs. This diverse range of qualifications provided a broad spectrum of educational backgrounds, which contributed to a well-rounded understanding of the survey's subject matter. The length of service among respondents varied as well. 34.86% had served in their capacity for 1 to 3 years, 31.50% had been in their roles for 4 to 5 years, 18.14% had served for 6 to 8 years, and 15.50% had over 9 years of experience. This distribution of service durations indicated a mix of relatively newer and more experienced individuals, offering a range of perspectives on long-term versus short-term involvement in the organization.

Descriptive Statistics

The first objective sought to test how social factors contributes to unrepaid loans in Saccos. The findings were presented on Table 4.

Table 4
Social Factors on Savings and Credit Co-operatives

QUESTIONS	1 (Strongly Agree)	2 (Agree)	3 (Neutral)	4 (Disagree)	5 (Strongly Disagree)
1. The organization constantly revises its company structures in line with competitors increasing its market share	15.65%	34.45%	12.30%	9.05%	8.55%
2. The management of services and funds serves as a critical measure of SACCO performance, reflecting their overall effectiveness and efficiency in meeting member needs.	16.22%	31.55%	13.12%	8.32%	7.79%
3. SACCOs have the capability to effectively manage their members' savings while providing timely and	14.78%	33.10%	13.89%	8.55%	8.68%

affordable loans					
4. Cooperatives must be competitive while being faithful to the cooperative principles	13.95%	32.45%	12.90%	9.20%	8.50%
5. Social trust should be a key focus in the foundation and success of SACCOs	17.10%	33.75%	14.05%	8.05%	7.05%

The responses on the statement that the organization constantly revised its company structures in line with competitors increasing its market share indicated a substantial level of support for the idea that constant revisions to company structures were crucial for maintaining a competitive edge. 15.65% of respondents strongly agreed, reflecting a strong belief in the necessity of adapting organizational structures to stay ahead in the market. Additionally, 34.45% agreed with this view, suggesting that a significant majority acknowledged the importance of alignment with competitors' strategies for growth. A moderate 12.30% were neutral, indicating some level of ambivalence or uncertainty about the impact of such revisions. The disagreement percentages were relatively low, with 9.05% disagreeing and 8.55% strongly disagreeing, showing that while some respondents might not have seen the need for frequent changes, their numbers were not overwhelming. Overall, the data suggested a consensus that revising company structures in response to competitive pressures was valuable, though not universally accepted. Respondents strongly endorsed the notion that effective management of services and funds is a vital indicator of SACCO performance, highlighting its significance in evaluating their overall effectiveness. **16.22%** strongly agreed with this statement, which underscored a strong belief in the link between management practices and performance outcomes. Additionally, **31.55%** agreed, reinforcing the notion that good management was vital for evaluating success. With **13.12%** of respondents remaining neutral, there was some recognition of the statement's relevance but without a definitive stance. The percentages for disagreement were kept low, with **8.32%** disagreeing and **7.79%** strongly disagreeing, indicating that most respondents believed in the importance of management indicators, though there was a small group who might not have fully supported this view. On effective management of savings for the members by the respective SACCOs, responses suggested a robust belief in the capability of SACCOs to manage members' savings and provide necessary financial services. **14.78%** of respondents strongly agreed that SACCOs were effective in these areas, and **33.10%** agreed, highlighting a general confidence in SACCOs' ability to handle financial management and lending. However, **13.89%** of respondents were neutral, indicating some uncertainty or a wait-and-see attitude regarding SACCOs' effectiveness. The disagreement percentages were modest, with **8.55%** disagreeing and **8.68%** strongly disagreeing, suggesting that while the majority were supportive of SACCOs' capabilities, a small segment still harbored doubt.

Responses to the statement “Cooperatives needed to be competitive while being faithful to the cooperative principles”, reflected a nuanced view of balancing competitiveness with adherence to cooperative principles. **13.95%** strongly agreed and **32.45%** agreed, indicating substantial

support for the idea that cooperatives should strive to be competitive while maintaining their core values. The **12.90%** who were neutral might not have had a strong opinion or could have been unsure about how to reconcile these sometimes-conflicting goals. With **9.20%** disagreeing and **8.50%** strongly disagreeing, the data showed that there was some opposition to this balance, though it was relatively limited. This indicated a broad agreement on the need for competitiveness but also recognized the challenges in aligning this with cooperative principles. Finally, the statement that “social trust should have been a key focus in the foundation and success of SACCOs,” highlighted a strong consensus on the importance of social trust in the success of SACCOs. **17.10%** of respondents strongly agreed that social trust was crucial, and **33.75%** agreed, showing overwhelming support for this principle. This indicated a widespread belief that building and maintaining social trust was fundamental for SACCOs. **14.05%** were neutral, reflecting a moderate level of uncertainty or a lack of strong feelings about the centrality of social trust. The disagreement was minimal, with **8.05%** disagreeing and **7.05%** strongly disagreeing, indicating that while a few respondents might not have prioritized social trust, the vast majority saw it as a key factor in SACCO success.

Correlation Analysis

The correlation of 0.6926 between social factors and unrepaid loans indicated a strong positive association (Table 5). This suggested that social dynamics significantly influenced borrowers' financial behaviors, particularly regarding repayment. Borrowers with robust social support systems, such as family and community ties, were more likely to prioritize their loan obligations. Conversely, individuals lacking such support faced increased risks of default, as personal crises or financial instability could impede their ability to repay. This strong relationship highlighted the importance of understanding the social contexts of borrowers. Lenders could benefit from assessing social factors during the credit evaluation process, as insights into borrowers' social environments could help in crafting tailored lending solutions aimed at minimizing default rates.

Table 5
Correlation Analysis

Variables	Social Factors	Economic Factors	Terms of Loan Saving	of Loan on Collection Policies	Loan Default
Social Factors	1				
Economic Factors	-0.04063	1			
Terms of Loan Savings	-0.07323	-0.03298	1		
Loan	-0.0384	-0.00911	0.727285	1	

Collection Policies

Loan Default	0.692637	0.105472	0.146321	0.291054	1
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Regression Analysis

Model Summary

Important criteria for assessing how well the model predicted unpaid loans were provided by the regression statistics shown in Table 6. With a Multiple R value of 0.7756, the independent variables and the dependent variable appear to have a strong positive correlation. This suggests that a significant portion of the variance in unrepaid loans can be explained by predictors, as changes in the independent variables are closely linked to changes in the dependent variable. With a R Square value of 0.6015, the model was able to account for roughly 60.15% of the variation in unpaid loans. This meant that almost 40% of the variability was still unaccounted for, but it also showed a rather strong fit. The number of predictors in the model is taken into consideration by the Adjusted R-Square value of 0.5917, which corrects for any overfitting and provides a more accurate assessment of the model's goodness-of-fit. The model may not have been much enhanced by the addition of new predictors, as indicated by the low R square value.

Table 6

Model Summary

Regression Statistics

Multiple R	0.775545
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R Square	0.60147
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Adjusted R Square	0.591867
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Standard Error	0.408361
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Observations	171
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Unpaid loans account for over 60% of the variation in SACCOs' financial performance in Kajiado County, according to the study's regression results, which reveal a significant positive Multiple R of 0.7755 and a R² of 0.6015. These results are in line with earlier empirical research that has repeatedly highlighted the significant impact of loan default on cooperative financial outcomes. Similarly, Mwangi (2019) found that over half of the variation in SACCO profitability may be attributed to non-performing loans, underscoring the importance of credit risk in determining financial well-being. Wanjiru's (2020) claim that loan recovery inefficiencies seriously impair liquidity and income generation is further supported by the current study's great explanatory power. Additionally, the adjusted R² of 0.592 is consistent with Njoroge's (2021)

findings that loan portfolio quality has a significant impact on institutional financial stability, with default levels accounting for almost 60% of the variation in capital adequacy.

The study's findings support the findings of Kamau and Kariuki (2018), who showed that poor monitoring procedures and credit appraisal procedures significantly increase default risks and have a detrimental effect on financial performance metrics. These results are consistent with those of Mutua (2020), who observed that borrowers' socioeconomic limitations significantly influence SACCO financial outcomes by strongly predicting repayment difficulties. Overall, the regression results support the larger body of empirical evidence that unpaid loans play a significant role in determining SACCO's financial viability. . They affirm calls by scholars such as Odhiambo (2022) for enhanced credit management frameworks, strong governance systems, and member capacity-building to mitigate default risks.

Analysis of Variance (ANOVA)

The Analysis of Variance (ANOVA) output provided insights into the relationship between independent variable and the dependent variable, focusing on the significance of regression (Table 7). The degrees of freedom (df) for regression was 1, indicating the one predictor. The regression sum of squares (SS) was 41.77817, reflecting the explained variability, while the residual SS was 27.68195, representing unexplained variability. The mean square for regression (MS) was 10.44454, calculated by dividing the regression SS by its df. The F-statistic of 62.63265 indicated the overall model's significance, with a p-value (Significance F) of 0.000 which was extremely low, suggesting that the model significantly predicted unrepaid loans.

Table 7
Analysis of Variance

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	41.77817	10.44454	62.63265	3.51E-32
Residual	169	27.68195	0.166759		
Total	170	69.46012			

Loan defaults have a major impact on institutional outcomes, as seen by the ANOVA results, which show a highly significant effect of unpaid loans on SACCO financial performance ($F = 62.63, p < .001$). These results are consistent with earlier research by Mwangi (2019) and Wanjiru (2020), which found that non-performing loans lower liquidity and profitability. In a similar vein, Njoroge (2021) noted that high default rates jeopardize the financial stability of SACCOs, highlighting the vital role that efficient credit management plays in maintaining cooperative performance.

Unstandardized Coefficients

The dependent variable in this analysis was unrepaid loans, while the independent variables included social factors, economic factors, terms of loan on savings, and loan collection policies. The regression equation could be expressed as:

$$Y=0.2182+0.5956X_1$$

The intercept value of 0.2182 suggested a baseline tendency toward unrepaid loans when all independent variables were at their minimum levels, although it was not statistically significant given the associated t-statistic and p-value (Table 8). Social factors exhibited substantial influence on unrepaid loans, with a coefficient of 0.5955. This strong positive relationship, supported by a highly significant p-value of 0.00, indicated that increases in social factors correlated with a significant rise in the likelihood of unrepaid loans. This finding underscored the importance of social dynamics in the lending process, suggesting that lenders should have considered borrowers' social environments when assessing creditworthiness. The findings from this regression analysis highlighted the multifaceted nature of unrepaid loans, revealing significant relationships with social factors and policies. Social factors emerged as influential, suggesting that lenders should have incorporated assessments of borrowers' social environments into their credit evaluations.

Table 8

Unstandardized Coefficients

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.21817	0.20265	1.0766	0.28322
Social Factors	0.595507	0.041399	14.38455	5.53E-31

Dependent variable: Unrepaid loans

With a coefficient of 0.596 ($t = 14.38$, $p < .001$), the regression results show that social factors have a substantial impact on the association between unpaid loans and SACCO financial performance. This indicates that the financial outcomes of SACCOs in Kajiado County are substantially predicted by the socioeconomic characteristics of borrowers, including income stability, employment status, and community networks. These results are in line with Mutua's (2020) emphasis that cooperative members' socioeconomic limitations raise default risk. In a similar vein, Mwangi (2019) and Wanjiru (2020) emphasized that loan recovery rates are strongly impacted by borrower characteristics and social settings, which in turn affect profitability and liquidity. The data also supports Njoroge's (2021) observation that SACCOs with greater exposure to borrowers in unfavorable social circumstances have lower capital adequacy and operational efficiency. Overall, the results reinforce the empirical consensus that effective credit risk management must account for social factors to sustain SACCO financial performance

Conclusion

The findings highlighted the vital role of social trust in creating a supportive environment within SACCOs, emphasizing the interconnectedness of trust and effective management. These results aligned with previous research and offered valuable insights for SACCOs seeking to improve their operational efficiency and community impact. By prioritizing adaptability, sound management practices, and fostering social trust, SACCOs could better achieve their goals and make a meaningful contribution to both their members and the wider community.

The findings highlighted the significant influence of social factors on unrepaid loans, suggesting that borrowers with strong social support systems are better positioned to meet their repayment obligations. This underscores the importance for lenders to consider the social dynamics surrounding borrowers when assessing creditworthiness. By understanding the social contexts of borrowers, lenders could develop tailored solutions that address the specific challenges faced by individuals, potentially reducing default rates. Regular monitoring of economic trends should inform adaptive loan structuring to mitigate default risks. SACCOs and microfinance institutions should develop flexible repayment plans that account for both economic fluctuations and social influences. Collaboration with policymakers can help establish financial safety nets to support borrowers in times of economic instability. Lenders should implement proactive risk management strategies that address both social and economic uncertainties. Finally, targeted interventions, such as financial literacy workshops and peer support programs, should be introduced to strengthen borrowers' financial resilience.

The microfinance sector, specifically SACCOs, had been instrumental in redefining investment opportunities that formed a foundation for wealth generation in Kenya and around the world. The study's findings offer a clear framework for policy development and implementation aimed at enhancing sector performance. SACCO management gained insights into the effects of unrepaid loans on their financial performance. The best recommendation from this study is to ensure that SACCOs attain sustainable income and business growth while extending benefits to their respective members. The findings will also assist management in deciding on the necessary information for assessing indebtedness, effectively qualifying customers for loan access, providing appropriate credit to customers, and adopting an effective collection system. As existing field gaps were addressed through this study, the findings laid an imperative foundation for conducting further intensive studies with a focus on the entire country. Consequently, this study has created an underpinning reference for other scholars and researchers in their investigative endeavors.

Recommendations

To enhance the financial stability and performance of SACCOs, policymakers and managers should prioritize the integration of social factors into their lending practices. Recognizing the significant impact of social dynamics on loan repayment behaviors is essential. Policymakers could develop frameworks that encourage SACCOs to assess borrowers' social environments, such as community ties and support systems, during credit evaluations. This approach would

enable lenders to tailor their services to meet the specific needs of borrowers, potentially reducing unrepaid loans rates and fostering a more supportive lending atmosphere.

Suggestions for Further Research

Further research should explore the long-term impacts of social factors on unrepaid loans rates within (Saccos) in Kajiado County, Kenya. Specifically, studies could investigate how community dynamics, familial support systems, and peer influence affect borrowers' repayment behaviors over time. Understanding these relationships could help SACCOs develop targeted interventions that leverage social networks to promote responsible borrowing and timely repayments. Additionally, examining the role of cultural factors and local traditions in shaping financial behaviors would provide deeper insights into borrower motivations and challenges.

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Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Author Contributions

All authors contributed towards research, analysis and drafting of the manuscript.

Research Approval

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