

**IMPACT OF CREDIT RISK MANAGEMENT ON FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE
SOCIETIES IN KITUI COUNTY**

ROSEMARY KASYOKA MUTUA

**A RESEARCH PROJECT REPORT SUBMITTED TO THE
DEPARTMENT OF BUSINESS AND ENTREPRENEURSHIP IN THE
SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL
FULFILLMENT OF THE REQUIREMENT OF THE AWARD IN
MASTER DEGREE IN BUSINESS ADMINISTRATION, SOUTH
EASTERN KENYA UNIVERSITY**

2016

DECLARATION

I hereby declare that this research project report is my original work and has not been presented for any award of any degree in any other university.

Signed..... Date.....

Rosemary Kasyoka Mutua

D61/KIT/20450/2014

This project report has been submitted for examination with our approval as appointed University Supervisors.

Signed..... Date.....

Dr Jared Ariemba

Department of Business and entrepreneurship

School of Business and Economics

South Eastern Kenya University

Signed..... Date.....

Anne Christine Kabui

Department of Business and entrepreneurship

School of Business and Economics

South Eastern Kenya University

DEDICATION

This project report is dedicated to my workmates, friends and family members for their support and encouragement that they accorded me during my learning period. I really appreciate for their continued support until the end of this project report.

ACKNOWLEDGEMENT

I first of all thank the Almighty God who accorded me the grace to undertake this project report to its completion. I would like also to acknowledge the assistance and guidance to my lecturers for their guidance in writing this project report.

I would also like to acknowledge Savings and Credit Co-operative Societies (SACCOs), and heads of credit risk management function in the SACCOs for the assistance in obtaining data for this project report.

Finally, I extend my gratitude to my family members, friends, classmates, and workmates for their support towards the success of this study.

May the Lord bless you all.

ABSTRACT

The financial sector in any country is an important sector in the development of a country. Most failures in the financial sector have been caused by non-performing loans or bad debts which are attributed by poor or ineffective loaning policy. While the consequences of credit risk management are well understood, the direction of the effects are predicted by theory, and evidence on their magnitude are still scarce, and centered around banking sectors and insurance markets. This study focused on the credit risk management on financial performance in savings and co-operative societies in Kitui County. This study was undertaken in Kitui County, Kenya where the researcher based the research on financial performance and in specific Savings and Credit Co-operative societies (SACCOs). The research design used in this study was a descriptive research design. The data collection instruments in this case included self-administered questionnaires which were used to extract valuable primary data from the SACCOs' management. The study used quantitative method to analyze the data and examine the simultaneous impact of the independent variables on the dependent variable. The findings of the study are; there was a very strong positive relationship between credit monitoring and financial performance of SACCOs, there is a very strong positive relationship between loan policy in mitigation of risk and financial performance of SACCOs, there is a very strong positive relationship between loan defaulters and financial performance of SACCOs. The recommendations of this study are; the SACCOs should intensify, internal auditor doing verification of the loans so as to improve on the monitoring of loans, the SACCOs should continually review their loan policies so as to be up to data with the current economic trends, the SACCOs should consider not give loans without considering the retirement age.

TABLE OF CONTENT

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENT	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS	xi
DEFINITION OF TERMS	xii
OPERATIONAL DEFINITION	xiii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.1.1 Credit risk management of SACCO's.....	3
1.1.2 Financial Performance.....	6
1.1.3 Savings Credit and Co-operative Societies in Kenya.....	7
1.2 Statement of the Problem.....	9
1.3 General Objective.....	10
1.3.1 Specific Objectives.....	10
1.3.2 Research questions.....	10
1.4 Significance of the study.....	11
1.5 The scope of the study.....	11
1.6 Limitation and Delimitation of the study.....	12
CHAPTER TWO	13
LITERATURE REVIEW	13
2.1 Introduction.....	13
2.2 Theoretical Review.....	13
2.2.1 Portfolio Theory.....	14
2.2.2 Credit Risk Theory.....	15
2.2.3 C's of credit.....	16

2.3	Empirical Review.....	17
2.3.1	Impact of Loan Policy on financial performance.....	17
2.3.2	Assessing Credit monitoring on financial performance.....	18
2.3.3	Impact of loan defaulter report on financial performance.....	20
2.4	Research Gap.....	21
2.5	Conceptual Framework.....	23
2.6	Summary of Literature Review.....	24
CHAPTER THREE.....		26
RESEARCH DESIGN AND METHODOLOGY.....		26
3.1	Introduction.....	26
3.2	Research design.....	26
3.3	Population.....	26
3.4	Instrument.....	27
3.5	Data Collection Procedure.....	27
3.6	Pilot Test.....	27
3.7	Data Processing and Analysis.....	29
CHAPTER FOUR.....		31
DATA ANALYSIS AND DISCUSSIONS.....		31
4.1	Introduction.....	31
4.2	Response rate.....	31
4.3	Length of operation for the SACCOs.....	32
4.4	Working experience for the respondents.....	32
4.5	Multiple regression analysis.....	33
4.5.1	Monitoring and financial performance of SACCOs.....	36
4.5.2	Loan policy in mitigation of risk and financial performance of SACCOs.....	39
4.5.3	Management of loan defaulters on financial performance.....	41
CHAPTER FIVE.....		44
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....		44
5.1	Introduction.....	44
5.2	Summary of the findings.....	44
5.3	Conclusions.....	45

5.4	Recommendations to policy.....	47
5.5	Suggestions for further research.....	48
	REFERENCES	50
	APPENDICES	54
	Appendix I: Introduction Letter.....	54
	Appendix II: Introduction letter from the university.....	55
	Appendix III: Questionnaire.....	56
	Appendix IV: Population of study.....	61

LIST OF TABLES

Table 4.1: SACCOs years of operation.....	32
Table 4.2: SACCOs years of operation.....	33
Table 4.3: Model Summary.....	34
Table 4.4: ANOVA.....	34
Table 4.5: Coefficients results.....	35
Table 4.6: Monitoring and financial performance of SACCOs.....	38
Table 4.7: Risk management.....	40
Table 4.8 : Management of loan defaulters.....	42

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	23
--	----

LIST OF ABBREVIATIONS

SACCO	Saving and Credit Co-operatives
WOCCU	World Council of Credit Unions
SASRA	Sacco Societies Regulatory Authority
CAMEL	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity
CIC	Cooperative Insurance Company
CRB	Credit Reference Bureau
ICT	Information Communication Technology
MOCD&M	Ministry of Co-operative Development and Marketing.

DEFINITION OF TERMS

- Credit risk Management:** Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Early, 1996; Coyle, 2000).
- SACCOs:** They are autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise and are registered with the Department of co-operatives (SASRA, 2011).
- Financial Performance:** It is a measure of how well firm use assets from its primary mode of business to generate revenues. It measures the financial health of an organisation. The common indicators of financial performance are; profits, return on investment, return on assets, value added and margins among others. Financial performance guides management on the strategies and policies to adopt to improve sustainability of the organization (Almazari, 2011)

OPERATIONAL DEFINITION

Credit risk Management: It ensures review of the policy and specific measures for developing and establishing an adequate credit risk management system with a full understanding of the scope ,types and nature of risks, and the techniques of identification, assessment, monitoring and control regarding credit risk as well as the importance of credit risk management, and with precise recognition of the current status of credit risk management within the financial institution.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter examines the background to the study, the research problem and the purpose of the study. The research objectives, research questions, justification of the study, importance of the study and scope are also discussed.

The financial sector comprised players from banking industry, micro finance institutions, capital markets, insurance companies, mutual funds and development finance institutions (CBK, 2007). In Kenya, SACCOs remained the most important players in provision of financial services and have deeper and extensive outreach than any other type of financial institute (ICA, 2002). They provided savings, credit and insurance services to a large portion of the population. Financial sector reforms were adopted in 1989 through the Structural adjustment programs supported by World Bank credit, which will include liberalization of interest rate- attained in July 1991, and exchange rate-attained in October 1993. From the year 2010 new developments and intense competition in lending industry in Kenya's economy was witnessed since the introduction of the economic liberalization will pose serious challenges to the Sacco's. The emergence of formal and informal segments in the financial sector fragmentation implies that different segments approached problems such as high transactions costs, risk management, mobilization of funds, grants and capitalization (Steel, 1998).

Adequately managing credit risk in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of SACCOs, the issue of credit risk is of even greater concern because of the higher levels of perceived risks resulting from some of the

characteristics of clients and business conditions that they find themselves in. SACCOs are in the business of safeguarding money and other valuables for their Members besides providing loans and offering investment financial services. Credit creation is the main income generating activity for the SACCOs. But this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. On the other hand, a SACCO with high credit risk has high bankruptcy risk that puts the members' funds in jeopardy. Among the risk that face SACCO's, credit risk is one of great concern to most SACCO authorities and government regulators. This is because credit risk is that risk that can easily and will most likely prompt SACCO failure (Boateng, 2008)

The diversification of financial products and services by the SACCOs has to be consumed with some caution and prudence as this involves a great deal of risk. The very nature of the SACCO business is so sensitive because more than 85% of their liability is shares from Members SACCO use these deposits to generate credit for their borrowers, which in fact is a revenue generating activity for most SACCOs. This credit creation process exposes the SACCO's to high default risk which might lead to financial distress including bankruptcy (Saunders & Cornett, 2005). Despite the development and use of highly sophisticated tools and models to measure the exposure of Financial Institutions to Credit Risk, the default rate in the SACCOs in Kenya remain relatively high. For example the Amount of defaulted loans for Kenyan SACCOs rose from Ksh. 5 Billion in the year 2007 to over with Ksh 10 Billion in 2012 (MOCD&M, 2009).

Similarly the financial sector in Kenya has been vulnerable to effects of the global financial crisis and economic recession, as individuals and firms are likely to struggle to repay debts, thereby resulting in a deterioration of credit risk management of financial performance in the financial system. Contrary to the popular belief that default rate in SACCOs is negligible, the statistics from the Ministry of Industrialization and Enterprise Development indicate a considerable increase in the amount defaulted by Sacco Members each year. Given this background, it is surprising to observe that not much is known about the extent by which SACCOs engage in the practice of credit risk management.

1.1.1 Credit risk management of SACCO's

Credit risk was defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. According to Chijoriga (1997) credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risks as it directly threatens the solvency of financial institutions. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of banking problems continue to be directly related to lax credit standards for borrowers and counterparties, poor credit risk management, or lack of attention to changes in economic or other circumstances that lead to deterioration in the credit standing of financial institution's counterparties (Basel, 1999).

Loans have been the largest source of credit risk to a financial institution. However, other sources of credit risk exist throughout the activities of a financial institution including in the banking book and the trading book, and both on and off the balance sheet. The goal of credit risk management was to maximize SACCOs risk adjusted rate of return by maintaining credit risk exposure within acceptable parameters. SACCOs will need to

manage credit risk inherent to the entire portfolio as well as the risk in individual credits as transaction (Sinkey.1992).

The provision of credit facilities was the core function of every savings and credit co-operative society. The credit management function will facilitate efficient management and administration of the SACCO loans in order to ensure equitable distribution of funds and will encourage liquidity planning. In order to achieve prudence and accepted best practice, credit management will always be guided by clearly spelt out policies and procedures, strategic plan, by- laws , the co-operative act, the SACCO regulatory act and rules and regulations. Basically Savings and credit co-operative has three operational aspects namely; the savings, the credit and channeling external funds to members.

The management committee of the SACCO was responsible for formulation, reviewing and amending the loan policy. The supervisory committee was responsible for ensuring that the loan policy was adequately carried out and that it will achieve the goals it will have created. The committee will also determine if the policy was complied with by periodically reviewing samples of loans granted and denied. The policy was expected to achieve the following major goals to establish a fair loaning system, establish efficient credit admiration procedures, assist in proper recovery of loan funds and finally to guide staff and board members on the loaning process.

Credit risk management ensures review of the policy and specific measures for developing and establishing an adequate credit risk management system with a full understanding of the scope ,types and nature of risks, and the techniques of identification, assessment, monitoring and control regarding credit risk as well as the importance of

credit risk management, and with precise recognition of the current status of credit risk management within the financial institution based on such an understanding. For example, does the director in charge understand the limitations and weaknesses of the credit risk measurement and analysis methods (including the techniques and the assumptions, etc.) and consider countermeasures to supplement such shortcomings.

SACCOs should have a formal credit grading system based on quantitative data. The system should have sufficient granularity to allow the directors and senior management to monitor risk migration of loan portfolios over time and provide for accurate and timely identification of criticized or adversely classified risk grades for special-mention, substandard, doubtful, and loss categories. Risk ratings should be developed for various credit types based on their unique features and risk characteristics that is, credit scores, debt-to-income ratios, collateral types, and loan-to-value ratios for consumer loans, and debt service coverage, financial strength of management/major tenant, and loan-to-value ratios for commercial real estate credits. Ideally, grading systems should have several pass categories based on the borrower's earnings/operating cash flow, liquidity, leverage, and net worth. Collateral (quality and control), the company's management, and the strength provided by any guarantors should also be considered. Because grades reflect varying degrees of risk, they are expected to be major components for determining the adequacy of the loan and loan pricing. An inaccurately graded loan may lead to unprofitable lending and inaccurate risk identification and reporting.

An effective loan classification and credit grading system generally relies primarily on the institution's lending staff to identify emerging loan problems. Given the importance of timely and accurate loan grading systems, the judgment of an institution's lending staff

should be subject to review by peers, superiors, or loan committee(s); an independent, qualified employee; an internal department staffed with a credit review specialist; or qualified outside credit review consultants. An independent review of the lending function is preferred because it provides an objective assessment of credit quality.

1.1.2 Financial Performance

Operating and financial ratios have long been used as tools for determining the condition and the performance of a firm (Ogilo, 2012). A savings and credit society also known as a credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members. World over, systems in these organizations vary from slightly to significantly in terms of total system assets, average institutions' asset price and regulatory control. This ranges from volunteer operations with a few members' organizations to the institutions with several billion asset value. For instance, according to report by the World Council of Credit Unions, 2008, the average credit unions in the United States of America had USD 93million worth of assets in 2007 as against an average commercial bank average of USD 1.5 billion (Makori, Munene & Muturi, 2013).

Parast and Fini (2010) indicate that in the pursuit of better operational performance and profitability, organizations are looking for strategies to improve their operational performance and boost their profitability. As competition intensifies due to changes in the industry structure and the emergence of new technologies, organizations are determined to reduce their operational costs while enhance their profitability. Similarly, financial performance of SACCOs can also be viewed in light of their overall profitability and

return on investment. According to Herrmann (2008) when analyzing a firm's profitability, we are concerned with evaluating a firm's earnings with respect to a given level of sales / assets / owners' investment or share value. In doing so, the common profitability measures include: Common size income statements; Return on total assets (ROA); Return on equity (ROE); Earnings per share (EPS); Price/Earning (P/E) ratio. Under the common-size income statement, we express every item on the income statement as a % of sales, which is gross margin; operating margin; and profit margin, whereby: Gross margin - % of each sales dollar remaining after the firm has paid the direct cost of goods sold (COGS); Operating margin - % of each sales dollar remaining after the firm has paid all expenses (excluding financing expenses and taxes); Profit margin - % of each sales dollar remaining after the firm has paid all expenses (including interest and taxes).

Return of total assets (ROA) takes into consideration the return on investment (ROI) and indicates the effectiveness in generating profits with its available assets, thus the higher the better. Return on equity (ROE) indicates the return on owners' equity, hence the higher the better. Earnings per share (EPS) indicate the dollar amount earned on behalf of each common share, thus the higher the better. Price/earnings (P/E) ratio is the amount investors are willing to pay for each dollar of earnings, that is indicates investors' confidence (Herrmann, 2008).

1.1.3 Savings Credit and Co-operative Societies in Kenya

A cooperative is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to

pool the scarce resources, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2009). Cooperatives are good vehicles for assisting the people improves their socio-economic situation. They are institutions that derive their strength and validity from member solidarity cooperation and concern for each other.

The Savings Credit and cooperative societies subsector is part of the massive Kenyan Co-operative movement comprising of both Financial and non-financial cooperatives. SACCOs are the financial cooperatives while non-financial cooperatives include Dairy, livestock, coffee, fishermen, housing, multipurpose and many others which have made their indelible mark to the lives of Kenya. The uniqueness of Sacco movement is its geographical distribution across Kenya. In all the 47 counties, there are numerous SACCOs providing financial access to financially exclude. The fact that SACCOs are widely distributed across the counties in the country makes them better positioned to bring more Kenyans under financial inclusion compared to other financial services providers. In Kitui County we have 28 Savings Credit and Co-operative Society large, medium and small that have been active and cater for the needs of the people. SACCOs despite their uniqueness have recently been experiencing member reduction, because other financial institutions started targeting the same market. This has made SACCOs to reinvent their competitiveness from the traditional practices to modern business approaches and operations to remain afloat and relevant. They have had to re-engineer business processes such as marketing, new product development, technology adoption and market development for competitive advantage (Maina, 2011).

1.2 Statement of the Problem

Kenya's history of cooperative development has been characterized by strong growth, thus making a significant contribution to the overall economy and easy realization of its blue print in vision 2030. With the total population of Kenya with approximately 40 million, it is estimated that 63% of Kenya's population participate directly or indirectly in co-operative based enterprises (CIC Kenya). One of the justifications of the advancement of a financial institution is one that is profitable and has financial sustainability. Mvula (2013) presented a report on common issues affecting performance of SACCOs in Malawi and pointed out that the issues affecting performance of SACCOs are inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance. On the other hand Mudibo, (2005) discussed some of the factors affecting performance of SACCOs as weak regulation, limited product and services, low marketing and poor image. However the effect of interest rate charged and the rate of loan repayment on Sacco performance is yet to be established. Further the management of loan defaulters with the local SACCOs is very poor. This is because SACCOs finance people of low income and unreliable employments hence the chances of default are very high.

Locally few studies have been done on credit risk management, among them includes; Silikhe (2008) on credit risk management in microfinance institutions in Kenya found out that despite the fact that microfinance institutions have put in place strict measures to credit risk management ,loan recovery is still a challenge to majority of the institutions. Kimeu (2008) conducted a survey of credit risk management techniques of unsecured bank loans. The central question is how significant the effects of credit risk management

practices are on the financial performance of Kitui County SACCOs. This study was an endeavor to find the answer.

1.3 General Objective

The General objective of this study was to assess the impact of credit risk management on financial performance of Savings and Credit co-operative Societies in Kitui County.

1.3.1 Specific Objectives

- i. To assess the impact of credit monitoring on financial performance of SACCOs in Kitui County.
- ii. To ascertain the impact of loan policy in mitigation of risk on financial performance of SACCOs in Kitui County.
- iii. To examine the influence of management of loan defaulters on financial performance of SACCOs in Kitui County.

1.3.2 Research questions

- i. What is the impact of Loan defaulter Reports on financial performance of SACCOs in Kitui County?
- ii. What is the impact of loan policy in mitigating risk on financial performance of SACCOs in Kitui County?
- iii. What are the credit risk monitoring systems employed by SACCOs in Kitui County?

1.4 Significance of the study

The study is significant to the management of SACCO's in Kenya in putting into place credit risk management practices that improves the performance. The finding and recommendations of the study would also be of importance to the government a specifically to the Ministry of Cooperative development and marketing. Since the ministry regulates the operations of SACCO's, the finding is used to implement a policy that hopes to be beneficial to the Co-operative sector.

The outcome of the study shows the extent to the SACCO's are exposed to credit risk and what managers shall do on order to reduce the credit risk management on financial performance. Secondly the study would also be significant to the members of the SACCO's because it improved credit risk practices imply more returns on their shares in form of dividends.

The research study hopes to be beneficial to future scholars and Academicians who wishes to use the materials for reference. Similarly the study gives further insight to the field of research and gives answers to research questions not covered by this study.

1.5 The scope of the study

The study falls in the area of Financial Institutions (FI's) industry would have some implications on investment, economic growth and social development. The study was conducted in SACCOs within Kitui County which have been in operation for more than five years.

1.6 Limitation and Delimitation of the study

There was difficulty in getting complete information from the management of SACCOs because finance matters are quite sensitive to any organization. Secondly most of the SACCOs have not fully computerized their accounting information and therefore it was difficult to get complete information. This will definitely affected the outcome of the research data. The researcher will handle this problem by introducing himself with an authority through a letter from the University and assure them that the information given was treated confidentially and it will only be used purely for academic purposes.

This study aimed at establishing how and to what extent does loan policy, credit monitoring and management of loan defaulters affected financial performance of savings and credit cooperative societies in Kitui County. Kitui County has 28 co-operative societies that are registered in the Ministry of Trade, Industry, ICT and Co-operatives.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews theoretical literature on credit risk management including but not limited to: portfolio theory, credit risk theory and 5Cs of lending. It also undertook empirical review of credit risk management.

2.2 Theoretical Review

Credit risk management was a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies included transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. The process of risk management is a two-step process. The first was to identify the source of the risk, which was to identify the leading variables causing the risk. The second was to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument. Once a general framework of risk identification and management was developed, the techniques could be applied to different situations, products, instruments and institutions. It was crucial for SACCOs to have comprehensive risk management framework as there was a growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework (Greuning & Iqbal, 2007).

2.2.1 Portfolio Theory

In investment, portfolio theory management is a critical theory. It tries to look for the most efficient combinations of assets to maximize portfolio expected returns for given level of risk. Alternatively, minimize risk for a given level of expected return. Portfolio theory is presented in a mathematical formulation and clearly gives the idea of diversifying the assets investment combination with a purpose of selecting those assets that will collectively lower the risk than any single asset. In the theory, it clearly identifies this combination is made possible when the individual assets return and movement is opposite direction. An investor therefore needs to study the value movement of the intended asset investment and find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if the or positively.

Risk is defined as the standard deviation of return, that is, to what extent is the actual return deviating from the expected return. Therefore, portfolio being a combination of assets, the model becomes a weighted combination of these assets' returns. When different assets are combined and whose returns are not perfectly positively correlated, then portfolio theory leads to reduction of the total variance of such asset combination returns over a given period of investment. The return is calculated by getting the change in value of the assets plus any distribution received during a given period over which the assets are held and expressed as a fraction of the initial outlay. From this theory, it is evident that the level of risk in a portfolio depends on risk of each asset, proportion of resources allocated on each asset and the interrelationship between the assets making up the portfolio. The major assumptions in portfolio theory in managing risk are that the investors are rational and the market is efficient and perfect (Chijoriga, 2007).

In Saving Credit and cooperative societies loans constitute the assets in the financials and therefore the theory can be used to expound on the needs of SACCOs forming a portfolio that cuts across different industries and businesses. The portfolio can be formed on the basis of purpose, time period and industry. The theory poses a number of gaps; the initial intent by Markowitz was to address the importance of investment portfolio for investors to spread risk when investing and not management of loan portfolio in SACCOs. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. The combination of these two developments has precipitated vastly accelerated progress in managing credit risk in a portfolio context over the past several years.

2.2.2 Credit Risk Theory

Although people have been facing credit risk ever since early ages, credit risk has not been widely studied until recent 30 years. Early literature (before 1974) on credit uses traditional actuarial methods of credit risk, whose major difficulty lies in their complete dependence on historical data. Up to now, there are three quantitative approaches of analyzing credit risk: structural approach, reduced form appraisal and incomplete information approach (Crosbie et al, 2003). Melton 1974 introduced the credit risk theory otherwise called the structural theory which is said the default event derives from a firm's asset evolution modeled by a diffusion process with constant parameters. Such models are commonly defined "structural model" and based on variables related a specific issuer. An evolution of this category is represented by asset of models where the loss conditional

on default is exogenously specific. In these models, the default can happen throughout all the life of a corporate bond and not only in maturity (Longstaff and Schwartz.1995).

2.2.3 C's of credit

Lending Institutions build their credit policy around the 5 C's of credit: Character (of the applicant), Capacity to borrow, Capital (as back up), Collateral (as security), economic Condition. These assessments are based upon lenders own experience taking into consideration not only historical information but also the futures view of the borrowers' prospects (MacDonald et al, 2006). Character refers to as the maturity, honesty, trustworthiness, integrity, discipline, reliability and dependability of a customer. A person of good character was open and divulges information about them in the process of the decision making. Capacity refers to the ability of a client to service his debt obligation fully. This is determined by reviewing sources of income versus obligations to determine his paying ability based on past information about borrower. Capital refers to the borrower's wealth position measured by financial soundness and market standing. The loan officer looks at what would happen if there is deterioration in the borrower's financial condition. Would they still be able to meet the debt obligation? Condition looks at the commercial, socio-economic, technological and political environment to assess the successful implementation of the project therefore the recovery of the loan issued. It looks at the sources of cash and how they vary with the business cycle and consumer demand. Collateral is a security issued to secure a loan. These guarantee the issuer of credit of a source of income in the event of failure or inability of the loan holder to pay their debt. Securities include land, building, machinery and others which may sometimes prove to be difficult to dispose in loan recovery (MacDonald et al, 2006).

2.3 Empirical Review

The empirical review of literature presents a discussion on the effect of credit risk management on financial performance, and how could the effective credit risk management assist in reducing the possibility of failure and restricting the uncertainty of achieving the required financial performance. Most of these researches support the notion that there is a positive relationship between effective credit risk management and financial performance, and some of these studies support the notion that there is a negative relationship between them, as follows;

2.3.1 Impact of Loan Policy on financial performance

SACCOs loaning policy is a statement of its philosophy, standards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients the SACCO approved for loans and which was avoided, and must be based on the loaning laws and regulations. The industry plays a major role in economic growth and development through provision of credit to execute economic activities. However, the major concern of any lender while advancing credit is how they will get their money back. Credit risk emanates from the probability that borrowers will default on terms of debt, subsequently loaning to high levels of non-performing loans. This concern has resulted into several attempts to manage the in Loaning Policies in SACCOs.

A study by Baliwen (2009) on loan delinquency control practices of primary cooperatives in Nigeria, it was established that almost all of the cooperatives had written policies which they implemented strictly to their members. Each cooperative had a credit committee; however, only few staff engaged in loans. The requirements of the

Cooperatives for borrowing loans were share capital, guarantors, collaterals, and savings deposit and business plan. Most of the cooperatives conducted credit investigation and monitored the projects of their borrowers to ensure that the loans were used properly. The cooperatives forced the borrowers to pay or return immediately their loans or they would not be granted loans once the cooperative found out that the loan was not being used for the intended purpose.

Gaitho (2010) surveyed on credit risk management practices by SACCOs in Nairobi, findings revealed that majority of SACCOs used credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. She also found out that majority of SACCOs relied heavily on the discretion and ability of portfolio managers for effective credit risk management practices as opposed to a system that standardizes credit and credit risk decisions. Ondieki (2011) looked into the effects of external financing on the performance of SACCOs in Kisii District and observed that major challenges inherent in the cooperative movement in Kenya included: poor governance, limited transparency in management of cooperatives, weak capital base and infrastructure weakness including ICT.

2.3.2 Assessing Credit monitoring on financial performance

The importance of monitoring risks is to make sure that they can be managed after identification. The SACCOs play an increasingly important role in local financial economies where competition for customers and resources with Micro Finance Institutions and other commercial banks is high therefore they require effective and efficient risk control and monitoring systems.

The risk management feedback loop will involve the management and senior staff in the risk identification and must assess, process, as well as to create sound operational policies procedures and systems. Implementation and designing of policies, procedures and systems will integrate line staff into the internal control processes, thus providing feedback on the Sacco's ability to manage risk without causing operational difficulties. The committee and the manager should receive and evaluate the results on an ongoing basis. Most risk management guidelines in SACCOs were contained in the policy manuals.

Drzik (1995) reported that a Risk Management Survey showed that large banks and credit unions in the US had made a substantial progress in their development and implementation of risk measures. The measures are used not only for risk control purposes, but also for performance measurements and pricing. Dhakal (2011) on risk management in SACCOs found out that risk management is not imbedded into the SACCOs institutional cultures and its value is not shared by all employees. He also noted that given the capacity, introduction of sophisticated systems and technical tools risk management does not work and therefore they lack the capacity required for risk management. Gisemba (2010) researched on the relationship between risk management practices and financial performance of SACCOs found out that they adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. He concluded that for Savings Credit and cooperatives to manage credit risks effectively they

must minimize loan defaulters, cash loss and ensure the organization performs better increasing the return on assets.

2.3.3 Impact of loan defaulter report on financial performance

According to WOCCU the financial discipline of provisioning for loan losses has not been part of the SACCO development since SACCOs have relied on the check-off system for decades. SACCOs therefore end up having extremely low net institutional capital and fail to meet the WOCCU prudential standard of excellence of a minimum of 10% net institutional capital. Institutional capital is a critical second line of defense after loan loss provisions from losses incurred by the credit union related to increasing delinquency and defaults. Silikhe (2008) on credit risk management in microfinance institutions in Kenya found out that despite the fact that MFI's have put in place strict measures to credit risk management, normal loan recovery is still a challenge to majority of the institutions. This explains the reasons why most financial institutions are either not growing or about to close down.

A study sought to determine the causes and impact of NPLs on the operations of microfinance institutions (MFIs) in Ghana. The study indicated that MFIs provide significant financial services including microcredit facilities especially in rural and semi-urban areas of the country. The loan portfolio, according to the scholar, constitutes a considerable percentage of the assets of the MFIs. As such, MFIs obtain most of their income from interest charged on loans. Against this backdrop, nonetheless, it is argued that not all loans granted to beneficiaries perform well and earn the projected returns, a situation that, needless to say, hampers the quality of the loan portfolio.

2.4 Research Gap

The empirical study presented above shows that extensive research has been done on the credit risk management practices by the banks. However, much of the studies on the SACCOs have been on Governance, regulation and supervision. No empirical studies have been done on the credit risk management on financial performance by the SACCOs.

Awoyemi Samuel Olausi, Banks (2014) *The Impact of Credit Risk Management on the Commercial Banks Performance in Nigeria* by is the study which is made with the objective to investigate the impact of credit risk management on the performance of commercial banks in Nigeria. In the model, Return on Equity (ROE) and Return on Asset (ROA) were used as the performance indicators while Non-Performing Loans (NPL) and Capital Adequacy Ratio (CAR) as credit risk management indicators. The data used in this study is a financial report of seven commercial banks for seven years (2005 – 2011). The panel regression model was employed for the estimation of the model. The findings revealed that credit risk management has a significant impact on the profitability of commercial banks' in Nigeria.

In year 2013 the study conducted by Noraini et al on *Risk Management Practices and Financial Performance of Islamic Banks* aims to analyze the relationship between risk management practices and financial performance in the Islamic banks in Malaysia. In efforts to assess the risk management practices in the Islamic banks by using the descriptive tests, the study used the 5-Likert scale approach in the questionnaire. The higher the scale indicates that the respondent strongly agrees to such practices adopted by their banks. Risk management practices are covered in five parts: Risk Management Environment, Policies and Procedures, Risk Measurement Practices, Risk Mitigation

Practices, Risk Monitoring Practices and Internal Control Practices as suggested by the Basel Committee on Banking Supervision. The study uses both the primary (survey questionnaires) and secondary data (annual reports). Overall, the findings on risk management practices show the importance of board of directors to approve the overall policies and to ensure that management takes necessary actions to manage the risks.

This study will use primary data to fill up this gap in the area of research. The extent to which SACCOs are exposed to credit risk is therefore not well documented in an area of research. The assumption was that since Sacco loans are given on the strength members shares and known guarantors, the risk is negligible or nonexistent. Also there was no documented standard method of measuring, assessing and controlling the credit risk in SACCOs. The current trend on the most common methods of credit risk management practices employed by the SACCOS has clearly been known through this study. This study has therefore endeavored to fill these gaps.

2.5 Conceptual Framework

This framework illustrated the relationship between the independent variable and the dependent variable. It showed the relationship between credit monitoring, loan policy and management of loan defaulters with financial performance.

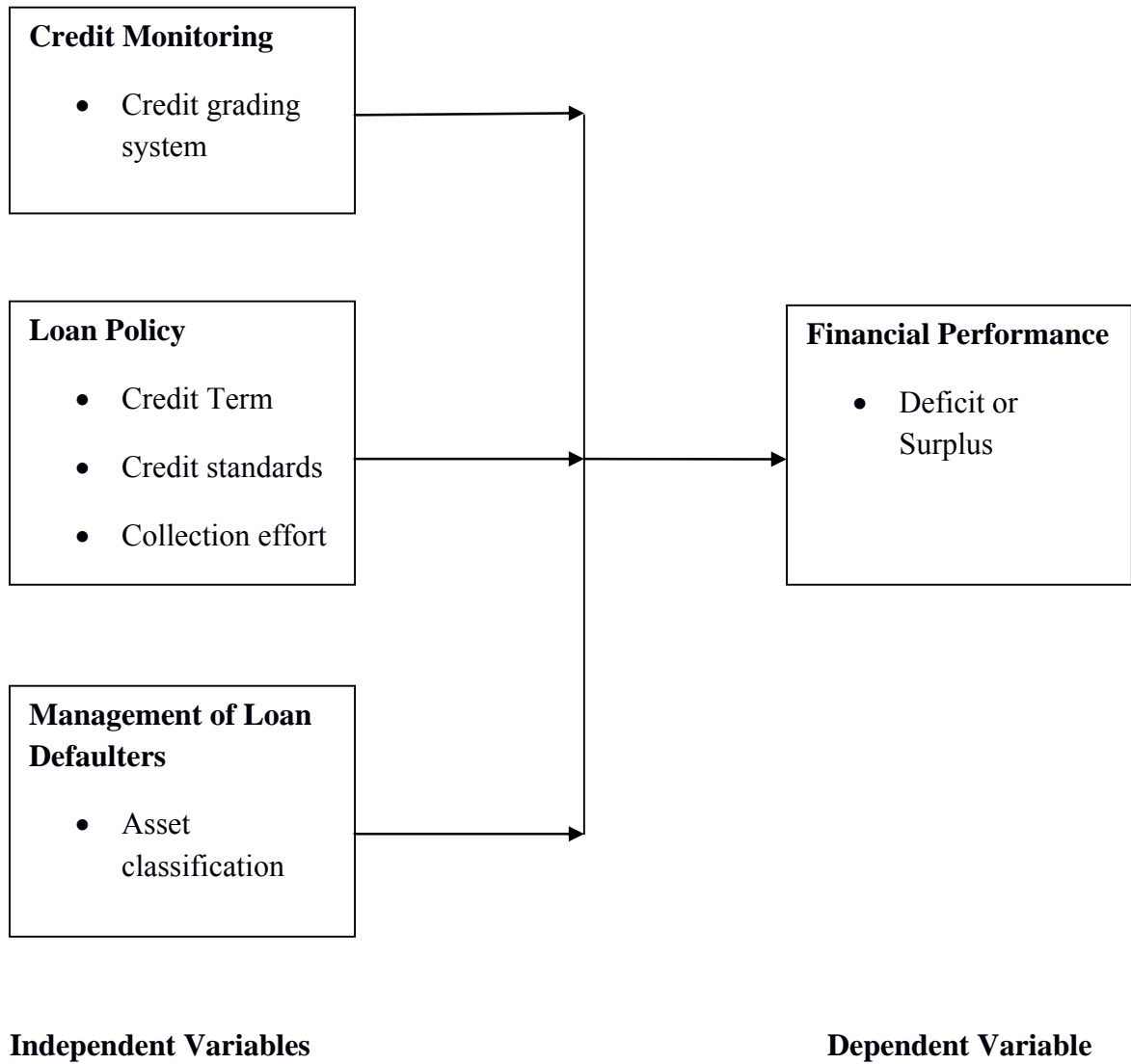


Figure 2.1: Conceptual framework

Source (Author 2016)

2.6 Summary of Literature Review

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. Financial risk in SACCOs is possibility that the outcome of an action or event could bring up adverse impacts. Such outcomes could either result in a direct loss of earnings / capital or may result in imposition of constraints on the SACCOs ability to meet its business objectives.

Qualitative and quantitative techniques can be used in assessing the borrowers although one major challenge of using qualitative models is their subjective nature. However, SACCOs can be viewed as asset portfolios with appropriate risk-return tradeoff, while borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems were important if it indicates changes in expected level of credit loan loss.

In Kenya, the Central Bank also applies the CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CBK, 2010). According to SASRA (2012) during the year, the Authority adopted a standardized methodology for evaluating and assessing safety and soundness of SACCO's business through the CAMEL rating framework. The evaluation tool targets all areas that expose significant risk for the SACCO's from a "going-concern" perspective, particularly: inadequate

capital funds to face any potential or unexpected losses arising from problem loans or investments in risky capital; deterioration of the loan portfolio as the main income-generating asset; inability of the SACCO to generate adequate revenues to cover the expenses; and, continued un-availability of liquid funds to finance portfolio growth and to respond to depositor's and creditor's needs.

However, literature review reveals that even though credit risk remains the largest risk facing most organizations, the practice of applying modern portfolio theory to credit risk has lagged (Margrabe, 2007). Mwisho (2001) concluded that in practice credit risk measures focus on risk and return trade off. That is, measuring the risk inherent in each activity or product and charge it accordingly for capital required to support it. This however, does not resolve the issue of loan losses which significantly pose challenges in SACCO management.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

In this chapter the research methodology used in the study is described. The study design and the population were described. In addition, the instrument used to collect the data, data collection procedures, pilot test and data analysis are also described.

3.2 Research design

The study adopted descriptive research design in which quantity data was collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time. Descriptive design was chosen because it will enable the study to establish the impact of credit risk management on financial performance of all Saving Credit and Co-operative Societies in Kitui County. It was used to obtain information concerning the current status of the impact of credit risk management on financial performance in Saving Credit and Co-operative Societies in Kitui County. This study therefore was able to generalize the findings to all the Saving Credit and Co-operative Societies in Kitui County.

3.3 Population

According to Mugenda and Mugenda (2003), a population refers to an entire group of individuals, events or objects having a common observable characteristic. In other words, population is the aggregate of all that conforms to a given specification (Mugenda and Mugenda, 2003). Sekaran and Bougie (2011) refers to a population as the entire group of people, events or things of interest that the researcher wishes to investigate.

The study used census survey on all 28 Saving and Credit Co-operative Society in Kitui County. The list of the SACCOs obtained from the Ministry of Trade and Co-operatives in Kitui County.

3.4 Instrument

A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. Likert scale is an interval scale that specifically uses five anchors of strongly disagrees, disagree, neutral, agree and strongly agree. The Likert measures the level of agreement or disagreement. Likert scale is good in measuring perception, attitude, values and behavior. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda and Mugenda, 2003, Upagade and Shende, 2012, Zikmund, Babin, Carr and Griffin, 2010).

Primary data was gathered by use of a questionnaire on the independent variables and dependent variable.

3.5 Data Collection Procedure

The questionnaires was issued to the loans officers of the listed SACCOs through self-introductions and where need be internal informants was used to give a lead on how to get to the respondents.

3.6 Pilot Test

A pilot test is evaluation of the specific questions, format, question sequence and instructions prior to the main survey. Questions answered by the pilot test include: Is each of the questions measuring what it is intended to measure? Are questions interpreted

in a similar way by all respondents? Do close-ended questions have a response which applies to all respondents? Are the questions clear and understandable? Is the questionnaire too long? How long does the questionnaire take to complete? Are the questions obtaining responses for all the different response categories or does everyone respond the same? (Polit and Beck, 2003). Pilot testing is a crucial step in conducting a research. Even modest pretesting can avoid costly errors. To check the validity and reliability of the questionnaire in gathering the required data for purposes of the study, a pilot test was conducted.

According to Bryman (2012), Zikmund, Babin, Carrand Griffin (2010), Saunders, Lewis and Thornhill (2007), the purpose of pilot testing is to establish the accuracy and appropriateness of the research design and instruments. Newing (2011) says that the importance of the pilot test cannot be overemphasized as one will always find unambiguous questions and questions which turn out not to be relevant for eliciting the sort information among other errors. Cooper and Scindler (2011) concurs that the purpose of a pilot test is to detect weaknesses in design and implementation. Sekam (2008) reinforces that pilot testing is necessary for testing the reliability of instruments and the validity of the study.

Piloting was carried out to test the validity and reliability of the instruments. Validity indicated that degree to which the instrument measured the constructs under investigation (Mugenda and Mugenda, (2003). There were three types of validity test which included content, criterion and related construct validity (Ngechu, 2006). This study used content validity because it measured the degree to which the sample of the items represents the content that the test is designed to measure.

A pilot study was conducted by the researcher taking some questionnaires to the SACCOs in Kitui County which was filled by some respondents at random. From this pilot study the researcher was able to detect questions that need editing and those that are ambiguous. The final questionnaire was then be printed and used to collect data to be used for analysis.

3.7 Data Processing and Analysis

The study used qualitative and quantitative techniques in analyzing the data. After receiving questions from the respondents, the responses was edited, classified, coded and tabulated to analyze quantitative data using Statistical Package for Social Science (SPSS version 20). Tables were used for further representation for easy understanding and analyses. Inferential statistic was used to establish the relationship between credit risk management and the financial performance of SACCOs, performance of SACCOs which was measured by surplus or deficit of the SACCO.

The model treated financial performance of SACCOs as the dependent variable while the independent variables were the credit risk management techniques which include Loan policy, credit monitoring and Management of loan default. The response on credit risk management techniques quantified based on the responses derived from the Likert-Scaled questions.

Multiple linear regression models were applied to the data on the impact of credit risk management on financial performance of savings and credit cooperative societies in Kitui County. This is a set of techniques for generating predicted scores for one variable, in this case the dependent variable, from three predictor variables, in this case independent

variables. The study adopted a model similar to that used by previous researchers in the area of credit risk management and financial performance (Kimari, 2013, Gatuhu, 2013).

The regression model was developed as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y= Financial Performance. This was measured using the surplus or deficit income.

B_0 = Constant Term

β_1 - β_3 = Beta coefficients

X_1 = Loan Policy

X_2 = Credit Monitoring

X_3 =Management of loan default

ε = Error Term

ε -It's the error term normally distributed about a mean of zero. For computation purposes its assumed to be zero.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and discussion of the results following research objectives. The General objective of this study was to assess the impact of credit risk management on financial performance of Savings and Credit co-operative Societies in Kitui County. The objectives of this study were to assess the impact of credit monitoring on financial performance of SACCOs in Kitui County, to ascertain the impact of loan policy in mitigation of risk on financial performance of SACCOs in Kitui County and to examine the influence of management of loan defaulters on financial performance of SACCOs in Kitui County. The study used census survey on all 28 Saving and Credit Co-operative Society in Kitui County to collect data using the questionnaires as the main research instruments. The questionnaires were issued to the loans officers of the listed SACCOs through self-introductions.

4.2 Response rate

Out of the 28 questionnaires distributed the researcher was able to collect 25 questionnaires making a response rate of 89.3% which was deemed sufficient according to Mugenda and Mugenda (2003) who said the questionnaires response rate of at least 50% was sufficient.

4.3 Length of operation for the SACCOs

The researcher sought to establish the SACCOs length of operation. Majority (40%) of SACCOs had operated for 7 – 10 years followed by those which had operated for 4 – 6 years (32%). The SACCOs with the least number of SACCOs had a length of operation greater than 10 years (8%). The responses were as presented in Table 4.1.

Table 4.1:SACCOs years of operation

Years of operation	Frequency	Percent
1- 3	5	20.0
4 – 6	8	32.0
7 – 10	10	40.0
> 10	2	8.0
Total	25	100.00

4.4 Working experience for the respondents

The researcher sought to establish the working experience for the respondents. Majority (48%) of respondents had worked for 4 – 5 years followed by those which had for 6 – 8 years (28%). The responses were as presented in Table 4.2.

Table 4.2:SACCOs years of operation

Years of operation	Frequency	Percent
1- 3	3	12.0
4 – 5	12	48.0
6 – 8	7	28.0
> 8	3	12.0
Total	25	100.00

4.5 Multiple regression analysis.

In order to determine the relationship that exists between the dependent variable (financial performance of SACCOs) and the independent variables (credit monitoring, loan policy, and management of loan defaulters), a multiple regression analysis was conducted. Multiple regression analysis was used because it measured the relationship between independent and dependent variables by generating an equation which can be used to predict the dependent variable for some given dependent variables. The model summary from the regression output was shown below in table 4.3

Table 4.3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
1.918 ^a	.843	.805	1.242

Predictors: (Constant) credit monitoring, loan policy, and management of loan defaulters)

Analysis in Table 4.3 shows that the adjusted coefficient of determination, R squared equals 0.805. This meant that 80.5% of the variation in financial performance of SACCOs was explained by the independent variables while 19.5% of the variations were explained by other factors at 95% confidence level.

To test the fitness of the regression model, the researcher used the model Table as shown in Table 4.4.

Table 4.4: ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.045	1	0.123	0.678	0.000
Within Groups	5.102	24	0.016		
Total	6.147	25			

Dependent Variable: Financial performance of SACCOs

The study used ANOVA to establish the significance of the regression model from which an f-significance value of $p < 0.001$ was established. This shows that the regression model

has a less than 0.001 likelihood (probability) of giving a wrong prediction. Hence the regression model has a confidence level of 95%.

The researcher further presented the multiple regression model was to determine the form of relationship between credit monitoring, loan policy, and management of loan defaulters and financial performance of SACCOs using SPSS software version 20.0 of IBM. The coefficient results for the regression equation were presented in Table 4.5.

Table 4.5: Coefficients results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
(Constant)	0.943	.133		3.167	.000
Credit monitoring (X ₁)	0.956	.028	0.158	2.321	.002
Loan policy (X ₂)	0.858	.0290	.101	1.257	.001
Management of loan defaulters (X ₃)	0.812	.030	.105	3.126	.000

From Table 4.4, the following regression equation was established ;_

$$Y = 0.943 + 0.956X_1 + 0.858X_2 + 0.812 X_3$$

From the regression equation above it follows that holding all the independent variables constant, financial performance will increase by 0.943 units. The findings also show that holding all other independent variables constant other than credit monitoring, a unit increase in credit monitoring will lead to a 0.956 increase in financial performance, a unit increase in loan policy in mitigation of risk will lead to a 0.858 increase in financial performance holding all other factors constant, a unit increase in management of loan defaulter will lead to a 0.812 unit increase in financial performance holding all other factors constant.

4.5.1 Monitoring and financial performance of SACCOs

The first objective for this study was to assess the impact of credit monitoring on financial performance of SACCOs in Kitui County. The regression model established that there was a very strong positive relationship between credit monitoring and financial performance of SACCOs with a coefficient of 0.956. This meant that a unit change in credit monitoring lead to a change in financial performance of SACCOs by a factor of 0.956. This coefficient was established to be the highest among the others hence credit monitoring was established to have the highest relationship with the financial performance of SACCOs.

These results agreed with Drzik (1995) who reported that a Risk Management Survey showed that large banks and credit unions in the US had made a substantial progress in their development and implementation of risk measures. The measures are used not only for risk control purposes, but also for performance measurements and pricing. Dhakal (2011) on risk management in SACCOs found out that risk management is not imbedded into the SACCOs institutional cultures and its value is not shared by all employees. He

also noted that given the capacity, introduction of sophisticated systems and technical tools risk management does not work and therefore they lack the capacity required for risk management. Gisemba (2010) researched on the relationship between risk management practices and financial performance of SACCOs found out that they adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. He concluded that for Savings Credit and cooperatives to manage credit risks effectively they must minimize loan defaulters, cash loss and ensure the organization performs better increasing the return on assets.

The respondents were further required to indicate their level of agreement with the statements given Table 4.6 using: Strongly disagree-1, Disagree-2, Neutral-3, Agree-4, Strongly agree-5) on the impact of credit monitoring on financial performance of SACCOs.

Table 4.6: Monitoring and financial performance of SACCOs

Factors on credit monitoring	Mean responses	Standard deviation
Internal auditor doing verification of the loans	3.92	1.22
keep track of borrowers' compliance with credit terms	4.11	0.95
Conduct periodic valuation of collateral	3.22	1.45
Monitoring timely repayments of loans	3.24	1.35
Loan aging report	4.05	1.11

It was also observed that all the means ranged between 3.24 and 4.11 while the standard Deviations ranged between 0.95 and 1.11. This was an indication of smaller variations in responses implying a greater degree of agreement. This is because the smaller the variation the better the results. The smallest std. deviation was observed on the statement keep track of borrowers' compliance with credit terms (mean=4.11, Standard deviation = 0.95). These results agrees with the regression analysis results presented in section 4.5 which indicated that there was a strong positive relationship between Monitoring and financial performance of SACCOs.

4.5.2 Loan policy in mitigation of risk and financial performance of SACCOs.

The second objective for this study was to ascertain the impact of loan policy in mitigation of risk on financial performance of SACCOs in Kitui County. The regression results in Table 4.5 show that the coefficient between loan policy in mitigation of risk and financial performance of SACCOs was 0.858. This was the second highest coefficient. This coefficient shows that there is a very strong positive relationship between loan policy in mitigation of risk and financial performance of SACCOs. This implies that a unit increase in loan policy in mitigation of risk will lead to an increase in financial performance of SACCOs by a factor of 0.858.

These results agree with Gaitho (2010) survey on credit risk management practices by SACCOs in Nairobi. The findings revealed that majority of SACCOs used credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. She also found out that majority of SACCOs relied heavily on the discretion and ability of portfolio managers for effective credit risk management practices as opposed to a system that standardizes credit and credit risk decisions. Ondieki (2011) looked into the effects of external financing on the performance of SACCOs in Kisii District and observed that major challenges inherent in the cooperative movement in Kenya included: poor governance, limited transparency in management of cooperatives, weak capital base and infrastructure weakness including ICT.

The respondents were further required to indicate their level of agreement with the statements given Table 4.7 using: Strongly disagree-1, Disagree-2, Neutral-3, Agree-4, Strongly agree-5)

Table 4.7: Risk management

Statement	Mean	Standard deviation
Provision of standardized loan forms	4.12	1.2
Regular assessment of borrowers operating conditions	4.11	0.9
System used to repay loan applied	2.32	1.3
Maximum period is given to borrowers to repay their loan	2.91	1.33
Processing of Loan term loans should take a period of one month	3.22	1.02
Credit committee going through the loans before they are approved for posting	5.33	0.33
Loans have a standard interest rate	4.30	1.42
Loans are verified by the internal auditor before posting	3.22	1.23
Member can only get a loan after the first deduction of shares from the employer	4.20	1.49
Three current original pay slips are required when applying loan	3.68	1.38
Supervisory committee going through the loan schedules with loan report	2.31	1.71

It was also observed that all the means ranged between 2.31 and 4.3 while the standard deviations ranged between 0.33 and 1.49. This was an indication of smaller variations in responses implying a greater degree of agreement. This is because the smaller the variation the better the results. The smallest standard deviation was observed on the

statement credit committee going through the loans before they are approved for posting (mean=5.33, Standard deviation = 0.33) and the statement regular assessment of borrowers operating conditions (mean= 4.11, Standard deviation = 0.9). These results agrees with the regression results presented in section 4.5 which indicated that there was a strong positive relationship between management of risk and financial performance of SACCOs.

4.5.3 Management of loan defaulters on financial performance

The last objective for this study was to examine the influence of management of loan defaulters on financial performance of SACCOs in Kitui County. The regression model on Table 4.5 revealed that Management of loan defaulters had coefficient of 0.812. This implied that there was a very strong positive relationship between management of loan defaulters and financial performance of SACCOs. This meant that a unit increases in loan defaulters will lead to increase in financial performance of SACCOs by a factor of 0.812 and vice versa.

These results agrees with Silikhe (2008) who argued that, on credit risk management in microfinance institutions in Kenya found out that despite the fact that MFI's have put in place strict measures to credit risk management, normal loan recovery is still a challenge to majority of the institutions. This explains the reasons why most financial institutions are either not growing or about to close down.

The respondents were further required to indicate their level of agreement with the statements given Table 4.8 using: Strongly disagree-1, Disagree-2, Neutral-3, Agree-4, Strongly agree-5)

Table 4.8 :Management of loan defaulters

Factors	Mean	Standard deviation
Change of pay point after one has received the money	4.22	1.20
Failure to submitted the data to the employer for deduction	3.66	1.33
Loan reconciliation not being done by the officer	3.98	0.95
Interdiction of member hence no deduction is submitted to the Sacco	4.10	0.54
Management decisions where 2/3 rule is not adhered to.	3.522	1.24
Lack of enough shares when taking the loan	4.02	1.33
Wrong appraisal of the loan	4.18	1.47
Loan given without considering the retirement age	3.82	1.85
Failure to notify SACCO when changing to another employer	3.95	0.98
Failure to verify the security issued	3.90	1.20

Table 4.7 revealed that all the means ranged between 3.66 and 4.22 while the Standard deviation ranged between 0.54 and 1.85. This was an indication of smaller variations in responses implying a greater degree of agreement. This is because the smaller the variation the better the results. The smallest std. deviation was observed on the statement credit committee going through the loans before they are approved for posting (mean=4.10, Standard deviation = 0.54). These results agree with the regression results in

section 4.5 which revealed that there was a positive relationship between management of defaulters and financial performance of SACCOs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings; the conclusion and the recommendations of the study and suggestions for further research.

5.2 Summary of the findings

The regression model established that there was a very strong positive relationship between credit monitoring and financial performance of SACCOs. This agrees with Dhakal (2011) who argued that risk management feedback loop will involve the management and senior staff in the risk identification and must assess, process, as well as to create sound operational policies procedures and systems. This will enhance credit monitoring hence improve financial performance of SACCOs. It can only be done through implementation and designing of policies, procedures and systems will integrate line staff into the internal control processes, thus providing feedback on the Sacco's ability to manage risk without causing operational difficulties. The committee and the manager should receive and evaluate the results on an ongoing basis. Most risk management guidelines in SACCOs will be contained in the policy manuals.

It was also revealed the coefficient between loan policy in mitigation of risk and financial performance of SACCOs was positive. This agrees with a study by Baliwen (2009) on loan delinquency control practices of primary cooperatives in Nigeria, it was established that these policies significantly influenced the performance of SACCOs and that almost all of the cooperatives had written policies which they implemented strictly to their members. Each cooperative had a credit committee; however, only few staff engaged in

loans. The requirements of the Cooperatives for borrowing loans were share capital, guarantors, collaterals, and savings deposit and business plan. Most of the cooperatives conducted credit investigation and monitored the projects of their borrowers to ensure that the loans were used properly.

It was also established that there was a very strong positive relationship between management of loan defaulters and financial performance of SACCOs. These results agree with a study by Silikhe (2008) which established that for a financial institution to improve financially it must deal with loan defaulters.

5.3 Conclusions

This study examined the impact of credit risk management on financial performance on savings and credit cooperative societies in Kitui County. The objectives were arrived at by delving into the following research questions; what is the impact of Loan defaulter Reports on financial performance of SACCOs in Kitui County? , what is the impact of loan policy in mitigating risk on financial performance of SACCOs in Kitui County? ,and finally, what are the credit risk monitoring systems employed by SACCOs in Kitui County?

The study concludes that credit monitoring in SACCOs was very high. This high credit monitoring has led to improved financial performance of SACCOs. It can only be done through implementation and designing of policies, procedures and systems will integrate line staff into the internal control processes, thus providing feedback on the Sacco's ability to manage risk without causing operational difficulties. The committee and the manager should receive and evaluate the results on an ongoing basis. Most risk

management guidelines in SACCOs will be contained in the policy manuals. It can be concluded from this study that when holding other factors constant credit monitoring was found to have a positive and significant relationship between credit monitoring and financial performance. This implies that credit monitoring in SACCOs significantly influences the financial performance of SACCOs in Kitui County.

From the study findings, it can be deduced that SACCOs had effective loan policy. The requirements of the Cooperatives for borrowing loans were share capital, guarantors, collaterals, and savings deposit and business plan. Most of the cooperatives conducted credit investigation and monitored the projects of their borrowers to ensure that the loans were used properly. It can be concluded from this study that there exists a positive significant relationship between loan policy and financial performance of SACCOs. The results reveal that loan policy significantly influences the financial performance of the SACCOs.

The study sought to establish the extent which management of loan defaulters influences financial performance of SACCOs in Kitui County. The study concludes that there were effective policies that guided the management of loan defaulters in the SACCOs.

It can be concluded from this study that there exists a positive and significant relationship between management of loan defaulters and financial performance. This implies that managing loan defaulters in SACCOs significantly influence financial performance of SACCOs in Kitui County.

It was possible to conclude from the study findings that there was improved and increased financial performance of SACCOs across the years. The performance

indicators had all increased in loaning. This implies that the employees and members of the SACCOs had embraced the procedures in the loan policy, credit monitoring and management of loan defaulters.

5.4 Recommendations to policy

The following policy recommendations were proposed to improve the overall management of SACCOs in Kenya. SACCO's should put stringent measures such as intensify internal auditing and verification of the loans so as to improve on the monitoring of loans in the SACCOs and should always consider the retirement age of members when giving loans so as to reduce the loans defaulted as they all predict Financial Performance of the SACCOs.

The loans policy should be intended to provide direction, guidelines and make provisions for proper and efficient utilization and administration of the society's loan portfolio in order to ensure that the society's interests are adequately protected to ensure equitable distribution of funds, encourage liquidity planning and reduce loan default. Members should not be allowed to withdraw part of his/her deposits or offset part of the deposits against an outstanding loan unless he/she ceases to be a member. These enhance loan repayment and reduce loan default. If loan repayment is delayed, the guarantors should be informed of this fact and be notified that they will be called upon to honor their obligations if no repayments are effected at the end of a given period. The General Manager of SACCOs should maintain an up-to-date documentation of loan files and ensure that loan application form and security are in place in case of arbitration and suit.

The recommendations for regulator include joining the credit reference bureau and educating their members the need of prompt payment. CRB allows for credit information sharing among the financial institutions. Credit information sharing undoubtedly plays a pivotal role in reducing the information asymmetry that exists between banks and borrowers. The major benefit that the SACCO would receive from CRB is that they would be able to get credit information on prospective borrowers that will facilitate assessment of credit requests to mitigate risks of bad debts. On the side of the borrower, a good credit record acts as an incentive for competitive pricing of loan facilities.

5.5 Suggestions for further research

The study revealed that credit risk management contributes greatly to financial performance among the SACCOs in Kitui County. This is evidenced by the *R-Square* which is the coefficient of determination that showed that the three independent variables in the model explain a big percentage of financial performance. However, it is also evident that management of loan defaulters has significant positive impact on performance among SACCOs (Silikhe 2008). The study recommends further research on the impacts of other aspects such as risk of loan defaulting, factors influencing loan recovery in SACCOs in Kenya. Findings from such study will provide more insight on the relationship between the said factors, which could be useful in informing credit risk management strategies and policy in Kenyan SACCOs.

This study further recommends an inclusion of commercial banks in a similar study as a control. Such a study can facilitate in determining the extent of similarities in the prudential regulatory framework and its implication on the financial performance of the entire banking and finance industry. The researcher recommends that future research can

be directed towards authenticating the results of this study by conducting a comparable research among micro-finance institutions in Kenya

Further research should also consider utilizing both qualitative and quantitative techniques that can be used in assessing the borrowers. Consequently, in line with reviewed literature SACCOs can be viewed as asset portfolios with appropriate risk-return tradeoff, while borrowers attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

REFERENCES

- Almazari A. A. (2011). Financial Performance Evaluation of Some Selected Jordanian Commercial Banks. *International Research Journal of Finance and Economics*. ISSN 1450-2887 Issue 68 (2011) © Euro Journals Publishing, Inc. 2011.
- Avkiran, N.K. (1995), “Developing an instrument to measure customer service quality in branch banking”, *International Journal of Banks Marketing*, Vol.12 No. 6, pp.10-18.
- Awoyemi, Samuel and Olausi, A.S. (2014). The Impact of Credit Risk Management on the Commercial Banks Performance in Nigeria, *International Journal of Management and Sustainability*, 3 (5), pp. 295-306. Available at:<http://pakinsight.com>.
- Baliwen.K (2009). Loan delinquency control practices on primary cooperatives in Nigeria
- Basel. (1999). *Principles for the Management of Credit Risk*. *Basel Committee on Banking Supervision*, Basel
- Bryman, A. and Cramer, D. 2012). *Quantitative Data Analysis with SPSS for Windows*. *Routledge*, London
- CBK, (2007). *Bank supervision Annual Report*. Nairobi: Government printers
- Central Bank of Kenya, (2010). Risk Management Survey for the Banking Sector. CBK, Nairobi.
- Chijoriga, M. M. (1997). Application of Credit Scoring and Financial Distress Prediction Model to Commercial Banks Lending: The Case of Tanzania. Ph.D. Dissertation, Wirts Chaftsnnversitat Wien (WU), Vienna.
- Crosbie et al, (2003) *Journal of Planktonic Research*, plankt.oxfordjournals.org/content
- Cooper, R.D. and Schindler, P.S. (2011). *Business Research Methods 11th edition*. McGraw-Hill Publications. New York, United States.
- Dhakal, N. H. (2011). Micro-finance for achieving Millennium Development Goals in Nepal. *Agriculture Credit*, 37, 76 - 88
- Drzik, J. (1995), CFO Survey: Moving Towards Comprehensive Risk Management, *Bank Management*, Vol. 71, 40.
- Essendi.K (2013). Credit risk management on loan portfolio among Sacco’s in Kenya. Unpublished MBA project

- Gaitho.M (2010).Credit risk management practices by Sacco's in Nairobi. Unpublished MBA project.
- Gatuhu.N (2013).Credit risk management on financial performance of micro finance institution in Kenya.Unpublished MBA project.
- Gilbert Odoi Boateng (2008).Dissertation on "Credit Risk Management in Financial institutions; the case of Scandinaviska Enskilda Banking (SEB) Stockholm". University of Skovde press. 6.
- Gisemba, P. N. (2010). The Relationship between Credit Risk Management Practices and Financial Performance of SACCOs in Kenya. Unpublished MBA Dissertation, University of Nairobi
- Greuning, H. & Iqbal, O. (2007). *Analyzing and Managing Banking Risk: A Framework for Assessing Corporate Governance and Financial Risk*. 2 ed. Prentice Hall
- Herrmann, A. M. (2008). Choosing and Successfully Sustaining Competitive Strategies in the European Pharmaceutical Industry. *MPIfG Discussion Paper 08 /9*. Max Planck Institute for the Study of Societies, Cologne
- ICA. (2002). Statement on the co-operative Identity. Available from the University of Wisconsin Center for Co-operatives at [Http://www.wisc.edu/uwcc/rin-html](http://www.wisc.edu/uwcc/rin-html) viewed may 15th,2012 International co-operative Alliance (2002) [http; //co-op .org](http://co-op.org) accessed on march 2nd 2008
- Kimeu T.M. (2008). A Survey of Credit Risk Management Techniques of Unsecured Bank Loans of Commercial Banks in Kenya.MBA Project; University of Nairobi
- Long staff, P., Schwartz, E. (1995) "A simple approach to valuing risky fixed and floating rate debt" *Journal of Finance*, Vol.5pp789-819
- Maina, J. M. (2011). Relationship between Credit Risk Management Practices and Financial Performance of Microfinance Institutions in Kenya. *Unpublished MBA Project*. University of Nairobi
- MacDonald S. & Timith W. K. (2006), *Management of Banking*, 6th Edition Published by Pre- Press Comm. Inc.
- Mahour Mellat Parast, Elham (Ellie) H. Fini, (2010) "The effect of productivity and quality on profitability in US airline industry: An empirical investigation", *Managing Service Quality: An International Journal*, Vol. 20 Iss: 5, pp.458 - 474

- Makori, J., Munene, C. & Muturi, W. (2013). The challenges facing deposit-taking Savings and Credit Cooperative Societies' regulatory compliance in Kenya. A case of the Gusii Region, *Interdisciplinary Journal of Contemporary Research in Business, Vol 4, No 12*
- Margrabe K, (2007). The incidence of secured debt: evidence from the small business community, *Journal of Financial and Quantitative Analysis, Vol. 24, 379-94.*
- Markowitz H.M (1952), Portfolio Selection. *Journal of Finance, Vol 7 no1.*
- Ministry of Co-operative Development 2009 Annual Review Report.
- Mudibo K. (2005). *The savings mobilized by SACCOs in Kenya and the cases of fraud and corruption including Cooperative Societies –Governance issues 9th November, 2005.*
- Mugenda, O. M. & Mugenda, A. G. (2003). *Research methods: Quantitative and qualitative approaches.* Nairobi: Acts press
- Mwisho, A. M. (2001). *Basic lending conditions and procedures in commercial banks.* The Accountant, Vol. 13 No.3, 16-19
- Newing, H. (2011) *Conducting Research in Conservation: A Social Science Perspective.* Routledge, Abingdon, Oxon, UK.
- Ngechu, M. (2006). *Understanding the research process and methods. An introduction to research methods.* Acts Press: Nairobi.
- Ogilo Fredrick, PhD (2012), *The Impact of Credit Risk Management on Financial Performance of Commercial Banks in Kenya*
- Omisore, I., Munirat, Y. & Nwufo, C. (2012). The modern portfolio theory as an investment decision tool. *Journal of Accounting and Taxation Vol. 4(2), 19-28*
- Ondieki, F. W. (2011), *The relationship Between Credit Risk Analysis and the level of Non- Performing Loans: A Case Study of Commercial Banks, Unpublished MBA Project, University of Nairobi*
- Polit, D. and Beck, C. (2003). *Nursing Research: Principles and Methods, 7th Edition,* Lippincott, Williams and Wilkins, United States of America
- Rehema Mvula (2013). *Common issues affecting performance of SACCO in Malawi, 8th August, 2013.*

- SACCO Societies Regulatory Authority (SASRA) (2012). Sacco Supervision Report: Deposit Taking SACCOs. In house Publication
- Saunders and Cornett (2005) “*Financial Institution Management*”, McGraw Hill Pub.2005
- Sanders, Lewis & Thornhill (2007). *Research Methods for Business Students*. 5th ed. London: Pearson Education Limited
- Sekaran, U. and Bougie R. (2011). *Research Methods for Business: A Skill Building Approach*. 5th Edition. Aggarwal printing press, Delhi, ISBN: 978-81-265-3131-8
- Silikhe, S. (2008) “Credit risk management in Microfinance Institutions in Kenya” Unpublished MBA Project.
- Sinkey, J. F. (1992). *Commercial Bank Financial Management*. Macmillan Perspective Publishing Company.
- Steel, C. (1998). Conflicting views on ITIL implementation. Proceedings of 1998 International Conference on Information Resources Management (pp. 18-20). Canada: University of Southern Queensland.
- Upagade, V. and Shende, A. (2012). *Research methodology*. 2nd edition. S.Chad and Company Ltd. Ram Nagar, New Delhi
- Zikmund, G.W., Babin, B.J., Carr, C.J. and Griffin, M. (2010). *Business Research Methods*, 8th ed. South-Western, Cengage Learning

APPENDICES

Appendix I: Introduction Letter

Dear Participant

RE: RESEARCH QUESTIONNAIRE

The questionnaire contained hereby is for a study on how the credit risk management has impact to the financial performance of Saving Credit and Co-operative Society.

This questionnaire is aimed at obtaining more information about your opinions, perceptions, experiences and particular issues on financial performance in financial institutions. Your participation and contribution will be valuable to the completion of the study.

Please read through the questions carefully. Instructions on how to complete the questionnaire appear at the beginning of each part. All attempts were be made to give you feedback on the findings, should you wish to receive the same. For more information and/or request for feedback, kindly contact:

Rosemary Mutua

C/o South Eastern Kenya University

Email: rkasyokamutua@gmail.com

Thanking you for your kind attention.

Appendix II: Introduction letter from the university



SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
Email: info@seku.ac.ke

TEL: 020-2413859 (KITUI)
020-2531395 (NAIROBI)
E-mail: directorbps@seku.ac.ke

Our Ref: D61/KIT/20450/2014

Date: Wednesday, February 03, 2016

Mutua Rosemary Kasyoka
Reg: D61/KIT/20450/2014
Master of Business Administration
C/O Dean, School of Business and Economics

Dear Mutua,

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled, *"Impact of credit risk management on financial performance of savings and credit co-operatives societies in Kitui County"*.

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your research data collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba and Ms. Anne Christine Kabui. You should ensure that you liaise with your supervisors at all times. In addition, you are required to fill in a Progress Report (**SEKU/ARSA/BPS/F-02**) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business administration.

For
mutua

Prof. Cornelius Wanjala
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
Dean, School of Business and Economics
Chairman, Department of Business & Entrepreneurship
Dr. Jared Ariemba
Ms. Anne Christine Kabui,
Director, Kitui Campus
RPS Office- To file

Appendix III: Questionnaire
Questionnaire Instructions:

Kindly answer the following questions by writing a brief answer or ticking in the space or boxes provided respectively.

SECTION A: DEMOGRAPHIC SURVEY

Name of SACCO (optional)

.....

Please tick (√) as appropriate

1. How long has the Sacco been in operation?

1-3 years []

4-6 years []

7-10 years []

More than 10 years []

2. How many years have you worked in the Organization?

Less than 1 year []

1 - 3 years []

4 - 5 years []

5 - 8 years []

Over 8 years []

3. Type of loan products offered by the Sacco:

Normal loan []

Instant loans []

Development loan []

Emergency loan []

School fees loan []

Others (specify) []

SECTION B: CREDIT RISK MANAGEMENT

CREDIT TERMS, CREDIT STANDARDS AND COLLECTION EFFORT

6. Does the SACCO have a credit policy?

Yes [] No []

6a if (YES) do you agree with the credit terms, credit standards and collection effort in financial performance of a SACCO.

(Key: Strongly disagree-1, Disagree-2, Neutral-3, Agree-4, Strongly agree-5)

No	Statement	1	2	3	4	5
1.	Provision of standardized loan forms					
2.	Regular assessment of borrowers operating conditions					
3	System used to repay loan applied					
4	Maximum period is given to borrowers to repay their loan					
5	Processing of Loan term loans should take a period of one month					
6	Credit committee going through the loans before they are approved for posting					
7	Loans have a standard interest rate					
8	Loans are verified by the internal auditor before posting					
9	Member can only get a loan after the first deduction of shares from the employer					
10	Three current original pay slips are required when applying loan					
11	Supervisory committee going through the loan schedules with loan report					

SECTION C: INFLUENCE OF MANAGEMENT OF LOAN DEFAULTERS

7. Does the SACCO have loan defaulters?

YES NO

7 b.If YES which factors do you think in your own opinion contribute to loan defaulting.

Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

No	Factors	1	2	3	4	5
1	Change of pay point after one has received the money					
2	Failure to submitted the data to the employer for deduction					
3	Loan reconciliation not being done by the officer					
4	Interdiction of member hence no deduction is submitted to the Sacco					
5	Management decisions where 2/3 rule is not adhered to.					
6	Lack of enough shares when taking the loan					
7	Wrong appraisal of the loan					
8	Loan given without considering the retirement age					
9	Failure to notify SACCO when changing to another employer					
10	Failure to verify the security issued					

7 c. How does the management deal with loan default in your SACCO?

- 1. Notify the Member
- 2. Attach guarantees shares
- 3. Attach borrower's assets
- 4. Take legal action
- 5. Give more periods to the borrower to pay the loan

6. Resend the deductions again to the employer if one has the ability to pay []

SECTION D: IMPACT OF CREDIT MONITORING

8. How regularly does the credit committee do the credit monitoring?

Quarterly []

Semiannually..... []

Annually..... []

Others specify..... []

8 a. To what extent do you agree with the following statement on credit monitoring?

Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

Factors on credit monitoring	1	2	3	4	5
Internal auditor doing verification of the loans					
keep track of borrowers' compliance with credit terms					
Conduct periodic valuation of collateral					
Monitoring timely repayments of loans					
Loan aging report					

SECTION E: IMPACT OF CREDIT RISK MANAGEMENT ON FINANCIAL PERFORMANCE

9. What obstacles affect achievement of organization credit risk management goals and objectives most?

Inadequate knowledge ()

Rejection from employees ()

Lack of attention from managers ()

9 a. Please comment on the challenges faced in credit risk management and their impact on the financial performance of your

SACCO.....

To what extent does your Sacco involve the following parties in formulating credit risk management policies? Use scale 1 to 5 where 1 is to a lesser extent and 5 to a greater extent.

Parties	1	2	3	4	5
Board of directors					
Credit committee					
Credit officers					
Employees					

SECTION F: PERFORMANCE OF THE SACCOS

10. What is the trend of the following in your business for the last five years? Please tick as appropriate

TREND	Greatly improved	Improved	Constant	Decreasing	Greatly decreased
Loans default control					
Gross income					
Share capital					
Dividends/ return					
Loans issued					

*******THANK YOU FOR PARTICIPATION*******

Appendix 1V: Population of study

THE COUNTY GOVERNMENT OF KITUI

Email:
mtiic@kitui.go.ke
When replying please quote



CHIEF OFFICER'S OFFICE
KITUI COUNTY
P. O. Box 58 - 90200
KITUI

COUNTY MINISTRY OF TRADE, INDUSTRY, ICT AND COOPERATIVES

REF: MTIIC/3/7/VOL.1/311

14th December, 2015

To Whom It May Concern

RE: LIST OF ACTIVE SACCO SOCIETIES IN KITUI COUNTY

Kindly note that the active SACCO societies are:

1	Kitui Teachers SACCO	15	Ebeneza SACCO
2	Mwingi Mwalimu SACCO	16	Wendo T. SACCO
3	SEU SACCO	17	B2 Yatta Staff SACCO
4	BESTROCK SACCO	18	Mbikisa SACCO
5	Kamuwongo Bidii Traders SACCO	19	Buddies SACCO
6	Mwingi Traders SACCO	20	Kitui County Women SACCO
7	Kitui Traders SACCO	21	Malyamu Women SACCO
8	Mutomo Traders SACCO	22	Tseikuru Ward Women SACCO
9	Mutomo Farmers SACCO	23	Zomka Women SACCO
10	KISCHWO SACCO	24	Kavisuni Travellers SACCO
11	MUSCWO SACCO	25	Kinakoni Women SACCO
12	LYSCWO SACCO	26	Kamuwongo Nissan SACCO
13	Kinatwa SACCO	27	Klima Women SACCO
14	Kinathi SACCO	28	Matinyani Travellers SACCO

Sincerely,

NELSON MUSYOKA
ASSISTANT DIRECTOR FOR CHIEF OFFICER
FOR CHIEF OFFICER TRADE, INDUSTRY, ICT AND COOPERATIVES
KITUI COUNTY

