LOAN REPAYMENT MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN THARAKA NITHI COUNTY, KENYA

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DECLARATIONS

This project is my original work and was not submitted for a degree in any other University.

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APPROVAL

The project work was submitted for evaluation with my consent as the officially appointed university supervisor.

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DEDICATION

To my husband Martin Muriuki who tirelessly ensured that I do the best, my children who patiently endured my busy hours as I worked though this course, my colleagues for standing on the gap for me and to God for his sovereignty.

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OPERATIONAL DEFINITION OF TERMS

Earnings	Income derived from an investment or product.
D-T SACCOs	SACCOs that undertake both withdraw able and non-withdraw able deposits.
Loan	Money borrowed with expectation of returning within the agreed duration and with interest.
Loan Appraisal	Assessment of risk that impact loan payment.
Loan Portfolio	Major Asset of banks, thrifts, and other lending institutions.
Loan Repayments	Payments towards a loan that are inclusive of principle and interest done on periodic payment of either daily, weekly or monthly.
Interest	Fee charged by a creditor to a debtor for granting a loan in financial organization.
Interest Rates	Amount charged by a lender to a borrower as a percentage of the principal.
SACCOs	Business entities (Savings and Credit Cooperative Societies) registered under the cooperative society act 1997. They are of two types; financial SACCOs and non-financial SACCOs.

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CRB	Credit Regulatory Authority
GDP	Gross Domestic Product
IFRS	Financial Reporting Standards
MFI	Micro-Financial Institutions
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SACCO	Saving and Credit Cooperative Societies
SASRA	Sacco Societies Regulatory Authority
SMEs	Small and Medium Enterprises
USD	United States Dollar
WOCCU	World Council of Credit Unions

ABSTRACT

Savings and Credit Cooperative Societies play an important part in resource mobilization and provision of credit at affordable rates. This is attributed to the fact that people come together under one common goal of mobilizing their financial resources and have a framework that allows lending to members for different use, including investment in different projects. However, when it comes to financial performance, most of the Savings and Credit Cooperatives Societies have been recording poor financial performance because of non-performing loans. This is the main reason why loan portfolio management is considered as a major challenge to micro-finance institutions across the globe. The current study aimed at investigating the effects of loan repayment management practices on financial performance of deposit-taking Savings and Credit Cooperative Societies with a case study of Tharaka Nithi County, Kenya. The researcher evaluated the effect of loan collection policies, credit risk management practices and loan default on Savings and Credit Cooperatives Societies' financial performance. The study was anchored by Credit Risk Theory, Pecking Order Theory and Schumpeter's Innovation Theory. To achieve these objectives, the study adopted a survey research design as the most appropriate framework of investigating the subject matter. A total of five Savings and Credit Cooperatives Societies within Tharaka Nithi County were investigated with 50 employees (managers) being the targeted population. Both primary and secondary data were sourced through of semi-structured questionnaire and data collection sheet, particularly for over a five-year period, covering 2016 to 2020. Descriptive statistics, such as percentages, frequencies and weighted means and inferential statistics, including an Analysis of Variance (ANOVA) and regression analysis was employed. From the correlation analysis, it was established that loan repayment management practices which involve loan collection policies, credit risk management practices and loan default significant influence financial performance of deposit-taking SACCOs since the p-value was 0.000 which is less than 0.05. Also, the ANOVA results show a statistical significant relationship between loan repayment management practices and financial performance of SACCOs since the P-value was 0.000. The study concluded loan collection policy, credit risk management practices and loan defaulting significantly affected financial performance. SACCOs should examine their credit rules on a regular basis. This would improve the examination of loan applications and guarantee that they are evaluated and rated on their merits. For SACCOs to develop sustainably, they must provide prompt loan distribution to promote loan recovery and reduce administrative expenses.

CHAPTER ONE

INTRODUCTION

1.1 Background Information

According to the 2014 issue of World Cooperative Monitor on International Co-operative Alliance project, the prevalent 300 cooperatives across the world recorded turnover growth by 11.6% in 2012 to $2.2 trillion. This was determined to be comparable to the Brazilian gross domestic product (GDP) at the same time. The Monitor conducted a survey in 65 countries and it was established that approximately 2000 cooperatives' turnover had a staggering $2.6 billion. As for the 2014 statistical report by the World Council Credit Union (WOCCU), a total of 57,000 Credit Unions were distributed in 105 countries across the 6 continents. The most interesting part is that the Credit Union system reported a combined savings of USD 1.5 trillion. It is also noted that USD 1.8 trillion and USD 1.2 trillion constituted of the asset base and loan portfolio respectively. As Kimenchu (2014) affirms, the Credit Union system recorded an average of 8.2% as its worldwide penetration rate.

Study by Ikpefan (2006) in Nigeria found that even though there was support from the government through low interest loans to boost their members operations, there was a high loan default rate among cooperative societies due to poor financial performance. However, Alexandra, (2006) in his study 'the effects of wholesale lending to Saccos in Uganda, found out that with the borrowed capital, Saccos were able to increase their loan portfolios thus increasing their income to cover up the interest expense. However, Kaloi (2004) notes that increasing leverage has a negative effect on long term Sacco's growth where debt financing benefits does not outweigh the cost. This study cautioned

that increasing the leverage factor hurts the liquidity of the cooperative if profits are unable to cover the increasing interest paid on loan

Financial performance in the financial sector has been of limelight by investors across the globe. This position is partly influenced by the stiff competition that is currently witnessed in banking and microfinancing institutions; particularly with regard to products and services offered. Haq, Hoque and Pathan (2018) emphasize this by concluding that most Savings and Credit Cooperatives Societies are recording poor financial performance, which is as a result of non-performing loans. Due to this, SACCOs in developing countries, including Kenya, are embarking on adopting different strategies in salvaging the situation. Effective loan appraisal practices, client qualification, effective loan follow-up procedures and appropriate interest on loans are some of the strategies that have been embraced in enhancing financial competitiveness, service delivery and overall productivity. Due to this, the study's objective is to evaluate how loan repayment management procedures in registered deposit-taking SACCOs have affected their financial performance in the previous five years. The focus will be on Tharaka Nithi County, in Kenya.

1.1.1 Loan Repayment Management Practices

The core function of every SACCO is to provide credit facilities and other investment opportunities to its members. This is attributed to the fact that people come under one common goal of pulling their financial resources together and lending to each other for different use, including investment in different projects (Mwangi & Muturi, 2016). Just like any other financial institutions, SACCOs are committed to coming up with robust financial management systems and practices, including loan repayment so that delinquent loans becomes an issue of the past. Loan repayment policies set an important independent variable for this study as it expounds on practical measures put in place to

ensure collecting is effectively done and its objectives achieved. The success in loan collection is reflected in the overall financial performance, particularly on income generated and return on investment achieved (Duncan, Njeru, & Tirimba, 2015). As a result, the study will seek to establish appropriate stringent policies and arrear monitoring systems that have been adopted in aiding collection efforts. All these amounts to overall financial performance of a SACCO.

Another important element on loan repayment management practices is how SACOOs are managing their credit risk environment. There is no doubt that lending is characterized by some level of risks coming from positions where default on the loan obligation becomes imminent when they are due. Establishing whether SACCOs' credit policies are stringent or lenient will provide insights into practical lending approaches that SACCOs have adopted depending on the operational business environment (Mwangi & Muturi, 2016). Therefore, the focus on this independent variable will be on policies put in place to address the potential lending risks common to operations and practices within the SACCO fraternity. This is important in defining practical credit risk management measures that have been put place and their efficiency in meeting the desired outcome.

The study will also adopt the position associated with the causes of loan defaults in microfinance institutions. This is based on what several studies have indicated as the main grounds of loan defaults, including inadequate or non-monitoring of borrowers and diversion of funds in relation to indicated use. Other factors include delays in loan processing and disbursement and over-concentration in making decisions on lending processes. One of the reasons why loan defaulting is of great significance to the

proposed study is possible influence it has on dividend payments against members' contributions. Payment of dividends is based on SACCOs' profitability and loan defaults have an adversative impact on profitability (Duncan et al., 2015).

1.1.2 Financial Performance

Financial performance, according to Gatuhu (2013), is a critical component of every firm. Its distinguishing feature is the standard measure of a firm's operations and policies in monetary terms. Financial performance is a purely arbitrary indicator of how effectively a business has been managing its resources in conducting its business and generating revenue. Such information provides a clear illustration of financial health of an organization within a defined period. Muriuki and Ragui (2013) argue that a business that is unable to leverage on its financial stability cannot be in a position of building capacity and utilizing available business growth opportunities. Financial performance analysis is essential in examining a company's working capital, financial structure, profitability analysis, and activity analysis. This is critical in affirming a company's financial health.

In the context of the proposed study, the main purpose of facilitating financial performance assessment is to establish the return on investment (ROI), return on assets (ROA) and added value of a given firm. This is instrumental in providing a clear financial implication roadmap for both internal and external users. Internal users have a better understanding of the business' well-being and position among other relevant benchmarks. As for external users, dictating potential investment opportunities is an element that attained through financial performance assessment (Muriuki & Ragui, 2013). Therefore, the proposed study will focus on profitability as an essential measure of SACCOs' financial performance within the specified operational duration. This is a

measure expected to be influenced by the identified independent variables; loan collection policies, credit risk management practices and loan default management practices.

1.1.3 Loan Repayment Management Practices on Financial Performance

For SACCOs to be financially sustainable or viable, they should ensure that there is high portfolio quality, and this is supposed to be based on 100% loan repayment. At worst, there should be low loan defaulting or delinquency reporting and better cost recovery, which can only be achieved through efficient lending (Waweru & Kalani, 2009). This sums up the significance of loan collection policies that a SACCO must put in place to effect proper and effective loan collection after lending to its customers. Evidently, well performing financial lending institutions have well organized and stringent credit policies that founded on tight terms and credit standard. This has been found to be instrumental in minimizing the lending risks involved, cost, and potential chances of having bad debts and ultimate issues with liquidity (Buluma, Kung'u, & Mungai, 2017).

While doing so, the impact of non- performing loans is quite evident, especially with a reduction consumer buying ability, national economic downturn and potential legal issues (Ndiege, Mataba, Msonganzila & Nzilano, 2016). As a result, it is paramount to come up with practical ways on how to improve loan repayment, and one of them is the focus on business sustainability. Deposit-taking SACCOs should primarily concentrate on wealth maximization of its members and business sustainability rather than profitability which has adverse negative impact on loan repayment. This is essential in having an impactful business defined by sustainable developmental initiatives (Chen,

Cheng & Wu, 2013). Therefore, this sets a clear roadmap on the need of assessing how the existing SACCO institutions in Tharaka Nithi County, Kenya, are addressing such critical policy and practice issues.

1.1.4 The Growth of SACCOs in Tharaka Nithi County, Kenya

Looking at the role that SACCOs play in redefining the Kenyan economy, particularly in financing Small and Medium Enterprises (SMEs), many scholars, authors and researchers are quite interested in getting a clear picture of how the sector is performing. This has been evident in the Kenyan context since the establishment and development of this lending sector with the financial institutions' environment (Muriuki & Ragui, 2013). One of the main reasons why microfinance institutions, particularly SACCOs, have become an area of interest to everyone is the fact that financial needs of small and medium enterprises are effectively covered. This is based on the integrative lending model that allows these businesses to access relatively cheaper loans.

In Tharaka Nithi County there are 35 vibrant savings and credit cooperative society with a client base of over two hundred thousand members. The SACCOs in Tharaka Nithi county offer a wide variety of services which include salary processing, loan processing, dividends and deposits processing, produce payment, checks clearance, bankers checks, interests on savings under front office services (FOSA), farmers account, counter withdrawal charges, notice fees charges on lump sum withdrawals

The growth of this sector is marked by a collection of events that define SACCOs' journey since its first establishment. The government's first formal engagement in Cooperative activities was in 1931 where the first Co-operative Ordinance was ratified with the mandate of regulating all operations of co-operatives. Major developments were witnessed in 1946 and 1955 when Africans were allowed to participate in the

country's economy through cash crop. As a result, a new Co-operative Societies' Ordinance was enacted in 1946. Despite being predominantly auxiliary focus and marketing oriented, SACCOs such as the Kenya Planters Co-operative Union (KPCU) and Kenya Co-operative Creameries (KCC), founded in 1923 and 1925 respectively, became the backbone of economic growth in Kenya and across the world (Muriuki & Ragui, 2013).

Studies have also confirmed that the Kenya's microfinance one among the most prosperous and oldest financial sector in Africa. However, it is also the affected by the recurring loan repayment problems. As per SASR Kenya has a total of 171 deposit taking SACCOs and 3,626 non-deposit taking SACCOs. With membership over 1.5 million, SASR reports of KES 188.02 billion in SACCOs' total assets, KES 140.54 billion in total deposits and KES 136.89 billion in loans. This is a glimpse of how important SACCOs are in Kenya. The fact that the use of new technology has become a reality in the financial sector, SACCOs have been dynamic in adopting such changes. This has come in handy in improving customer services, efficiency competitiveness, overall performance and growth of Co-operatives in Kenya (Buluma, Kung'u & Mungai, 2017).

SACCOs have also cemented their role in offering opportunities for employment with half a million people directly and indirectly employed. In 2017 alone, SACCOs in Kenya contributed about 5.72% of the country's nominal GDP, which has proven to be a strong foundation for development in the country. This is attributed to the fact that SACCOs are offering better returns on savings as compared to the mainstream banks, including greater access to credit opportunities. The sector has also been the driving force in the Kenyan real-estate market, especially addressing the grave housing gap

through funding the purchase of land and construction of residential homes (Buluma et al., 2017).

1.2 Statement of Problem

Well-streamlined credit management practices, loan collection policies and default management practices can improve an organization's performance, profitability and liquidity (Buluma et al., 2017). This is essential for any financial institution, considering the level of lending risks that are eminent whenever there are gaps that need to be identified, investigated and addressed. The majority of Kenyan research have primarily concentrated on the influence of credit risks managementmethods on SACCO financial performance and non-performing loans. Considering the influence that diverse factors have on financial performance of any organization, it is affirmative that notable research gap. So far, no much effort has been directed at the influence that loan collection policies and default management practices on SACCOs' financial performance, specifically in Tharaka Nithi County. This does not just affect the knowledge base regarding the influence on financial performance of SACCOs, but presents lack of a clear framework of improving the overall effectiveness of the microfinance sector (Buluma et al., 2017).

Ndiege *et al.* (2016) set a practical framework on assessing the connection between loan repayment management and financial performance. Despite having flourishing SACCOs financial models, loan repayment capacity was still found to a major issue that is threatening the future of deposit-taking SACCOs. Studied in the context of Tanzania, the study creates a leeway of having a comprehensive analysis of the same variables within the Kenyan context. In the case of Kenya, there is just a fraction of information on the influence of loan repayment management techniques on deposit-taking SACCOs'

financial performance. As a result, there is a major research gap that has to be filled in a more thorough manner. In this context, the proposed research will look at the impact of loan repayment management methods on the financial performance of SACCOs in Kenya's Tharaka Nithi County. The key research question was: What effect does loan repayment management have on deposit-taking SACCOs' financial performance in Tharaka Nithi County?

1.3 Objectives of the Study

1.3.1 General Objective

The study aimed to evaluate the effect of loan repayment management techniques and financial performance on deposit taking SACCO in Kenya's Tharaka Nithi County.

1.3.2 Specific Objectives

The general objective was achieved through the following specific research objectives;

i). To assess the effect of loan collection policies on financial performance of deposit taking SACCOs in Tharaka Nithi County.

ii). To investigate the effect of credit risk management practices on financial performance of deposit taking SACCOs' in Tharaka Nithi County.

iii). To determine the influence of loan default on financial performance of deposit taking SACCOs' in Tharaka Nithi County.

1.4 Research Questions

i) What are the effect of loan collection policies on financial performance of deposit taking SACCOs in Tharaka Nithi County?

ii) How does credit risk management practices affect the financial performance of deposit taking SACCOs in Tharaka Nithi County?

iii) What are the effect of loan default on financial performance of deposit taking SACCOs in Tharaka Nithi County?

1.5 Significance of the Study

The microfinance sector, specifically on SACCOs, has been instrumental in redefining investment opportunities that are a foundation for wealth generation in Kenya and across the world. The study's findings will offer a clear framework for policy development and implementation with the aim of enhancing sector performance. The management of SACCOs will have insights on the effects that their loan repayment management practices are having on their financial performance. The ultimate recommendation would be to ensure they attain sustainable income and growth of the business and extend benefits to their respective members.

The findings will also assist the management to decide on the information required for indebtedness, effective customer qualification for loan access, appropriate credit for customers and effective collection system to be adopted. As existing field gaps are addressed through this study, the findings will lay an imperative foundation of conducting further intensive studies with the focus on the entire country. Therefore, the proposed study will create an underpinning reference for other scholars and researchers in their investigative endeavors.

1.6 Scope of the Study

To determine the effect of loan repayment management techniques and financial performance on deposit taking SACCO in Tharaka Nithi County. Additionally, the focus of this study was on loan collection policy, credit risk management and loan defaulting as determinants of financial performance. The target respondents in the study were 50 employees (managers) of all targeted SACCOs. The study took place at the

SACCOs in Tharaka Nithi County. The managers were selected because they are directly involved in the management of the Sacco's and thus provided the most relevant information about the financial performance. The study collected data relating to a period of five years starting from 2016 to 2020.

1.7 Organization of the Study

The following is the format of the study project: The first chapter discusses the study's research background, research statement of the problem, research objectives, and study significance. The second chapter examines the impact of loan repayment management practices on the financial performance of savings and credit cooperative societies through a review of the literature. It also lays forth the research's conceptual foundation. The technique used in the design, data collection, sampling and analysis were covered in third chapter. Chapter Four includes the findings and discussions from the research. Chapter five presents the summarized findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter begins with an overview of theoretical framework, empirical studies related to both independent and dependent variables, summary of literature review and conceptual framework showing the independent variables and dependent variable.

2.2 Theoretical Literature Review

Various ideas have been proposed in an attempt to explain corporate profitability and growth. The focus of such theories is on addressing the question of how profitability and growth of a firm is affected by a collection of factors, including strategic position and policy implementation affecting business operation. This study used credit risk theory, Pecking Order Theory and Schumpeter's Innovation Theory.

2.2.1 Credit Risk Theory

This theory was presented by Melton (1974) and it emphasizes the value of monitoring all borrowing information by the management, including the borrower's ongoing creditworthiness screening. The management should also ensure that there is adherence to the contracts terms by a borrower. This should also include how a member who is unable to meet the agreeable terms-and condition should be handled, which is defined by the stated credit policies. As one of the most investigated concept, particularly in quantitative finance, credit risk theory sets a framework on how risk is analyzed through the business cycle. The usefulness and importance of this theory are with the explanation on SACCOs and other financial institutions should prepare and address uncertainties during loan servicing period (Derban eta l., 2005).

Individuals, businesses, and even governments can apply for credit. While the reasons for default change from one to the next, the basic idea of default stays the same. The foundation for efforts to evaluate and control credit risk exposure is laid forth by Robert Merton's theory of default. It sees default as an imbedded put option accessible to the borrower when it is commercially beneficial for the borrower to “exercise” their default option. This option-theoretic approach may be applied to any type of borrower and can be used to model default. The chance of default (or default frequency) and loss given default (or loss severity) of the borrower are combined to assess credit losses. The Merton default model allows you to calculate both loss components intuitively.

Chen, Cheng and Wu (2013) asserts that the credit risk theory provides a clear roadmap on how uncertainties, particularly from unpreceded default, are likely to be associated with events beyond the management control. Changes in the behavior or economic positioning in targeted market, particularly as a result of unmanageable events, is a risk that all businesses are likely to experience. It is essential, therefore, that deposit-taking SACCOs have a well-orchestrated plan on how to address such potential risks. This can be achieved by engaging the services third party institutions, such as insurance firms, who play an integral role of assuming the potential credit risk. Recouping through premiums on loans disbursed to respective members is a practical way of operating with extended credit risk (Derban eta l., 2005).

2.2.2 Pecking Order Theory

The first time this theory was presented was by Donaldson in 1961 and it later modified and popularized in 1984 by Nicolas Majluf and Stewart Myersin. The main assumption of pecking order theory is that different predilections of sources to fund the underlying investment opportunities are displayed by the management in a defined order. It starts

with getting funds through the retained earnings of a firm, debt, and then equity financing. According to Yıldırım and Çelik (2020), the pecking order model is predominantly a behavioral alignment and justification on reasons firms decides to finance their projects in a given way. Businesses tend to build their growth around financial models that redefine their future prospects in a more comprehensive way with the projected business growth value.

In corporate finance, pecking order theory describes how organizations pick where to acquire their funding and, as a result, what drives optimum capital structure, or the ideal combination of debt and equity financing. According to the pecking order theory, management of a firm decides how to finance its operations based on a hierarchy that uses retained earnings (internal financing), loan financing, and finally equity financing. In pecking order theory, internal finance is favoured because it incurs no additional costs. If a company finances fully with retained earnings, there are no costs associated with equity or debt. Due of the interest charges associated with borrowing money, debt financing ranks second. Interest must be paid whether the business borrows money for operations or issues corporate bonds, which raises the cost of debt over the null cost of employing retained earnings (Yldrm & elik, 2020). The pecking order concept places equity finance last since it is the priciest financing choice. The cost of equity capital, for example, is higher than the cost of borrowed capital. Issuing stock can signal to investors that a company's management believes its shares are overpriced, indicating that the business is having problems and that its stock price would drop. This is an example of asymmetric information, a key idea in pecking order theory.

Appropriate for relatively profitable firms that have the capacity to utilize internal funding sources, the pecking order theory defines a platform through which firms

utilizes a stringent dividend policy and target dividend payout ratio. Such position elucidates the value of a strong control environment that will define what should take place to address eminent risks associated with lending. This is an important theory that provides an overview of a company's financial performance to the public. Internal financing on business operations is a clear indicator of between financial performances. Debt financing is another significant indicator of management confidence, particularly in meeting business obligations. Therefore, the pecking order theory sets a framework of analyzing and reporting on the effectiveness of a business (Bloch & Metcalfe, 2018).

2.2.3 **Schumpeter's** Innovation Theory of Profitability

The innovation theory of profit was proposed in 1911 by Joseph Schumpeter. It is begged on the assumption that entrepreneurs are in a better position of growing and benefiting by introducing successful innovations. According to Bloch and Metcalfe, 2018), such scenario is expected to create a favorable economic environment for business operation and hence providing opportunities to enhanced overall profitability. Innovation, in this case, refers to practical tools that can be employed by firms with the aim of exploiting the desired change. This is conducted as a way of improving service delivery and quality of product being offered to the targeted market (Bloch & Metcalfe, 2018).

Schumpeter defined Innovation as any creative strategy used by a business owner to lower overall manufacturing costs or boost demand for their products. There are so two categories of innovation: The first group includes any activities that reduce the overall cost of production, including new production methods or techniques, the use of new technology, innovative industrial organization techniques, and so on. The introduction of new goods or high-quality products, the establishment or introduction of a new

market, the identification of new sources for raw materials, the development of new product variants, or the creation of new product designs are all examples of the second type of innovation, which includes all activities that increase demand for a product. The innovation hypothesis of profit states that an entrepreneur will earn if their discovery reduces production costs overall or increases demand for their product. When competitors copy an idea, profits are sometimes earned for a shorter length of time, causing the innovation to lose its novelty. - In the past, the entrepreneur had a monopoly on the market because his invention was only available to him, resulting in bigger profits.

Within the perspective of lending, the theory defines the need to remain on top of everyone in market when it comes to improving service delivery and quality of products being shared with the market. It is prudent to ensure that only qualified persons are granted access to credit. This is a relevant theory as it sets the projection of identifying and establishing appropriate changes that will bring value to operations and improvement in financial performance (Bloch & Metcalfe, 2018). Its application in the proposed study will provide relevant insights on how different loan repayment management practices can be adopted within the Kenyan context. Different factors, including economic environment of the present Kenyan SACCO market, have to be considered in coming up with practical loan repayment management practices for adoption.

2.3 Empirical Literature

2.3.1 Loan Collection Policies and Financial Performance

Munyua (2016) assessed the effects of loan collection techniques on loan default in Kirinyaga County Microfinance Institutions. The study focused on 300 workers of the MFIs under investigation. According to the findings, MFI operations have increased significantly as a result of the development of informal sector activities combined with banks' unwillingness to support developing small and medium companies. Financial services offered by MFIs, on the other hand, have received no attention and are not listed among financial institutions in official financial statistics. The terms of every loan agreement should include the manner of collection. In order to avoid penalties and, in the case of secured or collateral loans, the repossession of the collateral in the event of a loan failure, borrowers must be made aware of the intricacies of the collection procedure. A consultant might be hired by the MFI. The experts will help MFIs strategize, allowing them to become more competitive in the loan collecting process. The current study was conducted on Tharaka Nithi County this bridging the contextual gap.

Ngonyani (2018) investigated the impact of credit collection policies on portfolio microfinance performance. The study employed cross-sectional survey data from microfinance institutions in three Dar es Salaam regions: Morogoro, Dodoma, and Dar es Salaam. A total of 219 microfinance institutions from all three areas were sampled using random sampling. The impact of credit collection policies on microfinance institutions' portfolio at risk was studied using multiple linear regression analysis. The findings suggest that interest rates charged and portfolio at risk of microfinance organizations have a positive connection. The variable for loan grace periods and loan

amounts to borrowers, on the other hand, exhibited a negative connection with microfinance institutions' portfolio at risk. These findings imply that microfinance institutions should concentrate on the study's explanatory factors in order to improve the microfinance industry's financial performance. The current study was conducted on SACCOs in Tharaka Nithi County this bridging the contextual gap.

Esther, Abubakar, and Usman (2021) investigated the impact of a Micro-Finance Bank's credit collection policy on portfolio quality in Adamawa State, Nigeria. A multi-stage sampling approach was utilized to pick a sample of 21 responders from the population after real data was obtained from 51 credit officers (i.e., 51 credit officers). Furthermore, regression analysis and descriptive statistics were utilized to evaluate the data obtained as well as to test our hypothesis. The assessment's conclusions showed that the quality of the portfolio is more significantly impacted by collecting policies. As a consequence, the study came to the conclusion that microfinance institutions needs to adopt a strict or strict debt collection approach since it will help them recover their loans, enhancing the bank's portfolio's quality. The current study was conducted on SACCOs in Tharaka Nithi County this bridging the contextual gap.

2.3.2 Credit Risk Management Practices and Financial Performance

Moti, Masinde, Mugenda and Sindani (2012) investigated the effectiveness of credit management systems on loan performance of microfinance institutions in Kenya. The focus was on the effect of credit collection policies, credit terms, credit risk control measures and client appraisal on overall loan performance. A descriptive research design was adopted with 70 credit officers from the targeted 14 microfinance institutions in Meru town. From the findings, a determination was made that the

collection policy had a higher impact on loan repayment. This was the case despite firms adopting stringent policy and arrear monitoring systems as the most effectual approaches on loan collection. This clearly shows a direct connection between practical measures that have been put in place to control and control giving out credit. Only those who qualify for the amount applied and have proven capacity of repaying without any problem are considered. However, the effective of credit referencing on SACCOs' loan performance, especially in default management was not addressed. The current study was conducted on SACCOs in Tharaka Nithi County this bridging the contextual gap.

Mulinge (2019) explored the effect of credit risk management framework on deposit-taking SACCOs' financial performance in Kenya. Mulinge concentrated on credit risk assessment, recovery processes, credit risk monitoring, and the main parameters affecting financial performance in SACCOs. A total number of 166 credit managers from then 166 registered deposit-taking SACCOs in Kenya were identified using a census approach. A descriptive research design was adopted with questionnaires being the main data collection tools. The findings indicated a positive correlation between credit risk appraisal, credit recovery and credit risk monitoring with financial performance. It evident that deposit-taking SACCOs should in the forefront of integrating proper credit management frameworks with the aim of enhancing their financial performance. This is based on the fact that lending involves notable levels of risks, particularly from circumstances associated with non-commitment to loan obligation. It is an area that the proposed study will focus to address by building on the existing knowledge as per various contextual.

Gogo and Oluoch (2017) studied the effect of Financial Services offered by SACCOs on members' demand for credit. This was a survey conducted on deposit-taking SACCOs in Nairobi. A total number of 164 respondents from SACCOs in Nairobi were the target – a sample of 60 SACCOs. The study also utilized secondary information from SACCOs retrieved from the existing data on their financial services and the taking of credit. The findings showed a positive influence of lending and investment services on members' demand for credit. This brings in the picture of building a robust control environment that facilitates quality qualification for the available credit. SACCOs also have a responsibility of creating a favorable investment environment that provides opportunities for personal growth through lending and investment initiatives. This article provides a strong basis of argument for the proposed study considering the leeway and platform of assessment internal structures and initiatives in relation to saving mobilization of SACCO members.

Orao and Ngaba (2017) explored the impact of risk management techniques on the financial performance of deposit-taking SACCOs. The study took place in Kenya's Uasin Gishu County, and it utilized a descriptive research approach. Data was gathered using standardized questionnaires distributed to 35 workers from the 12SACCOS selected. On the one hand, secondary data was gathered from books, journals, SASR published publications, government papers, and published research initiatives; on the other hand, primary data was gathered from books, journals, SASR published publications, government papers, and published research initiatives.. Credit management, compliance risk management, and liquidity risk management procedures were discovered to have a substantial and favorable link with the financial success of SACCOs. The study's ideal conclusion is that increasing the adoption and execution of

clear credit risk management, compliance risk management, and liquidity risk management procedures will boost a company's profitability. Such findings are essential in defining and impacting the framework to be adopted for the proposed study. Ideally, the set a pattern and foundation of collecting secondary data and cross-checking it with the primary data collected. The current study was conducted on deposit taking SACCOs in Tharaka Nithi County this bridging the contextual gap.

2.3.3 Loan Default and Financial Performance

Nguta and Guya (2013) reviewed the causes of loan repayment defaults in microfinancing institutions. The study was carried out in Imenti North, Kenya, and a descriptive survey design was utilised on microfinance institution officials and microfinance loan beneficiaries. Cluster and census sampling procedures were used for loan beneficiaries and micro finance institutions officers respectively and a total of 400 respondents were engaged. Using both unstructured and structured questionnaires, data was collected and analyzed with key insights about the construct of interest were established. The findings showed a significant connection between business profits, type of business, number of employees, age of the business and loan repayment default. A strong link was also established between technical training that is extended to loan beneficiaries and the financial performance of the targeted microfinance institutions. Characteristic of the business is presented as one of the many causes of loan default, with most of the loan defaults taking place within the manufacturing sector. Notably, companies that have been operating for five to 10 years also recorded majority of loan defaulters.

The relationship between bank financial performance and risk management techniques in Nigeria was investigated by Adeusi, Akeke, Adebisi, and Oladunjoye(2014). The study drew on secondary data from ten banks. Within a four-year period, the focus was on financial statements and progressing yearly reports. The capital asset ratio, doubt loans, and bank financial performance have all been found to have a favorable relationship.This was in agreement with what Poudel (2012) had established earlier on commercial banks in Nepal. While exploring different parameters relevant to credit risk management as it influences financial performance of Banks in Nepal, Poudel Sharma analyzed financial report of 31 banks over a period of 11 years (2001-2011). It was discovered that banks' strong performance in Nepal was due to their effective handling of funds. The default rate, as one of the credit criteria, was the most accurate predictor of bank financial performance, necessitating the need to properly create and devise procedures and methods to reduce banks' credit risk exposure.

Ndiege *et al.,* (2016) examined the connection between loan repayment capacity and financial performance of 36 Saccos in Tanzania - Kilimanjaro Region. Financial statements data for the year 2012 were used and regression models and descriptive statistics were integrated for data analysis. The findings established the existence of a serious financial risk management issue among the studied SACCOs. It was noted that the element of sustainability was a key contributor to improved loan repayment; however, adverse loan repayment was as a result of focusing on the element of profitability. Cull, Demirgu¨ ç-Kunt and Morduch (2007) provide a comprehensive analysis of profit-making banking practices, specifically on their impact in poverty eradication in low income communities. By focusing on 124 microfinance institutions in 49 countries, Cull et al. assert the existence of a trade-off between serving poor

people and profitability of an institution. Greater profitability is not assured through the raising of fees and rates to significantly high levels.

Derban, Binner and Mullineux (2015) identifies the fundamental institutional factors affecting loan loss rates within the UK's Community Development Finance Institutions. The 16 CDFIs' institutional characteristics were examined and their impact on loan loss rates effectively assessed. of in the UK and assess their influence on the loan loss rates. Out of the 13 institutional characteristics analyzed, 8 were found to have a significant impact on loan repayment. It is concluded that one should take into account the borrower and institutional characteristics with the aim of improving loan repayment performance. The significance of these findings is in providing an assessment framework and point of reference

2.4 Loan Repayment Management Practices

The cardinal rule for microfinance institutions is that they should always aim to achieve and maintain high portfolio quality, which is to be established on 100 percent loan repayment. They can also ensure low default or delinquency scenarios, have proper cost recovery measures and are lending efficiently. All these measures will enable them to be financially sustainable and viable. Adoption of stringent collection policies and arrear monitoring systems is the most straightforward and efficient approach to loan collection. In cases where leniency in collection policy is basis of operation, collection is always poor.

Mot, Masinde, Mugenda and Sindani (2012) believe that having a stringent collection policy is appropriate in monitoring repayment. However, it is imperative that they are expedient and practical to both the borrower and lender. The impact of loan

management on banks' or microfinance institutions' financial performance is eminent across the sector. Such is the main reason why financial institutions are supposed to train their credit department employees as a way of enhancing the appropriate effective loan management performance.

As earlier established, lending is characterized by some level of risks that are associated with different circumstances resulting to non-commitment to the agreed loan obligations. Defining a framework on how ethical lending values are expected to be followed is instrumental for any business that is committed to enhanced service delivery. Ideally, a firm can create a credit policy that is either stringent or lenient based on the lending model that is being used by the respective lender. A lenient credit policy is a situation where a given financial institution is prone to be liberal in giving out its credit facilities to customers. This may result to a case whereby a customer whose credit worthiness is relatively lower for the applied credit is still considered for the loan (Naresh & Rao, 2015).

Bwoma, Muturi and Mogwambo (2017) suggest that over-concentration of decision making, non-monitoring of SMEs, diversion of fund on the main intent and delay in loan processing and disbursement of funds as the main reasons of defaulting. Other factors include inadequate financial analysis, which is expected to provide a clear picture during customer qualification and assessment of business financial position. A comprehensive financial analysis will always elucidate and bring to light some of the riskier level of lending that a given microfinance should approach with caution.

Cases of inadequate loan support have been rampant in most of the Kenyan SACCOs. Loan support starts from the point a customer is showing interest in taking credit, during loan application and when one starts repaying. (Bwoma et al., 2017). Failure to actively support a customer at all these three phases would result to situation whereby one is experiencing challenges with the process and no one is available to assist. As for profitability, high cases of loan repayment defaults are reported among businesses that are making lower monthly profits

2.5 Summary of Literature Review

It clear that studies have immensely concentrated on the influence that credit management practices have on financial performance of microfinance institutions. Moti *et al.*, (2012); Adeusi et al., (2014); and Nguta and Guya (2013) provides a strong position on how financial institutions are thriving in areas that appears to be difficult to succeed. A connection is established between loan repayment management practices and controls and financial performance and general growth of financial institutions. Ndiege et al., (2016) and Derban *et al.,* (2005) have clearly illustrated how financial performance is determined by different factors or elements apart from credit management practices and growth of a business. The fact that lending involves notable levels of risks is also a critical aspect defining the approach of the proposed research. This is associated with circumstances where credit borrowers become non-compliant with the established loan obligations. The identified gap from theoretical review and empirical studies is that they haven't postulated the connection between various management on loan repayment practice's and SACCOs' performance, Kenya. This has become a clear path for the proposed study.

Table 2.1 Summarized Review of Literature

Author	Title	Methodology	Findings	Knowledge gap
Mwaura (2005)	The success of Kenya's Savings and Credit Cooperative Societies is influenced by a number of factors. Afya Cooperative Society Ltd. is a case study	Both descriptive and inferential statistics were applied./	The poor performance of Saccos in Kenya was attributed to a lack of credit follow-up, credit analysis, and unfriendly lending of money.	The research concentrated on SACCO management and leadership in connection to competent team boards of directors.
Nelson (2009)	Financial institutions crises in Kenya causes and remedies.	Inferential analysis was compared to the descriptive measures	The analysis discovered that the major problem was a lack of strong debt collection policies.	The study was conducted on financial institutions like banks which has different loan repayment policy from SACCOs.
Muriuki(2010)	Sacco Performance in Meru South District: Factors Affecting It.	A focus was on descriptive	Performance was affected by governance	The study focused on the performance of SACCOs, with no mention of the impact of loan repayment on Sacco performance.
Wanjira (2010)	The link between commercial banks' non-performing loan management policies and financial performance in Kenya	The data was analyzed using descriptive and inferential analytical approaches in the study.	The study found out that insufficient collateral limited lending to various kinds of business, loan securitization increased loan repayment.	The study banks dwelt more the issue of information technology as a factor influencing loan repayment.
Ajiambo (2013).	Financaial performance and sacco policies	To examine the data, the study used descriptive and inferential analytical approaches	Fianancial performance is determined by Sacco policies and procedures	The study relied more on policy formulation with little attention to loan repayment.
Keah (2014)	Sacco Performance in Meru South District: Factors Affecting It.	The study focused on the performance of SACCOs, with no mention of the impact of loan repayment on Sacco performance.	The study focused on the performance of SACCOs, with no mention of the impact of loan repayment on Sacco performance.	The study focused on the link between age, size, growth rate, and profitability, with little emphasis on the impact of loan payback on performance.
Njeru(2015)	Liquidity management's impact on perfornmances	Analysis using descriptivre survey design was used	The findings were that repayments were obligation of members.	The study was did not show the importance of ICT in loan management portfolio.

Source: Author (2021)

2.6 Conceptual Framework

The conceptual framework in Figure 2.1 exemplifies the existing relationship between loan repayment management practices and financial performance. It is proposed that the Sacco's financial performancein Tharaka Nithi County, Kenya, is affected by their respective loan collection policies, credit risk management practices, and effects of loan defaulting. Loan collection policies state how a deposit-taking SACCO has positioned itself on maintaining high portfolio quality. Efficient lending is more said than done and, therefore, it is critical that SACCOs commit to attaining 100 percent loan repayment and avoiding all cases of having bad loans. To achieve this objective, the management should have appropriate collection policies that will be followed to the later (Derban et al., 2005).

When it comes to credit risk management practices the essence is to investigate the potential risks that are associated with lending. Any financially performing business is one that has mastered the art of assessing and mitigating potential risks associated with their operation. Stringent credit policies provide a framework of limiting lending out money to only those that qualifies and, hence, resulting in good loans. Microfinances that have higher cases of loan defaulters will always be affected in terms of their profitability and capacity to grow and sustaining their business operations. Members who take a credit should be in a position to repay as per the agreement. This ensures business sustainability through revenue that is being generated (Bwoma *et al.*, 2017).

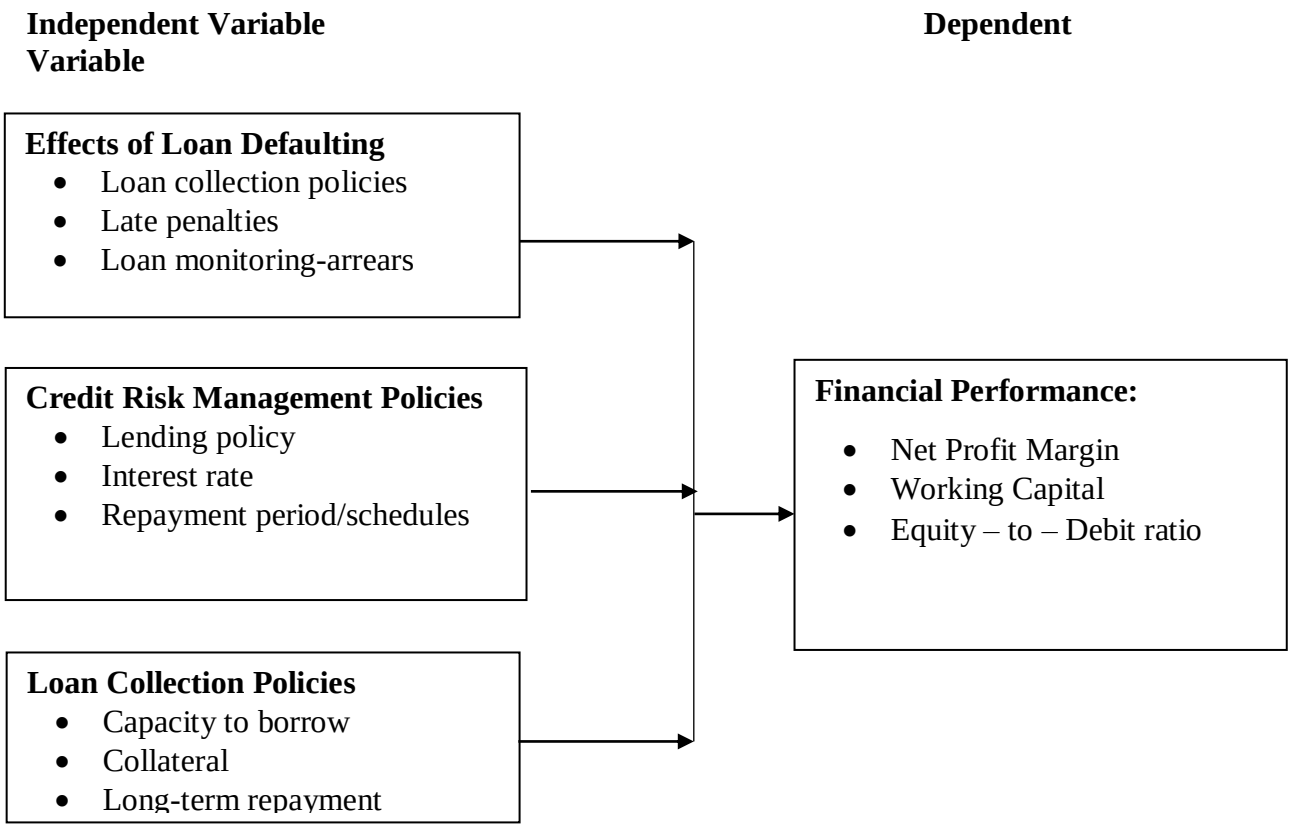

Figure 2.1:Conceptual Framework

Source: Researcher (2022)

CHAPTER THREE

RESEARCH METHODOLOGIES

3.1 Introduction

This section discusses the technique used to collect and analyze data to derive the research results. Methodology of research deals with general study methods or guidelines. This Chapter explains Research design, targeted population, data collecting, data validity and dependability, and ethical consideration covered.

3.2 Research Design

The surveys used utilize descriptive survey research design as the most appropriate framework of investigating the impact of loan repayment management practices on SACCOs' financial performance. Descriptive research designs help provide responses to questions about who, what, when, where, and how to associate with a particular research problem; a descriptive study cannot exclusively determine the answers to why questions Kothari (2014). This is instrumental in achieving the objectives of the proposed study and responding to highlighted research questions.

According to Kastner *et al.,* (2012) the findings through descriptive methodology are important in the formulation of imperative knowledge and solution principles to the identified issues under study. Stevens notes that an effective study is way beyond just collecting study data. It is essential to align with other essentials such as classification analysis and data comparison and interpretation to get relevant insights. Oluwatayo (2012) support the position that a descriptive study is significant in describing the existing attitudes and conditions of a circumstance through different techniques such as survey and observation. The adopted model will; therefore, provide a comprehensive

platform of generalizing the findings to Sacco,Kenya. This sets the foundation and position where future studies can base for further interrogation on the subject matter.

3.3 Population and Sample Size

The present study was set to investigate 5 SACCOs within Tharaka Nithi County, Kenya. This number is based on the information obtained from Sacco Societies Regulatory Authority, which has the mandate of regulating the operations of all SACCOs in Kenya. A total of 50 employees (managers) of all targeted SACCOs were involved in conducting the survey and since the population was small there were no need of sampling.

3.4 Data Collection procedure

All categories of data sources, primary and secondary was used in collecting the appropriate data as per the research questions and objectives. Primary data was collected from the identified sample by administering a semi-structured questionnaire developed for such purpose. Loan collection strategies, management of credit risk techniques, the impacts of loan defaults, and the financial performance of all identified SACCOs was the areas of major data attention. In terms of secondary sources, the approved questionnaire was accompanied with a well-designed data collecting sheet that gathered important financial data from 2016 to 2020. Both data collection tools, data collection sheet and questionnaires, will be administered through drop and pick approach (Oluwatayo, 2012).

3.5 Validity and Reliability of Data

Pre-testing of all data collection tools was conducted at least a month in advance to confirm their validity and reliability. Ten randomly selected managers, two from each SACCO, was engaged during the pre-testing phase to establish whether adopted data

collection tools are administrable, valid and reliable. The pre-test results was assessed for internal consistency and the construct of study interest.

3.6 Data Analysis

The success of this study was based on quality of data that was collected but also on the process of handling data and investigating it to get key insights with regard to the construct of interest. Collected data was tabulated for order and then analyzed by utilizing descriptive statistics, including percentages, frequencies and weighted means. Inferential statistics are also imperative as per the stated research objectives and, hence, an Analysis of Variance (ANOVA) and regression analysis was employed. As a result, appropriate insights were developed in relation to how microfinance institutions are model in Kenya. This also establish whether adopted financial lending model was efficient and sustainable. The following regression model has been developed to facilitate regression analysis.

$$\mathbf{FP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu}$$

Where,

- The regression coefficients are represented by $\boldsymbol{\beta_0, \beta_1, \beta_{2,}}$ & $\boldsymbol{\beta_3}$
- FP represents financial performance of SACCOs
- $\mathbf{X_1, X_2,}$ & $\mathbf{X_3}$ stands for loan collection policies, credit risk management practice, and default management practice.
- $\boldsymbol{\mu}$ connotes the error term.

The function above, SACOOs' financial performance is the study's dependent variable. This was in terms of profitability that each SACCO had posted within the last five years. The independent variables was represented by SACOOs' loan collection policies, credit risk management practice, and default management practice. The efficiency of

this model is based on how it connects all variables, which is practical in generalizing the findings to all SACCOs across the country.

3.7 Ethical Considerations

The researcher has a moral obligation to treat the data with utmost propriety because of the sensitivity of some data to be gathered. Since some of the participants were unwilling to reveal certain data, the researcher reassured the participants that the data provided was confidential. The researcher got permission from Kenya University Graduate School and

NACOSTI to collect data and from the management of targeted Sacco's.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The chapter details the questionnaire response rate, respondent demographics, descriptive data analysis findings and inferential data analysis findings and their interpretations. The proxies for the goals were separated out and were part of the Appendix ii questionnaire. The findings were provided in tables and figures, which summarized the findings.

4.2 Response Rate

Table 4.1 Response Rate

	Frequency	Percentage
Completed	44	88%
Uncomplete	06	12%
Total	**50**	**100%**

Sources: Survey Data (2022)

Table 4.1 shows that there were 88 completed surveys, providing an 88 percent response rate. This was a good response, according to Mugenda & Mugenda (2013), and was adequate for data analysis.

4.3 Validity and Reliability Results

To assess the study tools' dependability, validity and reliability tests were conducted. The following were the outcomes:

Table 4.2 Reliability Tests Results

Constructs	No. of Items	Alpha Values	Remarks
Loan Collection Policies	3	.844	Reliable
Credit Risk Management Practice,	15	.799	Reliable
Default management Practices	7	.797	Reliable
Financial Performance	8	.804	Reliable
Aggregate Score	**29**		

Source: Survey Data (2022)

Loan collection policies had an Alpha value of.844, credit risk management methods had an Alpha value of.799, default management techniques had an Alpha value of.797, and financial performance had an Alpha value of.804. Scores for Cronbach's Alpha fell within the advised range of 0.7- 0.9, demonstrating that the measurement's data collection process was reasonably reliable.

4.4 Background Information

The background information included the period of SACCOs operations in Kenya

4.4.1 Period of Operation

The goal of the study was to ascertain how long the SACCOs had been in existence. The findings were exhibited in Table 4.2.

Table 4.3 Period of SACCO Operation in Kenya

	Frequency	Percent
Less than 1 Year	0	0.0
1 to 5 Years	6	13.04
6 to 10	4	8.70
Above 10 Years	36	78.26
Total	**46**	**100.0**

Source: Survey Data (2022)

According to the responses, just 8.7 percent of the SACCOs had operated for 6 to 10 years, 13.04 percent had operated for 1 to 5 years and the majority of the SACCOs (78.26%) had operated for more than 10 years. This indicates that the majority of research the SACCOs have operated for quite a long time and will help us understand the interrelationships among variables.

4.5 Descriptive Analysis

To assess how the responders agreed with the claims provided to them, the research employed mean, percentage, frequency and standard deviation as indicators of central tendency. The standard deviation (Std.Dev.) represented the variance or dispersion rate, whilst the high mean implied that the respondents were in agreement with the assertions. To analyze the data, the researcher largely used the aggregate mean.

4.5.1 Loan Collection Policy

The initial goal was to examine SACCO debt collection policies and financial performance. The outcomes of the loan collection policy proxies were exhibited below.

Table 4.3 Loan Collection Policy

	Mean	Std. Dev
The loan collection policies are assisting my Sacco in loan collection	3.94	.799
There is improved loan collection over time	3.98	.985
The Policies on loan collection are clear to every customer	3.71	.802
The policies have enabled customers to pay loans with ease	3.99	.722
It is easy to monitor loans that are in arrears	4.48	.679
There are improved policies on loan default penalties	4.08	.877
Aggregate Mean	**4.03**	**0.811**

Source: Survey Data (2022)

According to descriptive analysis, the aggregate mean score for loan collection policy was 4.03, which corresponded to 'Agree' on the five-point Likert Scale utilised in the questionnaire. Furthermore, the aggregated standard deviation score was 0.811, showing a low degree of variability and signaling that responses to individual questions were close to the sample mean. Individual responses ranged from 3.71 to 4.48 on a scale of one to ten. The sample mean was an excellent predictor of the population mean due to the low variability. As a result, the study concludes that the SACCOs' lending policies were clear, effective, and well-executed in order to optimize loan collection.

The results confirmed Munyua's (2016) assertion that borrowers should be made aware of the details of the collection procedure in order to avoid fees and, in the case of secured or collateral loans, the repossession of the collateral in the event of a loan failure. The findings supported Ngonyani (2018) that loan grace periods and loan amounts to borrowers exhibited a negative connection with microfinance institutions' portfolio at risk. Additionally, Esther, Abubakar, and Usman (2021) discovered that

collection policy has a stronger influence on portfolio quality. As a consequence of their research, they recommended that SACCOs adopt a rigorous or strict debt collection approach in order to help them recover their loans.

4.5.2 Credit Risk Management Practices

The results on credit risk management practices was summarized in Table 4.4. The proxies of credit risk management were; lending policy, interest rate and repayment period/schedules.

Table 4.4 Credit Risk Management Practices

	Mean	Std. Dev
The Sacco loan default has declined considerably	3.81	.782
The Sacco examines the customer location and character	3.91	.699
The customers are willing to provide collateral to cover the loans	3.98	.701
Adequate customer analysis on repayment capability is analysed before issuing of loans	4.07	.819
Customers are educated on the risk of loan diversion	4.02	.745
The duration for loan repayment is considerate for all customers	4.29	.577
Aggregate Mean	**4.01**	**.721**

Source: Survey Data (2022)

The credit risk management procedures received an overall mean score of 4.01, which equated to a 'Agree' on a Likert scale. In addition, the aggregated standard deviation score was 0.721, showing that many employees' responses converge around the mean, indicating a low degree of variability. In addition, the credit risk management indicators' mean values ranged from 3.91 to 4.29 on the high end. Similarly, the standard deviation for key indicator responses ranged from 0.577 to 0.819, indicating that there was little fluctuation in the replies. Since there is little variation, the stated

sample mean was a strong and accurate indication of the population mean, permitting generalizations. Therefore, the results indicated that all measures of Know Your Customer (KYC) were employed to reduce the credit risk exposure in the SACCOs. Some of the measures considered included; educating the customers, loan repayment capability check and provision of collateral for some of the loans offered.

4.5.3 Loan Defaulting

The results on loan default were exhibited in Table 4.5.

Table 4.5 Loan Default Analysis

	Mean	Std. Dev
The Sacco offers strict loan repayment duration	3.71	.888
We visit our customers to their business to check on business progress	3.85	.696
We create a problem solving environment by updating loaners files oftenly	3.97	.722
We oftenly reviews customer credit qualification levels with an aim of adjusting credit limits	4.22	.743
Adjustment on interests rates or the duration of loan is considered to allow customers pay loan without struggle	4.00	.821
The loans are connected to individual customer number to ensure savings and deposits matches the loan amount	4.01	.666
Aggregate Mean	**3.96**	**.756**

Source: Survey Data(2022)

The aggregated mean and standard deviation scores for the indicators of loan default analysis were 3.96 and 0.756, respectively, according to the findings of the descriptive study. On the five-point Likert scale used in the study, the sample mean translated to 'Agree.' As seen by the 0.756 std.Dev., the average response variability was likewise modest. The small range of mean replies and standard deviation across the responses to

the multiple signals of loan default study bolstered this even further. Since response variability was minimal, the aggregated sample mean performed well as an estimator of the population mean and could be used to make inferences and decisions as a result. The findings indicates that credit qualification levels, adjustment of credit limits, interest rates charged, duration adjustment and monitoring of the customer personal accounts were vital in establishing the loan default possibilities.

4.6 Inferential Analysis

The inferential investigation utilized correlation, model summary, analysis of variance, and regression analysis.

4.6.1 Correlation Analysis

The strength and nature of the correlation between the variables were assessed using the correlation coefficient.

Table 4.6 Correlation Matrix

		Local Collection Policy	Credit Risk Management Practices	Loan Defaulting	Financial Performance
Local Collection Policy	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	46			
Credit Risk Management Practices	Pearson Correlation	.169	1		
	Sig. (2-tailed)	.287			
	N	46	46		
Loan Defaulting	Pearson Correlation	.587**	-.349**	1	
	Sig. (2-tailed)	.149	.171		
	N	46	46	46	
Financial Performance	Pearson Correlation	.799**	.690**	.766**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	46	46	46	46

Sources: Survey Data (2022)

The study discovered that the independent variables (local collection policy, credit risk management procedures, and loan defaulting) and financial performance had a strong, positive, and significant association (P=0.799, P=.690, P=0.766), with all sig values equal to.000. Individual variable interrelationships were insignificant at the 95% confidence range (P>0.05).

4.6.2Model Summary

The model summary included information on the coefficient of determination and the coefficient of correlation. How much of a component's variability can be accounted for by its relationship with another is determined by the coefficient of determination. A measure for assessing the strength of a link between two variables is the coefficient of correlation.

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1				
1	.818[a]	.669	.631	1.11119

a. Predictors:(Constant), Loan Collection Policy, Credit Risk Management Practices, Loan Defaulting

Source: Study Results (2022)

As exhibited in table 4.7, the coefficient of correlation, R, was 0.818, and the coefficient of determination, R^2, was 0.669 at the 5% significance level. This proposes that changes in independent factors like local collection policy, credit risk management practices and loan defaulting account for 66.9% of changes in dependent variables (financial performance). 33.1 % (100-66.9) of the variance in financial performance was caused by changes in unaccounted-for variables. This suggests there was a

statistically significant and favorable relationship between financial performance and loan repayment management practices (R=0.818).

4.6.3Analysis of Variance

According to Hair (2011), analysis of variance may be utilised to ascertain the overall model's relevance.

Table 4.8 ANOVA[a]

Model		Sum of Square	df	Mean Squares	F	Sig.
1	Regression	314.665	4	78.667	18.549	.000[b]
	Residual	173.871	41	4.241		
	Total	488.536	45			

a. Dependent Variable:Financial Performance

b. Predictors:(Constant), Local collection policy, credit risk management practices, loan defaulting

At a 95% confidence level, the whole model was significant in capturing the association between loan repayment management practices and financial performance (sig=0.000). Due to this, at least one variable may be utilised to explain financial performance fluctuations.

4.6.4 Coefficients of Regression Model

To determine whether there is a connection between the various components, such as local collection policy, credit risk management practices and loan defaulting and dependent variable; financial performance a regression was done. The study provided coefficients of regression statistics to assess SACCOs' financial performance. Regression analytics is achieved by the use of beta coefficient tables in the study.

Table 4.9 Regression Coefficients[a]

Model		Un standardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.001	1.269		12.875	.000
	Loan Collection Policy	.772	.086	.316	9.524	.000
	Credit Risk Management	1.132	.093	.525	14.157	.000
	Loan Defaulting	1.008	.123	.318	10.568	.000

a. Dependent Variable: Employee Performance

Source: Study Results (2021)

The adopted study Model was Y=16.001 +0.772Loan Collection Policy+ 1.132Credit Risk Management + 1.008Loan Defaulting+ **ε**

The model's outcomes showed that if local collection policy, credit risk management practices and loan defaulting were all held constant, financial performance could be 16.001 units. The results also showed a favorable relationship between regional collecting practices and financial results, with changes in local collection policy leading to 0.772 unit changes in financial performance (β_1=.772, sig=0.000).

There was a positive significant association between credit risk management practices and financial performance, as shown in Table 4.15. Financial performance improves by 1.132 units for every unit positive credit risk management practices (β_2=1.132, sig =0.000). The findings suggest that credit risk management practices and financial performance had a positive and significant correlation. The results on loan defaulting indicates that it positively and significantly affected financial performance ($\beta_{4=}$ 1.008, sig=0.000). The results indicates that a positive change in loan defaulting led to positive change in financial performance.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study based on the study objectives; to determine the effect of loan collection policy, credit risk management practices, and loan defaulting on financial performance. The chapter also presents the conclusions of the study based on the findings. It culminates by presenting the recommendation on policy and practice on loan repayment management practices.

5.2 Summary of the Study

5.2.1 Loan collection policies and financial performance

The first objective was to assess the effect of loan collection policies on financial performance of SACCOs in Tharaka Nithi County.The study findings indicate that SACCOs' lending policies were clear, effective, and well executed in order to optimize loan collection. The results indicated that borrowers were made aware of the nature of the collection procedure in order to avoid penalties and, in the case of secured or collateral loans, the repossession of the collateral in the event of a loan failure. The study found that the collecting policy has a stronger influence on portfolio quality and that therefore, SACCOs should employ a strict or aggressive debt collection strategy to help them recoup their loans.

5.2.2 Credit risk management practices and financial performance

The second objective was to assess the effect of credit risk management practices on SACCOs' financial performance in Tharaka Nithi County. The results on credit risk management practices was on lending policy, interest rate and repayment

period/schedules. The results indicated that all measures of Know Your Customer (KYC) were employed to reduce the credit risk exposure in the SACCOs. Some of the measures considered included; educating the customers, loan repayment capability check and provision of collateral for some of the loans offered. It evident that deposit-taking SACCOs were in the forefront of integrating proper credit management frameworks with the aim of enhancing their financial performance. SACCOs also have a responsibility of creating a favorable investment environment that provides opportunities for personal growth through lending and investment initiatives.

5.2.3 Loan default and financial performance

The third objective was to determine the influence of loan default on SACCOs' financial performance in Tharaka Nithi County. The findings indicates that credit qualification levels, adjustment of credit limits, interest rates charged, duration adjustment and monitoring of the customer personal accounts were vital in establishing the loan default possibilities. The loan default rate contributed immensely to the financial performance of SACCOs in Tharaka Nithi County, Kenya.

5.3 Conclusions of the study

5.3.1 Loan collection policy on financial performance

Based on the descriptive and inferential findings, the study concluded loan collection policy significantly affected financial performance of SACCOs in Tharaka Nithi County, Kenya. The loan collection policy had the least effect on financial performance. However, the contribution of loan policy results to positive change in financial performance of SACCOs in Tharaka Nithi County, Kenya.

5.3.2 Credit risk management practices on financial performance

Based on the results on credit risk management practices on financial performance of SACCOs in Tharaka Nithi County, Kenya, The study found that credit risk management practices significantly affected financial performance of SACCOs in Tharaka Nithi County, Kenya. The credit risk management practices have the highest effect on financial performance. The findings suggest that credit risk management practices and financial performance had a positive and significant correlation.

5.3.3 Loan defaulting on financial performance

Based on the results on loan defaulting on financial performance of SACCOs in Tharaka Nithi County, Kenya, the study concluded that loan defaulting positively and significantly affected financial performance. The SACCOs have tried to maintain the loan default rate at the lowest level to enable them maintain a health loan portfolio. This has positively affected the level of interest from loan revenue.

5.4 Recommendations of the Study

5.4.1 Loan collection policy

Based on the conclusions based on loan collection policy; SACCOs should examine their credit rules on a regular basis. This would improve the examination of loan applications and guarantee that they are evaluated and rated on their merits. For SACCOs to develop sustainably, they must provide prompt loan distribution to promote loan recovery and reduce administrative expenses.

5.4.2 Credit risk management practices

Based on the conclusions that credit risk management practices had a huge impact on the financial performance, SACCOs should adopt irrecoverable loan provision rules,

make suitable loan arrangements to enhance safety of finances. This will prevent loan assets from being inflated. SACCOs should also have solid lending policies to ensure loan performance when they increase loan disbursement to expand the loan book from which interest is paid.

5.4.3 Loan default management

Based on the conclusions that loan default management affects significantly the SACCOs financial performance, the study recommends that the SASRA and SACCO management should come up with a policy to monitor customers across all the financial institutions. The government should evaluate the SACCO legislative framework to guarantee that appropriate credit policies are implemented for enhanced financial performance.

5.5 limitations of the study

The study focused on the effect of effect of loan repayment management techniques and financial performance on deposit taking SACCO in Kenya's Tharaka Nithi County. The study focused on loan repayment management practices variables such as loan collection policy, credit risk management and loan defaulting and may not incorporate any other variables since they shall be considered out of scope. Some of the participants were unwilling to provide accurate and objective data about their firms owing to the fact that the study was collecting data that could be deemed confidential and if acquired by rivals or third parties could be harmful to the organizational reputation.

Therefore, some participants were not willing to react due to fear of victimization from the management. In addressing the issues, the respondents would be assured of their information privacy and the data was meant for academic purpose sonly .Besides, the researcher obtained consent letter from NACOSTI to license the research.

5.6 Suggestion for further Study

The study was limited to loan repayment management practices variables such as loan collection policy, credit risk management and loan defaulting. Other variables should be included in further studies to determine the changes in financial performance in SACCOs. The study focused on SACCOs in Tharaka Nithi County and therefore a larger sample is suggested to capture an extended geographical area.

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APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRES

PART A: GENERAL INFORMATIO N

1. How long has your SACCO been in operation?

☐ Less than 1 Year

☐ 1 - 5 Years

☐ 6-10 Years

☐ Above 10 Years

PART B: LOAN COLLECTION POLICIES

Kindly indicate how you agree with the statements presented below using the Key;

1=Strongly disagree, 2=disagree, 3=Neutral, 4=agree and 5=Strongly Agree

1	The loan collection policies are assisting my Sacco in loan collection					
2	There is improved loan collection over time					
3	The Policies on loan collection are clear to every customer					
4	The policies have enabled customers to pay loans with ease					
5	It is easy to monitor loans that are in arrears					
6	There are improved policies on loan default penalties					

PART C: CREDIT RISK MANAGEMENT PRACTICES

Kindly indicate how you agree with the statements presented below using the Key;

1=Strongly disagree, 2=disagree, 3=Neutral, 4=agree and 5=Strongly Agree

1	The Sacco loan default has declined considerably					
2	The Sacco is lowly exposed to credit risk					
3	The customers are willing to provide collateral to cover the loans					
4	Adequate customer analysis on repayment capability is analysed before issuing of loans					
5	Customers are educated on the risk of loan diversion					
6	The duration for loan repayment is considerate for all customers					

PART D: EFFECTS OF LOAN DEFAULTING

2. Indicate your response (tick) against the provided reasons as the extent to which your SACCO has adopted selected attributes of credit risk.

1	The Sacco offers strict loan repayment duration					
2	We visit our customers to their business to check on business progress					
3	We create a problem solving environment by updating loaners files oftenly					
4	We oftenly reviews customer credit qualification levels with an aim of adjusting credit limits					
5	Adjustment on interests rates or the duration of loan is considered to allow customers pay loan without struggle					
6	The loans are connected to individual customer number to ensure savings and deposits matches the loan amount					

PART E: FINANCIAL PERFORMANCE

3. For the period under consideration 2016 to 2020 indicate the extend with which the following indicators of financial performance faired using key provided

4. Net Profit Margin
5. Working Capital
6. Equity – to – Debit ratio

Amount Range (USD)/Year	**2016**	**2017**	**2018**	**2019**	**2020**
1,000,000 and Below					
1,000,001 – 10,000,000					
10,000,001 – 20,000,000					
20,000,001 – 30,000,000					
30,000,001 – 40,000,000					
40,000,001 – 50,000,000					
50,000,001 and Above					

7. How can you rate your SACCO's profitability in comparison with other similar SACCO?

☐ Very Profitable

☐ Profitable

☐ Not Sure

☐ Less Profitable

APPENDIX II: KENYATTA UNIVERSITY AUTHORIZATION LETTER

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/OL/EMB/26923/2015

DATE: 16th December, 2021

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR LINET GAKII NKONGE – REG. NO. D53/OL/EMB/26923/2015

I write to introduce **Linet Gakii Nkonge** who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the Department of Accounting and Finance.

Nkonge intends to conduct research for a M.B.A Project Proposal entitled, **"Loan Repayment Management Practices and Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Tharaka Nithi County, Kenya."**

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL

AM/mo

APPENDIX III: NACOSTI PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **388910**

Date of Issue: **10/February/2022**

RESEARCH LICENSE

This is to Certify that Ms.. LINET GAKII NKONGE of Kenyatta University, has been licensed to conduct research in Meru on the topic: LOAN REPAYMENT MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN THARAKA NITHI COUNTY, KENYA for the period ending : 10/February/2023.

License No: **NACOSTI/P/22/15549**

388910

Applicant Identification Number

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