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Effects of Loan Management Practices on the Financial Performance of Deposit Taking SACCOs in Kisii County

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***Abstract*: Microfinance plays a vital role to a country's economy since it provides loans to small and medium enterprises which constitute the majority of businesses in most countries. The main objective of the study was to determine the effect of loan management on the financial performance of Deposit Taking SACCOs in Kisii County. The target population of this study was 120 employees of all the six Deposit Taking SACCOs in Kisii County. The study used census technique. Primary data were collected using a questionnaire. The data were analyzed by use of descriptive statistics and inferential statistics. The study revealed that loan collection policies, credit risk measures and loan default have significant effect on the performance of Deposit Taking SACCOs. The study recommended that the SACCOs should uphold monitoring of loans that are in arrear, also penalize clients for late payment and limit access to repeat loans for defaulters, monitor the flow of borrower's business through the SACCO's account, make regular review of the borrower's reports, be supportive to borrowers whenever they are in difficulties, make frequent contact with borrowers and that they make on-line visits.**

***Keywords:* SACCOs, Loan, Deposit taking, Loan collection, Credit risk, Loan default.**

1. INTRODUCTION

Savings and Credit Cooperative Societies (SACCOS) play important role in providing the financial services in both rural and urban areas. Moreover, SACCOS are considered to be more important in rural area of because they are semiformal financial institutions which serve many inhabitants in rural areas (Wangwe 2014). SACCOS also operate by focusing not only on the profit but also the welfare of members. SACCOS like any other cooperative work to maximize the welfare of members. In SACCOS members participate in setting the interest rates for loans in which members receive back later as dividends (Magali, 2014). Gatuhu (2013) define Microfinance as the supply of loans, savings, and other basic financial services to the poor. The study differentiates microfinance services from those which formal banks provide by stating that financial services for Micro Finance Institutions (MFIs) usually involve small amounts of money - small loans, small savings. The study goes on to state that microfinance institutions provide a reliable source of financial support and assistance compared to other sources for financing.

Studies have indicated that poor loan management influences negatively the profitability and operation efficiency of banks (George et al., 2013). Similar studies in Ghana by Aballey (2009) confirmed that huge bad loans portfolio for African Development Bank (ADB) in Ghana was largely caused by ineffective loan monitoring and poor credit selection and recommended that training, effective loan monitoring, effective collateral, establishment of agriculture infrastructural facilities and use of credit bureaus as strategies for reducing the bad loans and improving the quality of loan portfolio for ADB in Ghana. The findings of Imeokpararia (2013) disclosed that there is failure of bank management to establish sound lending policies and adequate credit administration procedure among Bank in Nigeria, as custodians of depositors' fund

and therefore saw the need to exercise due care and prudence on their lending operations. The study further revealed that there is no significant relationship between effective loan management and the performance of banks.

Greuning and Iqbal (2007) found out that it is crucial for banks to have comprehensive risk management framework as there is a growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework. Ibrahim (2004) identified a significant effect between the way the banks manage their credits portfolio and the profitability of the banks in Nigeria. Imeokpararia (2013) argued that failure of bank management to establish sound lending policies and adequate credit administration procedure do not have significant effect on the performance of banks in Nigeria. However, Maghimbi (2010) differed with this study by citing poor structures and high amount of overdue loans, poor leadership and poor corporate governance as some of the problems which limit the development of SACCOS in Tanzania (Maghimbi 2010). In support of this claim, Mwakajumilo (2011) disclosed non-performing loans posed a great problem to the SACCOS in Tanzania. Magali (2014) on effectiveness of loan portfolio management in Rural SACCOS in Tanzania, disclosed that the quality of loan portfolio was positively influenced by the loan size while the influence of gender and location of the borrowers were not significant. The study further observed that rural SACCOS used portfolio diversification, collateral, guarantors, letter from the village/ward government offices and the affidavit from the lawyer as credits risk mitigation techniques. The findings further revealed that revealed that fluctuation of the price of agricultural produce threatened the quality of loan portfolio. In view of this, the research recommended that SACCOS should seek the effective insurance services, use the effective software for loan portfolio management, search the market for agriculture produce, write off non repaid loans, enhance the repayment of overdue loans and revise the loan classes and maturity in order to improve the quality of the loan portfolio in the SACCOS.

Research has recorded massive fraud of funds by SACCO leaders and that delinquency in SACCOs had increased (CGAP report, 2006), citing an example of AlutKot SACCO in Lira, Uganda, which had loaned out Ugsh. 841,000,000 since 2002 but had only recovered 26% of the amount by 2010. Worse still, SACCOS have failed to control loan default risks, especially credit risk, and this has often led to insolvency (Wenner, Navajas, Trivelli and Tarazona, 2007 cited in Njeru et al., 2015). About 2 out of 3 SACCOs initially formed either collapse or become dormant, with the low profitability of the SACCOs resulting into some SACCOs failing to repay loans lent to them with recovery rate of loans advanced to SACCOs (Ocowun, 2010 cited in Njeru et al., 2015).

Laile (2015) discovered that, habit of borrower, loan size, perception of borrowers on repayment period, source of income, availability of training, business experience, business type and family size and purpose of saving were found to be influential in determining loan repayment to microfinance institutions in Zimbabwe. These findings were in harmony with Angaine and Waari's (2014) study which singled out education level, number of dependents, and hobbies were individual characteristics influencing loan repayment established that education level, number of dependents, and hobbies were individual characteristics influencing loan repayment in Micro-Finance Institutions in Kenya.

The findings of the study by Gatuhu (2013) on the effect of credit management on the financial performance of microfinance institutions in Kenya, realized that client appraisal, credit risk control and collection policy significantly influence financial performance of MFIs in Kenya. In support of this claim, Nzotta (2004) asserted that credit management greatly influences the success or failure of commercial banks and other financial institutions. Kato (2013) on loan performance and profitability of microfinance institutions, notes that loan portfolio of MFIs would be well managed if there was good clients' selections, delinquency management, loan approval authority, good product design and contract enforcement. The study further revealed that there still exist problems in loan portfolios management that lead to poor performance of loan portfolios. Forced savings, use of group peer pressure, visiting clients who miss repayment and presence of monitoring systems to ensure loan recovery were noted to be some of the loan recovery methods used to boost loan recovery and increase profits of the bank. The findings further indicated that there was a negative relationship between loan performance and profitability of MFIs.

Essendi (2013) indicated that in Kenya, the formulation of the credit policy is largely done by members of the organization and regulation with moderate involvement of employees and the directors. The existing credit policy of the Sacco is the primary document upon which formulation of new credit policy is based, trends of creditors and overhead costs are also taken into account in the process of formulation. Findings further show that CAMEL rating system plays a central role in the assessment of the soundness of Saccos. Lagat et al (2013) found that credits' risk identification, analysis, monitoring, evaluation and mitigation influenced the lending portfolio for SACCOS' in Kenya. Mwaura (2005) cited in Njeru, Njeru,Memba and Ondabu (2015) insist that lack of credit follow up, credit analysis, and hostile lending of money are some of the factors that have contributed to financial gap and poor performance in Kenya. Njeru et al. (2015)

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established that the main loan products offered by the SACCOS were: staff members loan; nominal loan; investment loans; agribusiness loan; smart loan; personal loan; premier loan; fanikisha loan; Tosa pride loan; mortgage loan; normal loan; micro credit loan; development loan and business loans. It was observed that the rate of loan default was on an increase and that it was not hard for prospective loanees to access guarantees though the members were fearful in loan guarantees. The research observed a Strong positive relationship between Loan Repayment and Financial Performance of Deposit taking SACCOs in Mount Kenya Region.

From the above studies, it is evident that little has been researched on relating to the relationship between loan management practices and financial performance. As Gatuhu (2013) realized, the loan collection policies and other basic financial services of many financial institutions are still wanting. Essendi (2013) only provided insight to credit management policy. However, credit management policy is just one of the loan management policies. This study looks at loan collection policies and loan default besides credit risk. On the other hand, Njeru et al. (2015) was concerned on loan repayment default, and based the study on micro finance institutions. This secluded other two independent variables in this study. Therefore this study provides an insight into the influence of all the three variables (credit collection, credit risk and loan default) on the financial performance.

Microfinance plays a vital role to a country's economy since it provides loans to small and medium enterprises which constitute the majority of businesses in most countries. SACCOs are among the microfinance institutions we have in Kenya. This implies that there is need to manage the loan repayment in SACCOs so as to avoid their collapse. Anapum, Blavy and Yulek (2004) observed that Kenya's microfinance is one of the oldest and most thriving in Africa but affected by loan repayment problems. The findings of Rodgers (2013) disclosed that up to 62% of loanees were never motivated to repay their loans leading to 77% of them defaulting payment at some point. However, it has been observed that most of the SACCOs are experiencing high loan default rate. This has led to the monthly pay (and in extreme cases, their shares) of the guarantors being attached with the defaulted loans. This in turn has led to some of the SACCO members to shy away from guaranteeing their fellow SACCO members. Some studies (Addae-Korankye, 2014) have exposed dissatisfaction by the microfinance institutions regarding high rate of default by their clients. It has further been observed that most microfinance institutions are not achieving the internationally accepted standard portfolio at risk of 3%, which is a cause for concern because of its consequences on businesses, individuals, and the economy at large. Therefore this study seeks to assess the effect of loan management on the financial performance of Deposit Taking SACCOs in Kenya. The objectives of the study were to determine the effect of loan collection policies on the financial performance of Deposit Taking SACCOs in Kisii County, to assess the effect of credit risk management practices on the financial performance of Deposit Taking SACCOs in Kisii County and to establish the effects of loan default on the financial performance of Deposit Taking SACCOs in Kisii County.

2. EMPIRICAL REVIEW

2.1 Loan Collection Policies:

In order to be financially viable or sustainable, microfinance institutions must ensure high portfolio quality based on 100% repayment, or at worst low delinquency/default, cost recovery and efficient lending (Addae-Korankye, 2014). Moti, Masinde, Mugenda and Sindani (2012) observed that firms in the micro finance sector have adopted the arrear monitoring systems and stringent policy as the most efficient methods of loan collection. However, the study warned that, when lenient policy is adopted, the loan collection is very poor. Pandey (2004) held that credit policy is needed because sometimes customers do not pay the bank's installments in time and therefore, policies should be put in place to monitor repayment and that these policies should be convenient to both the lender and the borrower.

Kuo et al. (2010) looked at loan policy and bank performance, focusing on Taiwanese Banks and the findings revealed that loans on Information technology firms have a significant negative influence as banks increase their loan ratios to the IT industry. It was noted that, during a macroeconomic downturn, banks will suffer losses if they abruptly offer loans to the IT industry and do not handle such business appropriately. However, the study also found out that there is a positive correlation between the consumer loan ratio and bank performance, and that the changes in the political and economic environment have a negative effect on the performance of banks.

Nduwayo (2015) studied the effect of loan management on the financial performance of commercial bank: the case of Bank of Kigali (B.K). The main aim of the study was to explore the effect of loan management on the financial performance of commercial bank with special focus on Bank of Kigali (BK). The study findings revealed that there was

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an effect or a close relationship between loan management and financial performance of Bank of Kigali, where it was noted that well management of loan was the main source of the positive financial performance achieved by B.K. in view of this, the study recommended that banks should improve the training of employees of credit department to enhance the suitable effective performance of loan management.

Esendi (2013) researched on the effect of credit risk management on loans portfolio among Saccos in Kenya. The study aimed to examine the effects of credit risk management on the loans portfolio among Saccos licensed by Sasra in Nairobi County. The study used a sample of 35 Saccos who were drawn from Nairobi County. The study used both primary and secondary data. The study revealed that formulation of the credit policy is largely done by members of the organization and regulation with moderate involvement of employees and the directors; that the existing credit policy of the Sacco is the primary document upon which formulation of new credit policy is based, trends of creditors and overhead costs are also taken into account in the process of formulation, and that Capital Adequacy, Asset Quality, Management, Earnings, Liquidity (CAMEL) rating system plays a central role in the assessment of the soundness of Saccos.

2.2 Credit Risk Management Practices:

Lending always involves some elements of risks stemming from circumstances which result from the nonpayment of the loan obligation when they fall due (Ibrahim, 2004). The study further states that credit policy of any organization may be lenient or stringent one depending on its approach. According to the study, lenient credit policy refers to a situation where financial institutions tend to give credit facilities to customers very liberally that is credits are granted even to those customers whose credit worthiness are not known or is doubtful. On the other hand, stringent credit policy is one in which financial institutions offer credit facilities to their customers who have proven credit worthiness. The banks or organizations with stringent credit policy follow tight credit standard and terms and as a result, minimize cost, risks, and chances of bad debts and problem of liquidity.

Miller (2008) cites four reasons why an organization should have a written credit policy: First, it limits bad debts and improves cash flow. Second, a policy assures a degree of consistency among departments. This is because, by writing down what is expected, the arms of the company will realize that they have a common set of goals and this will also eliminate duplication of effort and friction among departments. Third, it provides for a consistent approach among customers in the sense that decision making becomes a logical function based on pre-determined parameters. This simplifies the decision process and yields a sense of fairness that will only improve customer relations. Finally, it can provide some recognition of the credit department as a separate entity, one which is worthy of providing input into the overall strategy of the firm.

Each of the components of a company's credit policy is used as a tool for monitoring account receivables which is the outcome of credit sales; it covers from the kind of customers that credit may be extended to when actual collections would be made (Ojeka, 2010). The study further states that there is no particular universal credit policy that should be adopted by every organization; instead, each organization should come up with its own credit policies depending on the cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved.

Gakure, Ngugi, Ndwiga and Waithaka (2012) submitted that, clear established process for approving new credits and extending the existing credits play a vital role while managing Credit Risks in banks. This claim is supported by Mwisho (2001) who opined that, monitoring of borrowers is very important because current and potential exposures change with both the passage of time and the movements in the underlying variables. The study goes further to state that some of the ways through which financial institutions can monitor their credit include; having frequent contact with borrowers and creating an environment that the bank can be seen as a solver of problems and trusted adviser. The study also claims that, the bank can develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitor the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers' rating assigned at the time the credit was granted. In support of this, Moti et al. (2012) identified loan duration, collateral attached as security and signing of covenants played a vital role boosting loan repayment.

In a study on the effect of credit management on the financial performance of microfinance institutions in Kenya, Gatuhu (2013) cited several credit management measures which are used by lending institutions to limit credit risk. First, client appraisal which involves screening clients to ensure that they have the willingness and ability to repay a loan. According

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to this study, this involves the use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000), namely, character (trustworthiness and integrity of the business owners); capacity (whether the cash flow of the business (or household) can service loan repayments); collateral (the asset offered as a security in case the loanee defaults); capital (Assets and liabilities of the business or household) and condition (business plan that considers the level of competition and the market for the product or service, and the legal and economic environment). The other measures include having Credit controls in the form of loan product design, credit committees, delinquency management and loan rescheduling.

2.3 Effects of Loan Default among Deposit Taking SACCO Loanees in Kenya:

Several reasons have been pin pointed by several studies as the main causes of loan defaults. Waweru and Kalani (2009) disclosed that some of the causes of non- performing loans in Kenyan banks were national economic downturn, reduced consumer buying ability and legal issues. Bichanga and Aseya (2013) documented the following as the factors that lead to loan default: Inadequate or non-monitoring of micro and small enterprises by banks, delays by banks in processing and disbursement of loans, diversion of funds, over-concentration of decision making, where all loans are required by some banks to be sanctioned by Area/Head Offices.

In a study on lending methodologies and loan losses and default in a microfinance deposit-taking institution in Uganda, Arishaba (2011) listed the following as the pertinent factors boosting loan default: Inadequate financial analysis, inadequate loan support is another cause of loan default, The research also pointed out that illiteracy and inadequate skills, disappearance of loan clients, Poor business practices and Competitive factors whereby, due to the existence of many banks being involved in the business of lending, they ignore asking for adequate collateral just have borrowers.

Nguta, and Guya (2013) disclosed several causes of loan default among the microfinance institutions in Kenya. Key among these characteristics is the characteristic of the business. The study discovered that most of the loan defaults occurred in the manufacturing sector. As far as the duration of business was concerned, the study realized that majority of loan default cases were businesses that had been in operation for a period of between five and ten years. It was also revealed that, those businesses located within the municipality had high loan repayment default rates as compared to business outside municipality. As regards to the profitability of a business, those businesses making monthly profits of below Kshs. 10,000 had the highest cases of loan repayment default while loan repayment default among businesses that made profits of over 100,000 was minimal.

Asantey and Tengey's (2014) study on a loanee's level of education, years of business experience, business size, availability of other income sources, types of products/services, loan size and number of dependents as the main determinants of bad loans among the SMEs. The other determinants include credit analysis, appropriateness of interest rate and length of time within which the loan is disbursed. However, the study discovered that political stability rarely influences bad loans.

2.4 Financial Performance:

Financial performance involves measuring the results of a firm's policies and operations in monetary terms and this is normally done in the form of calculating the firm's return on investment, return on assets and value added (Gatuhu, 2013). There are also several studied that have used profitability as a measure of their financial performance (Raymond, Adigwe and John-Akamelu, 2015; Anthonia, 2012; Kungu et al., 2014; Kimaru, 2014; Ibrahim, 2004). A study by Kato (2013) also used profitability as a measure of financial performance in their study on loan performance and profitability of microfinance institutions. The study further observed that there was a negative relationship between loan performance and profitability of the bank. Nduwayo's (2015) also used profitability as the measure of financial performance in their study on the effect of loan management on the financial performance of commercial bank. The study realized that a well managed loan return the equity and assets of the organization which can generate the financial performance. Aiming to investigate the impact of IT loans on the performance of banks, Kuo (2010) adopted profitability as one of the measures of performance for commercial banks in Taiwan. The study observed that, during a macroeconomic downturn, banks will suffer losses if they abruptly offer loans to the IT industry and do not handle such business appropriately. The study further observed the existence of a positive correlation between the consumer loan ratio and bank performance, while changes in the political and economic environment have a negative effect on the performance of banks. Therefore this study will use the above measures to measure the financial performance of the Deposit taking SACCOS in Kisii County.

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3. RESEARCH METHODOLOGY

The study adopted a survey research design. This design enabled the researcher to describe and explain and portray characteristics of an event or population as it exists. The target population of this study was all the 120 employees of all the 6 Deposit Taking SACCOs (DTS) in Kisii County. These DTS were; Wakenya Pamoja SACCO, Gusii Mwalimu SACCO, Nyamira Tea SACCO (Marani Branch), Vision Point SACCO, Kenya Achievers and Afya SACCO. This study used census to gather data from all the employees currently working in the SACCOs since the population was small hence no need for sampling. Mugenda and Mugenda (2003) assert that when the sample is small, there is no need for sampling it, instead, all the elements are considered during the inquiry. This means that the sample size was also 120 respondents. Primary data were collected using a personally administered semi-structured questionnaire which was administered to the selected sample. The study gathered data using a semi-structured questionnaire after pre-testing if for validity and reliability. The data collected were first tabulated, then analyzed by use of descriptive statistics (weighted means, frequencies and percentages) and inferential statistics which involved regression analysis and Analysis Of Variance (ANOVA). Regression analysis enabled the researcher to come up with a regression model of the form:

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

Where,

FP-Financial Performance of DTS

X_1-Loan Collection Policies

X_2-Loan Default Management Practice

X_3-Credit Risk Management Practice

μ-error term

$\beta_0, \beta_1, \beta_2$ and β_3 are the regression coefficients

4. FINDNGS AND DISCUSSIONS

4.1 Response Rate:

The study targeted collecting information from 120 respondents. Out of the 120 questionnaires, 117 questionnaires were collected from the respondents. This gave a response rate of 97.5%. This was deemed a good response rate from which to draw conclusions. Mugenda and Mugenda (2003) declares 50% and above response rate as being satisfactory to use in inferring upon.

4.2 Existence of Loan Collection Policies:

The study went ahead to inquire whether the policies were assisting the SACCOs as far as collection of the loans was concerned. The respondents opined as shown in figure 1.

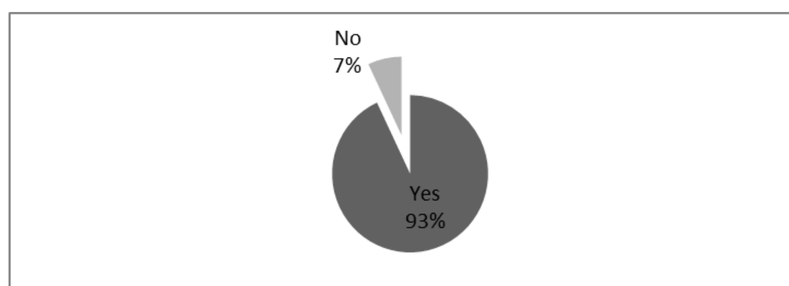

Figure 1: Relevance of SACCOs' Loan Collection Policies

As figure 1 depicts, 93% of the respondents felt the loan collection policies were assisting the SACCOs in their loan collection while only 7% of the respondents refuted the claim. This shows that the loan collection policies are relevant to SACCOs in assisting them to recover loans.

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4.2 Rating of Loan Collection Policies:

Respondents were asked to rate the loan collection policies of their SACCOs. The findings were as depicted in table 1 below:

Table 1: Rating of Loan Collection Policies

Level of Satisfaction	Frequency	Percentage
Very satisfactory	28	23.9
Satisfactory	73	62.4
Not sure	9	7.7
Unsatisfactory	7	6.0
Very unsatisfactory	0	0
Total	**117**	**100**

The results in table1 revealed that majority (62%) of the respondents rated it as satisfactory; 24% of the respondents rated it as very satisfactory, 6% of the respondents rated it as unsatisfactory while only 7% of the respondents were not sure of the correct rating. This shows that the loan collection policy for majority of the SACCOs is satisfactory. This contradicts the findings of a study by Ojeka (2010) which noted that the credit collection policies among the financial institutions in Nigeria were wanting.

4.3 Loan Collection Policies Adopted by SACCOs:

The study sought to know the different types of loan collection policies that were adopted by the SACCOs under study. The response was as indicated in table 2 below:

Table 2: Loan Collection Policies Adopted by SACCOs

Loan Collection Policy	Percentage
Monitoring loans that are in arrears	100.0
Penalizing clients for late payment	100.0
Stringent policies	79.5
Limiting access to repeat loans based	60.7
Lenient policy	9.4

Table 2 discloses that all (100%) of the respondents monitor loans that are in arrears and also penalize clients for late payment. The study also discovered that 79.5% of the SACCOs apply stringent policies, 60.7% of the SACCOs limit members' access to repeat loans as a loan collection policy while only 9.4% of the respondents apply lenient policy as a loan collection policy. This concurs with the study by Mwisho (2001) which realized that monitoring of borrowers is very important because it can help an organization foresee default in time.

4.4 Frequency of Loan Default:

The study wanted to know the frequency with which loan default occurred in the SACCOs. The findings were as depicted on figure 2.

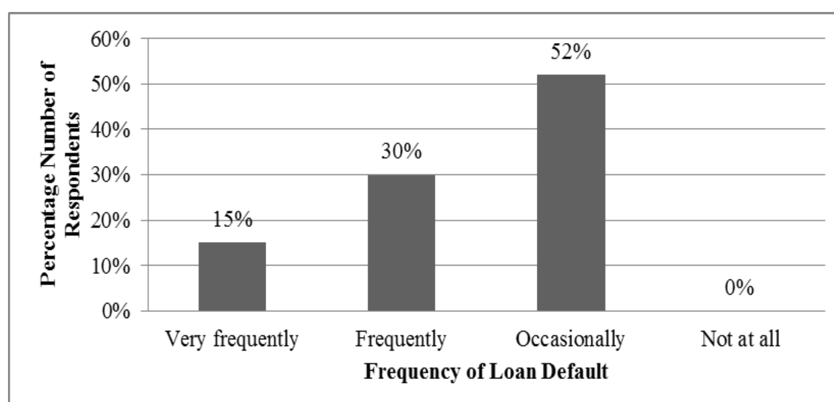

Figure 2: Frequency of Loan Default

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Figure 2 shows that majority (52%) of the respondents felt that their SACCOs experience loan defaults occasionally, 30% of the respondents felt that their SACCOs experience loan default frequently; while only 15% of the respondents felt that their SACCOs experience loan defaults very frequently. Similar findings by Magali (2013) found out that the loanees occasionally defaulted their loans and this was attributed to the inadequate skills in loan portfolio management were the reasons for loans defaults and poor portfolio.

4.5 Reasons for Loan Default:

The study sought to know why there was default among the SACCOs that witnessed it from their members. Some selected reasons for loan default were provided on a five point likert and respondents were asked to rate them. The findings are documented in table 3 below:

Table 3: Reasons for Loan Default

Clients default on loans because…	**Strongly agree 5**	**Agree 4**	**Not sure 3**	**Disagree 2**	**Strongly disagree 1**	Σf_i	$\Sigma f_i x_i$	$\frac{\Sigma f_i x_i}{\Sigma f_i}$
Poor business practices and Competitive factors	101	13	0	3	0	117	563	4.81
Diversion of loan to other activities	89	25	2	1		117	553	4.73
Lack of other sources of income	88	21	7	1	0	117	547	4.68
Inadequate financial analysis	41	56	13	6	1	117	481	4.11
Inadequate business skills	51	35	21	8	2	117	476	4.07
High interest rates	47	44	13	9	4	117	472	4.03
Inadequate or non-monitoring of the enterprises loaned by the SACCO	41	44	21	8	3	117	463	3.96
The unfavourable state of economy in the country	28	51	33	4	1	117	452	3.86
The laws in place are unfavourable	8	22	43	38	6	117	339	2.90
Loans have to be approved from main office	13	22	27	48	7	117	337	2.88
There is low rate of purchases by the customers	17	12	19	43	26	117	302	2.58
Of delays by banks in processing and disbursement of loans	1	12	41	36	27	117	275	2.35
Loan clients disappear	6	11	26	44	30	117	270	2.31
Short repayment period	6	10	21	57	23	117	270	2.31
Inadequate loan support	0	13	17	66	21	117	256	2.19
Inadequate collateral	0	5	11	49	52	117	203	1.74

The findings in table 3 indicated that the respondents agreed that, poor business practices and competitive factors; diversion of loan to other activities and lack of other sources of income were some of the major reasons for loan default. These factors were rated 4.81, 4.73 and 4.68 respectively on a five point likert scale. This could be due to the fact that some of the clients use their capital which is in form of loan to provide for their families and diverting the loan to other

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non-business activities like building their homesteads of paying fees. Other notable causes of loan defaults that respondents agreed upon were; inadequate financial analysis, inadequate business skills and high interest rates 4.11, 4.07 and 4.03 respectively on a five point likert scale. This confirms the study by Bichanga and Aseya (2013), Arishaba (2011) and Nguta, and Guya (2013) who cited poor business practices and competitive factors; diversion of loan to other activities and lack of other sources of income as some of the major reasons for loan default.

4.6 Extent of Use of Credit Risk Measures among SACCOs

The study wanted to know the extent to which the SACCOs had adopted selected attributes of credit risk. Some selected measures were provided on a five point likert scale and the respondents were asked to rate them. The findings were as presented in table 4.

Table 4: Extent of Use of Credit Risk Measures among SACCOs

Our SACCO…	**Strongly agree 5**	**Agree 4**	**Not sure 3**	**Disagree 2**	**Strongly disagree 1**	Σf_i	$\Sigma f_i x_i$	$\frac{\Sigma f_i x_i}{\Sigma f_i}$
Has offered long loan repayment duration	89	13	5	7	3	117	529	4.52
Updates borrower’s credit files	44	61	7	3	2	117	493	4.21
Periodically reviews the borrowers rating assigned at the time the credit was granted	9	32	50	21	5	117	370	3.16
Monitors the flow of borrower's business through the SACCO's account	15	20	31	29	22	117	328	2.80
Makes regular review of the borrower's reports	11	15	23	55	13	117	307	2.62
supportive to borrowers whenever they are recognized to be in difficulties	1	5	28	66	17	117	258	2.21
Requires collateral as security to loans	12	11	14	27	53	117	253	2.16
Creates an environment that it can be seen as a solver of problems and trusted adviser	1	1	20	73	22	117	237	2.03
	2	6	13	59	37	117	228	1.95
Makes on-site visits	0	3	11	62	41	117	210	1.79

The respondents agreed that the SACCOs offer long loan repayment duration (weight 4.52 on five point likert scale) and updates borrower’s credit files (weight 4.21). This could be in an effort to ensure the clients repay in small installments and also track clients so that instances of defaults can be detected early. However, the study showed disagreement on several issues. First, the respondents disagreed with the claims that the SACCOs monitor the flow of borrower's business through the SACCO's account (weight 2.80), they (SACCOS) make regular review of the borrower's reports (weight 2.62), they are supportive to borrowers whenever they are recognized to be in difficulties (weight 2.21) they require collateral as security to loans (weigh 2.16) and that they create an environment that it can be seen as a solver of problems and trusted adviser (weight 2.03). Worse still, the respondents refuted the claims that SACCOs have frequent contact with borrowers (weight 1.95) and that they make on-line visits (weight 1.79). The reason why SACCOs do not monitor the flow of borrower's business through the SACCO's account could be due to the fact that clients operate multiple accounts in other financial institutions. Lack of frequent contact with borrowers could also be as a result of inadequate manpower in SACCOs, or because it is not easy to know the location of the loanees. Similar findings were noted in a study by

Bichanga and Aseya (2013) which observed that financial institutions offer long loan repayment duration and updates borrower's credit files as their credit risk measures.

4.7 Financial Performance of SACCOs:

Respondents were asked to rate the profitability of their SACCOs compared to other similar SACCOs, and the results were presented in figure 3 below:

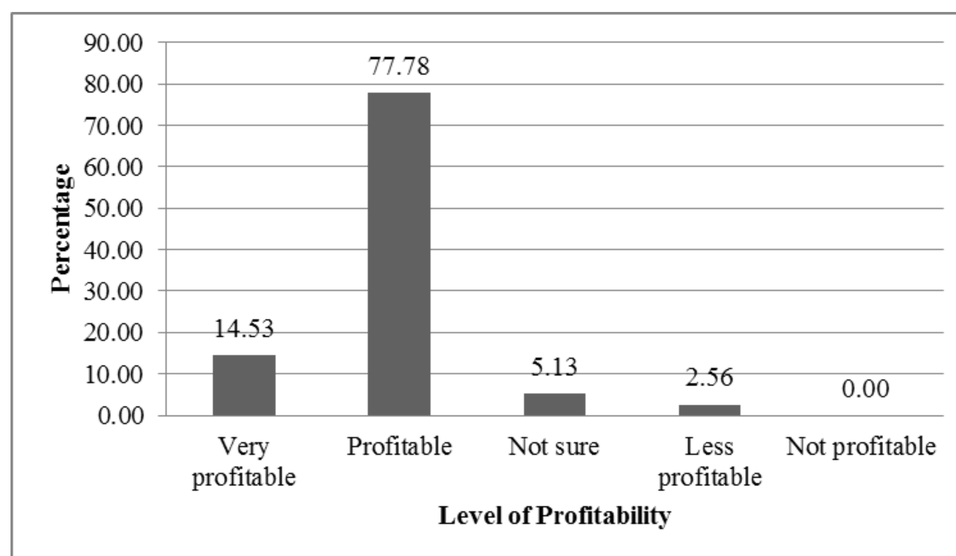

Figure 3: Financial Performance of SACCOs

The study found out that 78% of the respondents rated their SACCOs as profitable, 15% of the respondents rated them as very profitable, while 3% of the respondents rated them less profitable. Only 5% of the respondents did not rate their SACCOs. Nguta and Guyo (2013) found similar results that most of the most of the MFIs were profitable ventures regardless of the challenges they were facing.

4.7 Profit in the Previous Three Years:

The research wanted to know the amount of profits the SACCOs realized in the previous three years. The results were as indicated in table 5.

Table 5: Profit in the Previous Three Years

Amount	Percentage Number of SACCOs		
	2013	**2014**	**2015**
1,000,000-9,999,999	0	0	0
10,000,000-19, 999,999	2	5	1
20,000,000-29, 999,999	5	4	3
30,000,000-39, 999,999	45	41	38
40,000,000-49, 999,999	25	26	34
50,000,000and above	23	24	24
Total	100	100	100

The findings of the study realized that there was a general increase in the profitability of the SACCOs in the previous three years. Specifically, the study observed that majority of the SACCOs secured a profit of at least Ksh. 30 million shillings in the previous three years.

4.8 SACCOs' Net worth of Investment in the Previous Three Years:

The research sought to find the approximate worth of the SACCO's investment over the previous years. The results are shown in table 6.

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Table 6: SACCOs' Net worth of Investment in the Previous Three Years

Amount (Sh.)	2013	2014	2015
1,000,000-9,999,999	2	3	3
10,000,000-19, 999,999	40	39	35
20,000,000-29, 999,999	31	27	22
30,000,000-39, 999,999	11	15	21
40,000,000-49, 999,999	9	9	12
50,000,000and above	7	7	7
Total	100	100	100

The results in table 6 indicated that majority of the SACCOs invested between Ksh. 10 million shillings and Ksh. 39 million shillings in the previous three years. Only a few (3% or less) of the SACCOs invested less than Ksh. 10 million shillings.

4.9 Dividends of SACCOs:

Respondents were asked to disclose the dividends (percentage) their SACCOs had awarded shareholders in the previous three years. The summary of the findings are presented in figure 4.

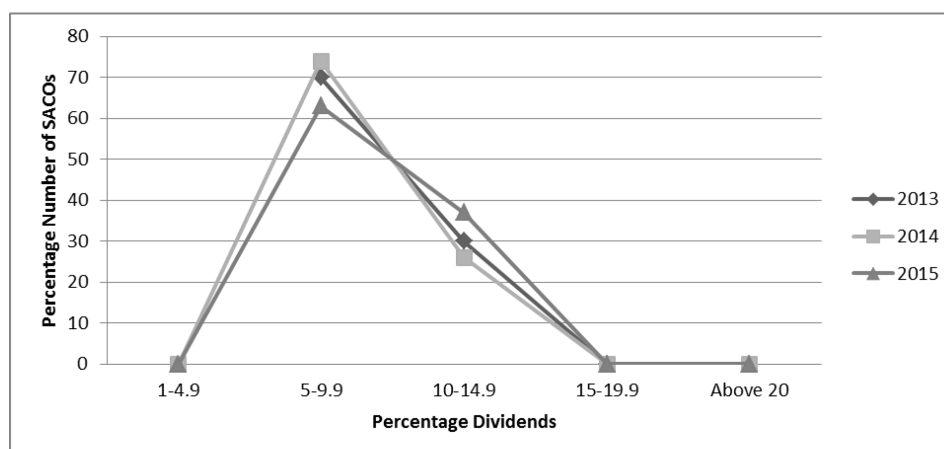

Figure 4: Dividends of SACCOs

The findings in figure 4.8 shows that majority (at least 63%) of the SACCOs submitted between 5% -9% as dividends in the previous three years while the remaining SACCOs submitted between 10% and 14.9%. These findings are in agreement with that of Nguta and Guyo (2013) who observed that majority of the micro finance institutions realized profit.

4.10 Multiple Regression Coefficients:

A multiple regression analysis was run in SPSS so as to test relationship between independent variables and financial performance of deposit taking SACCOs. The coefficients realized were used to write the full multiple linear regression equation as shown below:

Table 7: Table of Coefficients

Model	Unstandardized coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.003	0.612		.790	.013
Loan Collection Policies	.108	.021	.079	.982	.002
Loan Default Management	.091	.006	.025	.311	.003
Credit Risk Management	.047	.005	.009	.119	.001

a. Dependent Variable: Financial Performance

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From the above coefficients, the study came up with the following model:

$$FP = 1.003 + 0.108X_1 + 0.091X_2 + 0.047X_3$$

Where,

FP-Financial Performance of DTS

X_1-Loan Collection Policies

X_2-Loan Default Management Practice

X_3-Credit Risk Management Practice

$\beta_0, \beta_1, \beta_2$ *and* β_3 are the regression coefficients

4.11 Model Summary:

The multiple regression analysis also produced a summary of the multiple regression model. Table 8 shows the model summary.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.626[a]	.392	.626	.709
a. Predictors: (Constant), loan collection Policies, loan default management practice and credit risk management practice				

The value R^2 also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. As table 4.2 depicts, the value of the coefficient of determination, R^2 was found to be .392. This means that 39.2% of the factors determining the financial performance of deposit taking SACCOs are explained by the three independent variables under consideration in this study while the remaining 61.8% of the financial performance are explained by factors outside the model.

4.12 ANOVA Table:

An Analysis Of Variance (ANOVA) test was run using the SPSS version 21 so as to determine the effect of the independent variables on the dependent variables. The findings were as presented in table 9 below:

Table 9: ANOVA Table

		Sum of Squares	df	Mean Square	F	Sig.
Loan Collection Policies	Between Groups	1296	9	144	2.715	.003
	Within Groups	5728.18	108	53.03		
	Total	7024.18	117			
Loan Default Management Practice	Between Groups	558	9	62	1.206	.000
	Within Groups	5552.2	108	51.41		
	Total	6110.2	117			
Credit Risk Management Practice	Between Groups	531	9	59	1.048	.003
	Within Groups	6080.4	108	56.30		
	Total	6611.4	117			

This means that, at 5% level of significance, the factors “Loan Collection Policies” (P-value .003), “Loan Default Management Practice” (P-value .000) and “Credit Risk Management Practice” (P-value .003) are all significant in determining the financial performance of deposit taking SACCOs since their P-values are less than 5%. Similar findings were noted by Magali (2014) whose study observed that loan collection policies, loan default and credit risk management were significant in influencing financial performance of rural saccos in Tanzania.

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5. SUMMARY

The first objective of the study was to determine the effect of loan collection policies on the performance of Deposit Taking SACCOs in Kisii County. The findings of the study revealed that SACCOs have adopted the use of some loan collection policies and these include; monitoring loans that are in arrears, penalizing clients for late payment, use of stringent policies, and limiting members' access to repeat loans. It was also evident from the study that the SACCOs monitor loans that are in arrears, they penalize clients for late payment to a high extent. Further analysis also revealed that they (SACCOs) have adopted the limitation of access to repeat loans for defaulters to a moderate extent. The results from ANOVA showed that loan collection policies have a great influence on the financial performance of deposit taking SACCOs.

The second objective of the study was to assess the effect of credit risk management practices on the performance of Deposit Taking SACCOs in Kisii County. The study found out that, the credit risk measures adopted by SACCOs include; offering long loan repayment duration and update borrower's credit files. However, the study showed the SACCOs do not monitor the flow of borrower's business through the SACCO's account, they do not make regular review of the borrower's reports, they are not supportive to borrowers whenever they are recognized to be in difficulties, and that they do not require collateral as security to loans. The findings further showed that SACCOs have not created an environment that it can be seen as a solver of problems and trusted adviser, they do not have frequent contact with borrowers, nor do they make on-line visits. The ANOVA results showed that credit risk management practices have a significant effect on the financial performance of deposit taking SACCOs.

The third objective of the study was to establish the effects of loan default on the performance of Deposit Taking SACCOs in Kisii County. The study showed that, majority of the respondents felt that their SACCOs experience loan defaults occasionally, while only a few of the respondents felt that their SACCOs experience loan defaults very frequently. It was agreed that, poor business practices and competitive factors; diversion of loan to other activities, lack of other sources of income, inadequate financial analysis, inadequate business skills and high interest rates were some of the major reasons for loan default. The study noted that ANOVA results disclosed that, loan default has significant effect on the performance of Deposit Taking SACCOs.

6. CONCLUSION

From the above findings, several conclusions can be made. First, SACCOs have in place loan collection policies and these include; monitoring loans that are in arrears, penalizing clients for late payment, use of stringent policies, and limiting members' access to repeat loans. The study realized that loan collection policies have a great influence on the financial performance of deposit taking SACCOs. Secondly, the credit risk measures adopted by SACCOs include; offering long loan repayment duration and update borrower's credit files. The ANOVA results showed that credit risk management practices have a significant effect on the financial performance of deposit taking SACCOs. Thirdly, SACCOs experience loan defaults, though occasionally, and this is mainly due to; poor business practices and competitive factors; diversion of loan to other activities, lack of other sources of income, inadequate financial analysis, inadequate business skills and high interest rates. It was also evident from the study that loan default has significant effect on the performance of Deposit Taking SACCOs.

7. RECOMMENDATIONS

The study recommended that the SACCOs should uphold monitoring of loans that are in arrear, also penalize clients for late payment and limit access to repeat loans for defaulters for this will discourage loan default. The SACCOs should also monitor the flow of borrower's business through the SACCO's account, make regular review of the borrower's reports, be supportive to borrowers whenever they are recognized to be in difficulties, make frequent contact with borrowers and that they make on-line visits. This will ensure that the loans are put into the very use that they are advanced. Besides, the SACCOs should carry out adequate financial analysis; reduce interest rates as a way of reducing loan default.

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