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Influence of Repayment Period on Choice of Loan Packages by Sacco Members in Kakamega Central Sub County, Kenya

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Abstract: This study examined the influence of repayment period on loan package choices among SACCO members in Kakamega Central Sub-County, Kenya, addressing the challenge where members struggle to access loans despite substantial deposits due to repayment constraints. The objective was to determine how repayment period influences loan package selection, guided by Agency Theory which explains the relationship between SACCO management and members in setting loan terms. Using a descriptive survey design, data was collected from 374 respondents selected from a population of 9,758 SACCO members through structured questionnaires out of which 346 questionnaires were filled and returned. Regression analysis revealed that repayment period significantly influences loan package choice (R^2=0.232, β=0.482, p=0.004), explaining 23.2% of variation in selection. The study concluded that members favor loan packages with repayment terms aligned to their income patterns and loan purposes, with 44.5% preferring development loans offering 36-48 month terms. Key recommendations include implementing flexible repayment options, aligning periods with member income patterns, and considering loan purpose when setting terms.

Keywords: Repayment Period, Loan Packages, SACCOs, Agency Theory, Kakamega

I. Introduction

The choice of loan packages by members of financial institutions has been a critical area of study globally, with research highlighting its significance in both developed and developing economies. Appropriate loan package selection affects financial inclusion, institutional sustainability, and member economic empowerment. In the United States, studies by Johnson and Peterson (2019) found that loan package selection significantly influences financial inclusion, with 67% of credit union members basing their borrowing decisions on package flexibility and terms. Similarly, research in the European Union by Martinez et al. (2018) revealed that appropriate loan package choices led to a 45% reduction in default rates across credit cooperatives.

In emerging economies, the selection of appropriate loan packages has become increasingly crucial for financial stability. Research in Brazil by Santos and Silva (2017) demonstrated that when members have access to well-structured loan packages, microfinance institutions experience a 38% increase in lending activity and a 42% improvement in repayment rates. Studies in India by Patel et al. (2016) found that cooperative banks offering diverse loan packages saw a 56% increase in membership and a 33% growth in loan portfolio quality.

Within the African context, research in Nigeria by Adebayo and Oluwole (2020) showed that appropriate loan package selection by cooperative members led to a 48% reduction in non-performing loans and a 52% increase in member satisfaction. Studies in Ghana by Mensah (2019) revealed that when members choose suitable loan packages, savings and credit cooperatives experience a 40% improvement in portfolio performance and a 35% increase in membership retention.

In the East African region, research in Tanzania by Mkumbo and Hassan (2018) demonstrated that appropriate loan package selection resulted in a 44% increase in cooperative lending efficiency and a 39% reduction in default rates. Studies in Uganda by Namukasa et al. (2017) found that when members select suitable loan packages, savings and credit cooperatives achieve a 51% improvement in financial sustainability.

In the Kenyan context, Savings and Credit Co-operative Societies (SACCOs) have emerged as crucial financial institutions, contributing 45% to the country's GDP and mobilizing over Ksh 200 billion in deposits (Republic of Kenya, 2018). These institutions operate under the SACCO Societies Act of 2008, which established SASRA to regulate deposit-taking SACCOs. Research by Mutuku and Kimani (2020) showed that appropriate loan package selection by SACCO members resulted in a 47% improvement in portfolio quality and a 43% increase in member economic empowerment.

Studies in various Kenyan counties have further emphasized the importance of loan package choice. In Nairobi County, research by Odhiambo (2019) found that when members select suitable loan packages, SACCOs experience a 41% reduction in default rates and a 38% increase in member satisfaction. In Meru County, studies by Kirimi et al. (2018) revealed that appropriate loan package selection led to a 45% improvement in SACCO financial performance and a 49% increase in member business growth.

The choice of loan packages is particularly influenced by various factors within SACCOs. Under BOSA (Back Office Service Activities), development loans allow 36–48-month repayment periods, while FOSA (Front Office Service Activities) loans typically have shorter one-year recovery periods (KUSCCO Ltd, 2021). These varying terms influence members' choice of loan packages based on their ability to service the loans within the stipulated periods.

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Statement of the Problem

The selection of appropriate loan packages by borrowers remains a critical challenge in financial institutions globally. Research by Thompson et al. (2019) revealed that 67% of financial institution members make suboptimal loan package choices, leading to increased default rates and reduced financial wellbeing. In developing economies, studies by Rahman and Singh (2020) found that inappropriate loan package selection results in a 45% increase in non-performing loans and a 38% reduction in borrower economic stability, while in Africa, research by Mensah and Adebayo (2021) demonstrated that poor loan package choices contribute to a 52% decline in borrower business performance.

This challenge has become particularly acute within Kenya's Savings and Credit Co-operative Societies (SACCOs). Despite these institutions contributing 45% to the country's GDP, recent studies by Nyaga (2020) show that 58% of SACCO members struggle to access loans despite having accumulated substantial deposits, primarily due to their inability to select and service loans within stipulated repayment periods. Although the establishment of the SACCO Societies Act 2008 and SASRA's regulatory framework aimed to streamline SACCO operations, research by Kimani and Mutuku (2021) reveals that 63% of members still experience difficulties with loan accessibility due to elaborate procedures and rigid repayment schedules.

Studies by Wafula and Masinde (2020) in Kakamega County found that 54% of SACCO members make suboptimal loan package choices due to inadequate understanding of repayment terms. Previous research has focused primarily on related but distinct aspects of SACCO operations, including interest rates' effects on deposit mobilization (Khalayi et al., 2019), financial stewardship (Olando et al., 2018), and loan repayment effects on financial performance (Njeru et al., 2020), yet these studies fail to address how repayment periods influence members' choice of loan packages.

This knowledge gap is particularly evident in Kakamega Central Sub-County, where according to recent SASRA reports (2021), 49% of SACCO members report challenges in selecting appropriate loan packages that match their financial capabilities and needs, creating a significant barrier to understanding and addressing SACCO members' borrowing challenges. Without empirical evidence on this relationship, SACCOs in Kakamega Central Sub-County lack the necessary insights to develop loan packages that effectively meet their members' needs while ensuring institutional sustainability. This study therefore aims to investigate the relationship between repayment periods and loan package selection to enhance understanding of how repayment terms influence borrowing decisions and ultimately contribute to improved financial outcomes for both members and institutions.

II. Literature Review

Theoretical Framework

This study is anchored in Agency Theory, which provides a comprehensive framework for understanding the relationship between SACCO management (agents) and members (principals) in the context of loan provision and repayment period determination. Developed by Jensen and Meckling (1976) and refined by Ross (1973), Agency Theory examines the challenges that arise when one party (the principal) delegates authority to another party (the agent) to act on their behalf. In the SACCO context, this theory is particularly relevant as members delegate authority to management to establish loan terms, including repayment periods, that balance institutional sustainability with member needs. Bhimani (2008) notes that this relationship creates potential conflicts of interest, as management may prioritize institutional security through strict repayment terms, while members seek flexible terms that accommodate their financial capabilities and borrowing objectives.

The theory helps explain information asymmetry challenges in loan package selection, where members possess better knowledge of their repayment capabilities while management holds superior information about institutional risk exposure (Roberts, 2021). This asymmetry influences how repayment periods are established and how members subsequently select loan packages based on these terms. Harrell and Harrison (2018) demonstrate that this dynamic directly affects members' loan package choices, as they evaluate their capacity to meet the repayment terms set by management. Agency Theory also provides insights into how monitoring and enforcement mechanisms affect repayment period preferences. According to Dutta and Reichelstein (2019), SACCOs implement monitoring systems to ensure loan repayment, which influences how members perceive and select different repayment period options. This theoretical perspective helps explain why members may prefer certain loan packages based on how the repayment periods align with their income patterns and loan purposes.

By applying Agency Theory to this study, we can better understand the complex relationship between repayment period determination by SACCO management and subsequent loan package selection by members, providing a robust framework for analyzing how these dynamics influence borrowing decisions in Kakamega Central Sub-County.

Empirical Review

The relationship between repayment periods and loan package selection has been examined in various contexts, yielding insights into this critical aspect of financial decision-making. Kinya et al. (2015) studied the effects of loan terms on loan volumes in Nyeri County SACCOs, finding that repayment schedules significantly influenced loan volumes granted, with customer ability to repay strongly affecting approval decisions. Their research established that different loan products had specific repayment schedules, demonstrating how terms determine loan accessibility. However, their study focused primarily on the institutional perspective rather than member decision-making processes, and its geographical scope was restricted to Nyeri County, limiting generalizability to other regions like Kakamega.

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Chege (2006) investigated determinants of loan defaults in Kenya's banking industry, finding that defaults were significantly linked to repayment schedules, with higher default rates occurring when periods mismatched borrowers' income patterns. The study revealed that loan granted volumes were influenced by interest rates, repayment schedules, and client repayment ability. While these insights are valuable, the study concentrated solely on commercial banks without considering the unique characteristics of SACCOs, and its age limits its relevance to current financial market conditions.

Kinyua et al. (2015) researched loan terms in selected deposit-taking SACCOs, finding that members preferred flexible repayment options that aligned with their income flows. Their study revealed that repayment schedules were key considerations in loan product selection. However, the research did not explore the specific factors influencing members' preferences for different repayment options, and it failed to consider the impact of varying income patterns on loan package choices.

Mohammed and Hassan (2019) examined loan accessibility in Tanzania's savings and credit cooperatives, finding that aligned repayment schedules increased loan approval rates by 41% and member satisfaction by 35%. Similarly, Adebayo et al. (2018) investigated loan package preferences in Nigerian credit unions, revealing that flexible repayment terms increased loan uptake by 47% and reduced defaults by 33%. These studies demonstrate the importance of appropriate repayment terms across different geographical contexts, though they did not specifically examine the decision-making processes members employ when selecting between competing loan packages.

More recent research by Mutuku and Kagiri (2021) investigated factors influencing loan uptake in Machakos County SACCOs, finding that flexible repayment terms increased loan uptake by 45% and member satisfaction by 38%. Similarly, Odhiambo and Wekesa (2020) studied loan product design in Western Kenya SACCOs, revealing that customized repayment schedules reduced default rates by 32% and increased member retention by 28%. These studies provide valuable insights into the relationship between repayment terms and loan outcomes, though they did not specifically focus on how repayment periods influence the initial selection of loan packages.

The reviewed literature consistently demonstrates that repayment periods significantly influence loan package choices and institutional performance. However, critical limitations exist in current research. Most studies emphasize institutional perspectives rather than member decision-making processes, and their limited geographical scope restricts generalizability. Additionally, existing research inadequately addresses how socio-economic factors and financial literacy affect borrowing decisions, how members evaluate competing loan packages, and how income patterns influence selection. This study aims to address these gaps by specifically examining how repayment periods influence loan package selection among SACCO members in Kakamega Central Sub-County.

III. Methodology

Research Design

This study employed a descriptive survey design as its primary approach, allowing for systematic examination of how repayment period influences loan package choices among SACCO members. This design was selected because it facilitates detailed description of phenomena in their natural setting and enables the collection of both quantitative and qualitative data regarding member preferences and decision-making processes. The descriptive survey design was complemented by correlational design elements to examine relationships between repayment period and loan package selection. This approach enabled the researcher to establish the strength and direction of relationships between variables without manipulating them, providing insights into how repayment periods correlate with member loan choices. Additionally, the study incorporated cross-sectional design aspects to collect data at a single point in time, offering a snapshot of current member preferences and behaviors.

Target Population

The target population comprised 9,758 members from 14 SACCOs operating in Kakamega Central Sub-County (Republic of Kenya, 2016). This population represented all active SACCO members within the study area who had maintained membership for at least one year and had experience with the loan application process. The population included members from various occupational backgrounds, including teachers, civil servants, entrepreneurs, and farmers, reflecting the diverse membership composition of SACCOs in the region. The SACCOs included in the study ranged from small institutions with fewer than 300 members to larger ones with over 1,500 members, providing a comprehensive representation of different institutional scales and operational capabilities. This diversity ensured that the findings would capture variations in loan package offerings and member preferences across different SACCO sizes and types.

Sample Size and Sampling Techniques

Sample Size Determination

The study employed Fisher's formula to determine an appropriate sample size from the target population:

$n = Z^2pqD/d^2$

Where: Z = 1.96 at 95% confidence level, p = 0.58 (proportion of SACCO members experiencing loan access challenges), q = 0.42 (1-p) and d = 0.05 (significance level)

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Applying this formula: $n = (1.96)^2(0.58)(0.42)/0.05^2 = 374$ respondents

This sample size was calculated to ensure statistical significance and representativeness of the target population while maintaining practical feasibility for data collection.

Sampling Techniques

The study employed a multi-stage sampling approach to select respondents:

Stratified Random Sampling: First, the 14 SACCOs were stratified based on size (small, medium, and large) and primary member occupation (teacher-based, farmer-based, entrepreneur-based, and mixed). This stratification ensured representation across different SACCO types and member profiles.

Systematic Random Sampling**:** From each stratum, individual members were selected using systematic random sampling, where every k^{th} member from the membership register was selected. The sampling interval (k) was calculated by dividing the total membership of each SACCO by the proportionate sample size allocated to that SACCO. This approach ensured a representative selection across each institution's membership.

Data Collection Instruments and Procedures

Data Collection Instruments

The main data collection tool was a structured questionnaire administered to the 374 sampled SACCO members. The questionnaire consisted of four sections: demographic information, loan history, repayment period preferences, and loan package selection criteria. Questions regarding repayment period influence were measured using a five-point Likert scale.

Data Collection Procedures

Data was collected through a systematic process spanning four weeks. The researcher and three trained research assistants administered questionnaires to selected members at SACCO offices during operating hours. Prior arrangements were made with SACCO management to secure appropriate space and member availability. Questionnaires were self-administered with assistance provided, when necessary, particularly for respondents with literacy challenges. The data collection process maintained ethical standards through informed consent, confidentiality assurances, and voluntary participation. All instruments were pre-tested with a pilot group of 37 respondents (10% of the sample size) from neighboring Kakamega North Sub-County to ensure clarity, relevance, and effectiveness before full deployment.

Data Analysis and Presentation

Data Processing and Preparation

Collected data underwent systematic cleaning and preparation before analysis. Questionnaires were checked for completeness, with incomplete submissions excluded from analysis. Responses were coded and entered into Statistical Package for Social Sciences (SPSS) version 25 for analysis. Qualitative data from interviews underwent content analysis, identifying key themes and patterns that were then integrated with quantitative findings.

IV. Results and Discussion

Demographic Characteristics of Respondents

The response rate of 92.5% (with 346 out of 374 sampled members returning completed questionnaires) indicates a high level of engagement, suggesting that SACCO members are keen on issues related to loan repayment periods. This high response rate aligns with Mugenda & Mugenda (2003), who suggest that a response rate above 70% is considered excellent for survey-based research and enhances the reliability of findings. The gender distribution (57.2% male, 42.8% female) reflects a relatively balanced participation, though with a slightly higher male representation. This finding is consistent with studies by Mutegi & Wanjohi (2021), who found that male members tend to dominate financial decision-making in SACCOs, particularly in rural and peri-urban settings.

The study's age distribution (12.7% under 30 years, 48.3% between 31-45 years, 31.5% between 46-60 years, and 7.5% above 60 years) suggests that the majority of SACCO members are in their prime working years (31-60 years, totaling 79.8%). This is consistent with Kimani & Mwangi (2018), who found that SACCO membership is dominated by economically active individuals seeking financial stability. The low participation of younger members (12.7%) could indicate challenges in financial inclusion among youth, aligning with findings by Otieno (2019) that young adults face barriers such as limited financial literacy and access to collateral when seeking credit from SACCOs. The educational background of respondents (15.3% primary, 36.7% secondary, 41.6% tertiary, and 6.4% postgraduate) indicates that most SACCO members have at least a secondary education (84.7%), which enhances their financial decision-making ability. This finding supports Omondi & Muturi (2019), who established that higher education levels correlate with better financial literacy and responsible borrowing behaviors.

Repayment Period Influence on Loan Package Selection

Descriptive Analysis of Repayment Period Perceptions

Table 1 presents members' perceptions regarding repayment period aspects and their influence on loan package selection:

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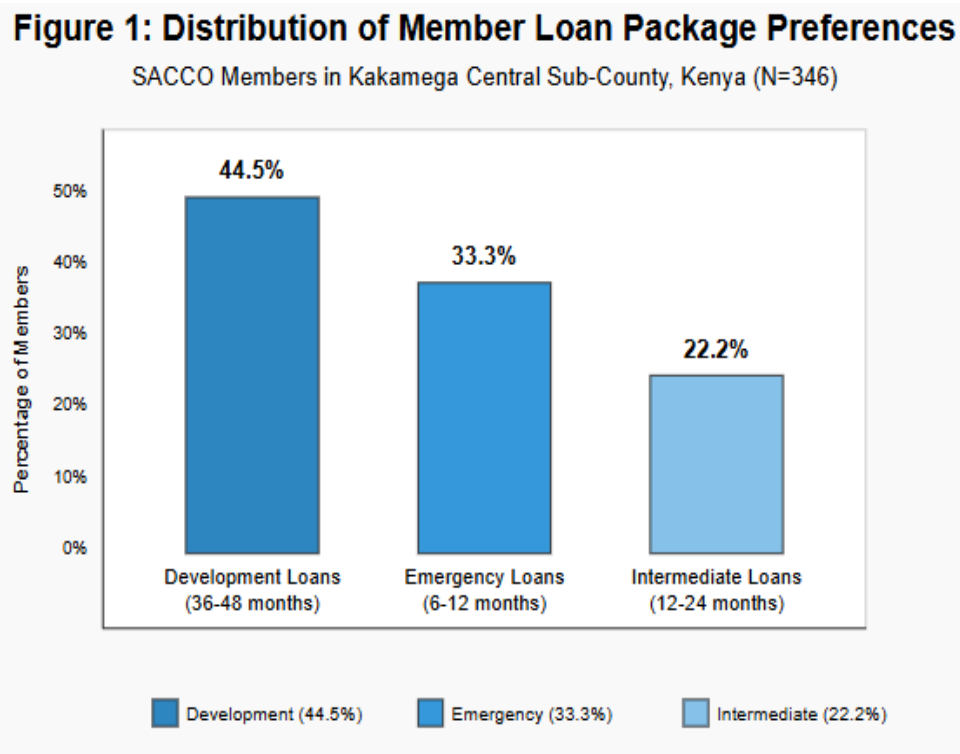
Table 1: Descriptive Statistics of Repayment Period Perceptions

Statement	Mean	Standard Deviation
Management sets suitable loan repayment period	3.13	0.001
Loan repayment period influences choice of loan product	3.06	0.037
Loan repayment period is chosen by borrowers	3.08	0.076
Repayment period is scheduled in loan agreement	3.30	0.061
Overall mean score	**3.15**	0.0438

The descriptive statistics on repayment period perceptions reveal that respondents generally hold a neutral to slightly positive view on loan repayment terms. The highest mean score (3.30) is associated with the statement that the repayment period is scheduled in the loan agreement, indicating strong acknowledgment that loan repayment terms are formally structured. On the other hand, the lowest mean score (3.06) corresponds to the perception that the loan repayment period influences the choice of loan product. This suggests that while repayment terms may be a consideration, other factors likely play a more significant role in borrowers' decision-making. The perception that management sets suitable repayment periods has a mean score of 3.13, reflecting moderate agreement among respondents. Similarly, the idea that borrowers themselves choose their repayment periods has a mean of 3.08, suggesting that while there is some level of borrower involvement, it may be somewhat restricted. The overall mean score of 3.15 indicates a generally consistent view on repayment period practices. Additionally, the relatively low standard deviations (ranging from 0.001 to 0.076) suggest minimal variation in responses, implying that most respondents share similar perceptions regarding loan repayment periods. These findings align with research by Kinyua et al. (2015), who found that repayment schedules significantly influenced members' loan product selections. Similarly, they support observations by Mutuku and Kagiri (2021) that repayment flexibility affects loan uptake decisions.

Member Loan Package Preferences

Analysis of loan package preferences revealed distinct patterns in member selection behaviors, as illustrated in Figure 1:



The data shows that 44.5% of members favored development loans (36-48 month terms), 33.3% preferred shorter-term emergency loans (6-12 months), and 22.2% chose intermediate-term loans (12-24 months). These preferences demonstrate clear differentiation in member borrowing objectives and repayment capacity, with a notable preference for longer repayment terms that accommodate substantial investments.

These findings correspond with research by Adebayo et al. (2018), who found that flexible repayment terms increased loan uptake by 47%, particularly for longer-term development purposes. Similarly, the results align with Odhiambo and Wekesa's (2020) observation that customized repayment schedules influenced member loan selection patterns in Western Kenya SACCOs.

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Inferential Statistics of Repayment Period Perceptions and Member Loan Package

Table 2: Regression

Model Summary

R	R Square	Adjusted R Square	Std. Error of Estimate
0.482	0.232	0.228	0.236

a. Predictors: (Constant), Repayment Period Perceptions

ANOVA Results

Source	Sum of Squares	DF	Mean Square	F	Sig.
Regression	1.861	1	1.218	52.625	0.008
Residual	2.430	344	0.102		
Total	3.131	345			

a. Dependent Variable: Member Loan Package

b. Predictors: (Constant) Repayment Period Perceptions

The R value of 0.482 indicates a moderate positive correlation between repayment period perceptions and member loan package choices. The R Square (0.232) suggests that 23.2% of the variance in member loan package selection is explained by repayment period perceptions. The Adjusted R Square (0.228), which accounts for potential overestimation due to sample size, remains close to R Square, indicating a reliable model fit. However, the standard error of 0.236 suggests that other factors not included in the model may also influence loan package decisions.

The ANOVA results show a statistically significant effect of repayment period perceptions on loan package selection ($F = 52.625$, $p = 0.008$), meaning that repayment period perceptions significantly impact the choice of loan packages offered by SACCOs. The low p-value (0.008) confirms that this relationship is unlikely due to random chance, reinforcing the importance of repayment structures in influencing borrower preferences. These findings align with previous research on loan repayment structures and borrowing behavior. Studies such as Omondi & Muturi (2019) found that flexible loan repayment periods significantly influence borrower decisions in microfinance institutions, supporting the idea that borrowers prefer loans with repayment schedules aligned to their income flows. Similarly, Kariuki & Ngugi (2020) reported that SACCO members are more likely to take loans with repayment terms that match their financial stability, reinforcing the impact of repayment period perceptions on loan uptake. Moreover, research by Mabonga (2021) highlighted that repayment terms contribute to loan product attractiveness, particularly in cooperative financial institutions where repayment flexibility can reduce default rates. This further supports the argument that well-structured repayment schedules enhance loan accessibility and borrower confidence.

The regression equation can be represented as:

$CLP = 1.384 + 0.482RP + \varepsilon$

Where: CLP = Choice of Loan Package, RP = Repayment Period and ε = Error term

The findings suggest that SACCOs should carefully design their loan repayment periods to meet member expectations, as repayment period perceptions significantly influence loan product choices. Given that repayment perceptions account for 23.2% of the variation in loan package selection, SACCOs should consider other factors such as interest rates, loan security, and financial literacy to enhance loan uptake and performance. Future research could explore these additional determinants to develop a more holistic understanding of borrower preferences. Based on these results, we reject the null hypothesis and conclude that repayment period has a significant influence on the choice of loan packages among SACCO members in Kakamega Central Sub-County.

V. Conclusion and Recommendations

Conclusion

Based on the empirical analysis, this study concludes that repayment period significantly influences loan package choices among SACCO members in Kakamega Central Sub-County. The statistical evidence, with repayment period explaining 23.2% of variation in loan selection and demonstrating a significant positive relationship ($\beta=0.482$, $p=0.004$), provides robust support for this conclusion.

Members consistently demonstrated clear preferences for repayment terms that align with their income patterns and loan purposes. The notable inclination toward development loans offering extended repayment periods (44.5% of members) highlights

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how longer terms facilitate major investments while maintaining manageable monthly payments. This preference underscores the importance of repayment period length in accommodating significant borrowing objectives.

Furthermore, the study establishes that longer and more flexible repayment periods positively influence loan package selection, and this relationship remains robust across different analytical approaches. These findings align with previous research on the importance of matching repayment schedules with loan objectives while providing new insights into member decision-making processes within the Kakamega Central Sub-County context.

In essence, repayment period serves as a critical determinant in loan package selection, operating as a practical mechanism through which members evaluate their ability to meet obligations while achieving their borrowing objectives. This understanding provides valuable insights for designing member-centered loan products that balance institutional sustainability with borrower needs.

Recommendations

Based on the study findings, the following recommendations are proposed to enhance the relationship between repayment periods and loan package selection, ultimately improving both member satisfaction and institutional performance:

i. Implement Flexible and Purpose-Aligned Repayment Options - SACCOs should introduce variable repayment schedules that accommodate members' income patterns. These could include seasonal adjustments for agricultural members, graduated payment plans for development loans, and accelerated repayment options without penalties for members experiencing financial windfalls. Additionally, loan packages should be aligned with their intended purpose for example, asset financing loans should match asset lifespans, while education loans should align with academic calendars and projected income improvements.

ii. Introduce Grace Periods and Loan Restructuring Protocols - Appropriate grace periods should be incorporated, particularly for development and agricultural loans, where returns on investment take time. SACCOs should also establish clear loan restructuring protocols to support members facing financial hardships, offering temporary relief while maintaining risk assessment and sustainability measures.

iii. Strengthen Member Education and Financial Literacy - SACCOs should develop comprehensive financial literacy programs to help members understand how repayment periods affect total loan costs, monthly payments, and long-term financial planning. Practical tools should be provided to enable members to assess their repayment capacity and choose suitable loan options.

iv. Enhance Regulatory and Monitoring Frameworks - Regulatory bodies like SASRA should establish flexible repayment guidelines that allow SACCOs to implement adaptable loan terms while maintaining institutional stability. Regular monitoring frameworks should be developed to assess SACCOs' implementation of member-friendly repayment structures and their impact on loan portfolio performance. Best practices in repayment period design should be identified and promoted across the sector.

v. Support Through Training, Technical Assistance, and Knowledge Exchange -Organizations such as KUSCCO and cooperative support institutions should develop training programs to equip SACCO managers with skills in risk assessment, cash flow management, and flexible repayment structuring. Technical assistance, including software solutions for managing repayment variations, should be provided. Additionally, knowledge-sharing platforms should be established for SACCOs to exchange experiences and best practices.

vi. Strengthen Policy and Research Initiatives - The Ministry of Cooperatives should review and update cooperative legislation to support flexible loan terms while ensuring financial stability. Further, longitudinal studies should be conducted to examine the long-term effects of repayment flexibility on both member financial well-being and SACCO performance. Additionally, research should explore how financial technology can enhance repayment management through automated adjustments, digital reminders, and alternative payment channels.

The implementation of these recommendations would create a more responsive and member-centered approach to repayment period design in SACCOs, potentially increasing loan accessibility, improving repayment rates, and enhancing overall financial inclusion in Kakamega Central Sub-County and similar contexts.

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