



## Self-centered motives influence credit utilization intention among members of Savings and Credit Cooperatives in Uganda

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### ABSTRACT

In developing countries, such as Uganda, lending within Savings and Credit Cooperatives (SACCOs) is used as an instrument to guarantee individuals' likelihood to pay back accessed credit. The aim is to minimize financial loss due to misuse of extended credits among relatively less credit worth groups. However, some members have been reported to bypass group members to use accessed credits outside set goals, and reasons beyond this pattern are not known. This study sought to assess the influence of self-oriented motive in credit utilization among borrowers under SACCO arrangements in Uganda. Results of structural equation modelling on data obtained from a sample of 237 smallholder farmers, members to SACCOs who had accessed credit within Soroti district, showed up to 38% of their credit utilization intention to be predicted by self-interest ( $\beta=.363$ ,  $t\text{-value}=5.231$ ,  $p<.05$ ), rationality ( $\beta=.404$ ,  $t\text{-value}= 3.525$ ,  $p<.05$ ) and decision making ( $\beta=.218$ ,  $t\text{-value}= 5.352$ ,  $p>.05$ ). This leads to the conclusion that self-interest, rationality, and decision-making are vital inputs in credit utilization among smallholder farmers in Uganda. We recommend that in addition to group-based screenings, lenders need to assess individual SACCO members' self-oriented contexts as complementary inputs to guide the forecasting of the potential of individual borrowers suited in a group, such as that of SACCOs, to utilize credits.

**Keywords:** Credit guarantee, decision making, rationality, SACCOs, self-interest, smallholder farmers, Uganda

### RÉSUMÉ

Dans les pays en développement, tels que l'Ouganda, le prêt au sein des Coopératives d'Épargne et de Crédit (SACCOs) est utilisé comme un instrument visant à garantir la probabilité de remboursement du crédit accordé aux particuliers. L'objectif est de minimiser les pertes financières dues à la mauvaise utilisation des crédits accordés aux groupes relativement moins dignes de crédit. Cependant, il a été signalé que certains membres contournent les autres membres du groupe pour utiliser les crédits obtenus en dehors des objectifs fixés, et les raisons de ce comportement ne sont pas connues. Cette étude visait à évaluer l'influence du motif axé sur l'intérêt personnel dans l'utilisation du crédit parmi les emprunteurs sous le régime des SACCO. Les résultats de la modélisation par équations structurelles sur des données obtenues auprès d'un échantillon de 174 petits agriculteurs, membres de SACCOs ayant obtenu un

crédit dans le district de Soroti, ont montré que jusqu'à 38 % de leur intention d'utilisation du crédit était prédite par l'intérêt personnel ( $\beta=0,363$ , valeur  $t=5,231$ ,  $p<0,05$ ), la rationalité ( $\beta=0,404$ , valeur  $t=3,525$ ,  $p<0,05$ ) et la prise de décision ( $\beta=0,218$ , valeur  $t=5,352$ ,  $p>0,05$ ). Cela conduit à la conclusion que l'intérêt personnel, la rationalité et la prise de décision sont des éléments essentiels dans l'utilisation du crédit parmi les petits agriculteurs du district de Soroti en Ouganda. Nous recommandons que, en plus des évaluations basées sur le groupe, les prêteurs évaluent le contexte axé sur l'intérêt personnel des membres individuels du SACCO en tant qu'éléments complémentaires pour orienter la prévision du potentiel des emprunteurs individuels adaptés au groupe, comme celui des SACCOs, pour utiliser les crédits.

**Mots-clés :** Garantie de crédit, prise de décision, rationalité, SACCO, intérêt personnel, petits agriculteurs, Ouganda.

## Introduction

Credit utilization is widely recognized as an important component to trigger economic growth and national development. A well-utilized credits facility reduces hunger, make societies food secure, and alleviates poverty (Tazebachew, 2015; Singh *et al.*, 2020). In Uganda, credit utilization as a development strategy has been implemented through savings and credit cooperatives (SACCOs). These are deemed to understand the realities of the rural financial eco-systems better, and to be in position to control any potential financial risks from borrowers. SACCOs' credit lending strategies involves giving credits facilities to only farmers working in groups, whose members collectively guarantee efficient use and likelihood of paying back before the credit is disbursement (Muhumuza, 2013). Indeed, the Government of Uganda (GoU) initiated credit facilities for rural communities, including the Poverty Alleviation Project (PAP), Entandikwa Credit Scheme (ECS), Youth Entrepreneurship Fund (YEF), and Cooperative Credit Scheme (CCS), have been implemented using the SACCO model. However, it remains unclear why, until now, some SACCO members have failed to utilize the credit for the intended objective(s) (Onsase *et al.*, 2017; Aharikundira, 2018; Nyangarika and Bundala, 2020). Students of credit services attribute the poor utilization of credit to be due to factors related to the characteristics of the groups and the strength of the forces that cement members together, external influence

by political leaders and undeclared diversion of credit to nonproductive purposes, which are difficult to understand (Ntunzwenimana, 2018; Aynalem, 2020; Singh *et al.*, 2020). The pervasiveness of the challenge of poor credit utilization among rural communities suggests that the borrower rather than the group, is the most important unit of understanding credit utilization, given that poor credit utilization has not been largely occurring in the entire group. While it may be true that an individual is part of or even constituted by a wider web of relations that could impinge their practices and actions (Long, 1992), it does not take away the reality that in the end decisions regarding credit use would have to be taken by someone. Therefore, assessing the behaviour of a social actor, as Long (1992) terms individuals working in groups, could be inaccurate if the calculations individuals make are completely eroded from the credit utilization discourse for the case of rural credit users.

Rural people have been found to take individualized decisions that are pegged on the groups one is affiliated to, in studies that explore perceptions regarding social influence. Under such circumstance, individual action is based on one's perceptions of approval or disapproval, or thoughts regarding the actions one deems others to be taking (Ndaula *et al.*, 2020). Socially oriented person intends to: peg own action on those of the peers, when situations

requiring action are novel, ambiguous, or uncertain, because doing so enables one arrive at action that could be deemed effective (Mackie *et al.*, 2015). They could also use it as a symbol for signaling own membership in a given group to self and/or to others (Young *et al.*, 2015), in order to build and/ or maintain social relationships (Jolanda *et al.*, 2002). Extending the argument into the credit utilization discourse, under state of certainty and/ or where one has zero desire to pursue goals inclined towards being identified by a certain group, a socially oriented individual would be expected to make decisions following self-centered calculations.

### **Conceptualization of self-interest, rationality, decision making and credit use**

Self-centered calculation is related to three concepts, self-interest rationality and decision making. Self-interest suggests that under rational condition individual save concern for others to pursue goals that optimize benefits to self (Cropanzano *et al.*, 2005). Rationality presupposes that a decision maker is reasonable and utilizes available information regarding alternative possibilities in order to arrive at the choice that best accounts for own interest (Carver *et al.*, 2016). Decision making entails the process of identifying and choosing alternatives based on the values and preferences of the decision maker (Fülöp, 2005). Extending the argument of studies that put self at center of decision making, such as those that use Ajzen's (1991) theory of planned behaviour, intention to use credit is a proxy variable for credit utilization behaviour under self-motivation (Jebarajakirthy and Lobo, 2014; Jebarajakirthy *et al.*, 2015; Mbawani and Nimako, 2015). However, studies that examine the factors that affect individualized choice for a smallholder farmer who is suited in groups are rare, especially in sub-Saharan Africa. Therefore, this study sought to examine the influence of self-interest, rationality and decision making on credit utilization intention among SACCO members in Soroti district, Eastern Uganda. Specifically, the study aimed to test the

hypothesis that: *H1, self-interest positively influences credit utilization intentions; H2, rationality positively influences credit utilization intentions and; H3, decision-making is positively related to credit utilization intentions among credit users in Soroti district.*

### **Materials and Methods**

Data used in this study were collected between July and Sept 2020, using a cross-section survey design. This was deemed suitable for satisfying the goal of obtaining information about the perceptions regarding credit users, because perceptions are known to be situated with specific time. Eligible participants were the 257 SACCO members who had accessed credit facilities, drawn from a sample frame of 750 members from eleven SACCOs suited in Soroti District in Uganda using proportionate random strategies by group. The SACCOs were purposively selected because the aim was to reach SACCOs involved in giving out agricultural loans to smallholder farmers, which was deemed to be an unevenly spread-out feature among the study units.

Data used were from 257 participants, collected using a five-point Likert scale (*strongly disagree = 1 through strongly agree = 5*), adapted from relevant previous studies. The seven items that assessed self-interest were from Obrien and Crandall (2005) and Gerbasi and Prentice (2013). Those for rationality were six and adapted from Morselli and Levenson (2014) whereas seven items from Simon *et al.*, (2019) were used for assessing decision-making. The dependent variable, credit utilization, was assessed at intention level using eight items adapted from Ajzen (1991), Han and Hyun (2017) and Singh *et al.* (2020).

Trained enumerators administered the questionnaire. The reliability of the data was adequate, given that the obtained Cronbach's alpha values of 0.86 for self-interest, rationality = 0.83, decision making = 0.87, and credit utilization = 0.83, compared to the

acceptable range of 0.70 and 0.90 (Taber, 2018). Hypothesis testing was done using structural equation modeling (SEM) in SPSS version 21, with the aid of AMOS version 22. SEM was chosen for its ability to simultaneously estimate data and model diagnostics along with estimating any hypothetic relationship (Mittal and Dhar, 2015).

## Results and Discussion

Results are presented in two steps. First, confirmatory factor analysis, provided key

diagnostic test results, that is: Goodness of Fit Index (GFI) = 0.94 (*spec.  $\geq 0.90$* ), adjusted GFI (AGFI) = 0.90 (*spec.  $GF \geq 0.90$* ), Tucker-Lewis Index (TLI) = 0.95 (*spec.  $\geq 0.95$* ), comparative Fit Index (CFI) = 0.96 (*spec.  $\geq 0.95$* ), root mean square error of approximation (RMSEA) = 0.06 (*spec.  $\leq 0.08$* ) and the ratio of chi-square to degrees of freedom (CMIN/Df) = 2.0 (*spec.  $\leq 3$* ), to have passed the minimum standards (Hair *et al.*, 2019), for the resultant model to be reported, see Figure 1.

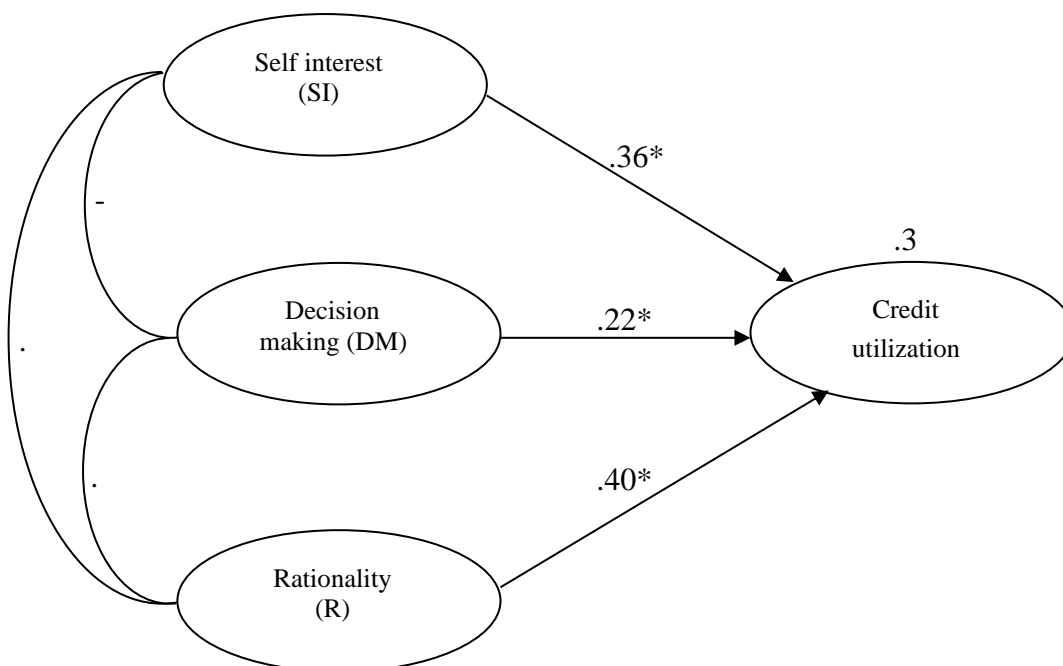


Figure 1 Empirical estimation of predictors of credit utilization intention

**Summary of model parameters:** CMIN = 118.37; df = 59; P = 0.000; CMIN/df = 2.006; GFI = 0.936; AGFI = 0.901; NFI = 0.963; TLI = 0.951, CFI = 0.963 and RMSEA = 0.063.

\*\*\*  $P \leq 0.001$

**Exogenous variables:**

**Self interest** = S5: I would like to take chances with other SACCO members' money if I get a head (0.54), S6: Being a boss through utilizing credit is exciting for me other than working for others (0.74) and S8: Receiving attention is enjoyable to me during credit utilization (0.88).

**Decision making** = DCM1: I made it clear that decisions need to be made to utilize credit (0.76), DCM2: I know exactly how I want to be involved in making decisions (0.90), and DCM3: They told me that there are different options of utilizing credit (0.96).

**Rationality** = RAS1: I try to do what is sensible and logical when I get credit (0.87), RAS3: I try to behave reasonably in my relationships with others to utilize credit (0.64), and RAS3: I try to understand credit usage even if they discourage me (0.85).

**Credit utilization intention** = CU3: I think utilizing credit improves farmers' reputation (0.79), CU4:

The  $R^2$  value of 0.38 credit utilization intention (Figure 1), means that self-interest, rationality and decision making, which were the specified predictors in this study explained up to 38% of the total variation of credit utilization intention of the smallholder farmer in SACCOs in Soroti district. Table 1 summaries the path analysis, whose concern was on testing the hypothesized relationships (*H1 through H3, stated in the background*). Broadly, attention should be drawn on *column 3 and 5*. While all the independent variables had significant effect on credit use, the biggest effect was from rationality (40%), followed by self-interest (36%) and decision making (22%). This could have been due to the fact that rationality is the foundation for decision processes, such as those related to credit utilization.

Specifically, Hypothesis *H1, that stated that, self-interest positively influences credit utilization intentions*, was supported ( $\beta=.363$ ,  $p\leq.001$ ). Given that the self-interest associated with the exogenous items that related with: “*I would like to take chances with other SACCO members' money if I get a head = S5*” and S8 that concerned “*Receiving attention is enjoyable to me during credit utilization*”, it could suggest that putting personal interest ahead of group and attention seeking, lead to credit utilization. This finding is in line with Barbalet (2012) and Ghidut (2019) who posit that self-interest motivates individuals to pursue independent goals, which helps them use credit appropriately. Individuals driven by self-interest are responsible for their actions and decisions, thus for them credit access is pre-planned event on which they have evaluated how it affects their present or future goals (Akers, 1990).

**Table 1 Testing the hypotheses, H1, H2 and H3**

Path				S.E.	$\beta$	t-value	Decision
H1:	Credit Utilization	<--	Self Interest	.069	.363	5.23***	Accept
H2:	Credit Utilization	<--	Rationality	.123	.404	5.35***	Accept
H3:	Credit Utilization	<--	Decision Making	.072	.218	3.53***	Accept

\*\*\*  $P \leq 0.001$

Regarding, *H2, that state that, rationality positively influences credit utilization intentions*, it was also supported by the results of this study ( $\beta=.404$ ,  $p\leq.001$ ). Exogenous items for rationality that remained were *RAS1: I try to do what is sensible and logical when I get credit*, *RAS3: I try to behave reasonably in my relationships with others to utilize credit*, and *RAS3: I try to understand credit usage even if they discourage me*. So, SACCO members who make consistent and sensible decisions related self, group and intended use of credit goals, use credit productively. This is consistent with Ogu (2013) who noted that balanced, sensible, and coherent decisions as regards credit use, lead to proper credit use outcomes. This is particularly so because individuals are rational actors who choose the best alternatives for their well-being whenever faced with decisions making tasks (Akers, 1990).

Lastly, *H3 (decision-making is positively related to credit utilization intentions) was supported* ( $\beta=.218$ ,  $p\leq.001$ ). More so, the findings also revealed that decision-making and Credit utilization are positively and significantly associated. Given that the exogenous predictors of decision making, include: *DCM1: I made it clear that decisions need to be made to utilize credit*, *DCM2: I know exactly how I want to be involved in making decisions*, and *DCM3:*

*They told me that there are different options of utilizing credit*, it leads to interpretation that individuals who are informed about the uses of the credit and are knowledgeable about the acceptable possibility for using the credits are likely to utilize credit productively.

This finding is in line with Cancino and Cancino- Escalante (2020) who noted that it is important to have options when making credit decisions to reduce risks associated with improper credit utilization.

## Conclusion

The study concluded that self-interest, rationality, and decision-making are vital inputs in credit utilization. Therefore, this study recommends that beyond screening for group inclined factors, it is important to assess whether borrowers' self-interest, rationality and decision-making contexts are likely to complement group attributes as forecast for credit utilization potential of an individual suited in a group setting, such as that of SACCOs.

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

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