EFFECTS OF CREDIT RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF SACCOS: A CASE STUDY OF HARAMBEE SACCO

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ABSTRACT

The General objective of this study was to analyze the effect of credit risk management practices on the financial performance of Harambee Sacco. Specifically, the study investigated the effects of client appraisal methods, credit policy formulation, modern credit risk monitoring and control methods and systematic defaulter follow-up and Loan defaulter reports on financial performance of SACCOs. This study was carried out through a descriptive research method. The target population of this study was credit officers of Harambee SACCO, Nairobi. Simple random sampling technique was used. Of the 178 credit officers, the researcher took a sample of 53 respondents. The questionnaire was used to obtain and gather information to analyze and compare different practices of credit risk management in the SACCO. Responses in the questionnaires was tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS v.21) programme to analyze the data. The study found that the Sacco used guarantors, Collaterization, shareholding and insurance as risk mitigation strategies in credit risk management. The study also found out that credit risk management help to improve the performance of Saccos to a great extent. Additionally the study found out that there was a customized computer based reporting system which allow for detection of overdue loans in the shortest possible time. In line with its findings the study recommends that management of the Saccos should carefully consider their client appraisal methods, systematic defaulter follow-up and loan defaulter reports, credit policy and credit risk monitoring and control methods as they all affect the financial performance of the Saccos. Moreover, management of Saccos in Kenya should ensure that there is adoption and implementation of sound credit risk management practices and that there is appropriate risk-return tradeoff policy.

Key Words: *credit risk management, financial performance, Co-operative Societies*

INTRODUCTION

Donald et al. (2006) defines Credit risk simply as the potential that a bank borrower or counterpart will fail to meet its obligations in accordance with agrees terms. Credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. The goal of credit risk management is to maximize a Sacco's risk- adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Saccos need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Saccos should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Nelson & Schwedt, 2006).

Various issues such as the capital adequacy levels in the SACCO system, the role of rating agencies in financial regulation and the fair-value assessment of SACCO assets are the most debated ones. In response to these crises, significant reformations have been carried out in the SACCO regulatory system. However, several issues such as lack of risk sensitive measures of the creditworthiness and weak incentives for SACCOs to strengthen risk management system emerge as shortcomings (Porvali, 2011).

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

Credit risk management is a structured approach to managing uncertainties through risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources. The strategies include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. Some traditional risk managements focused on risk stemming from physical or legal causes such as natural disasters or fires, accidents, deaths and lawsuits. (Huizinga& Demirgue, 2010)

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

RESEARCH GAP

Currently, there are over 12,000 registered co-operative societies with a membership of over 7 million. About 63% of the Kenya population directly and indirectly depends on the cooperative related activities for their livelihood. The sector has mobilized over Ksh.170 billion in savings which is about 31% of the national savings (Wanyama, 2009). On the other hand, the combined assets of all SACCOs are worth approximately KES 200 billion (USD $2.7 billion), out of which approximately KES 150 billion (USD $2 billion) are members' deposits, which consist of both shares and savings. Of a total turnover of KES 24.3 billion (USD $323.4 million) for the entire cooperative movement in 2008, SACCOs posted a combined turnover of KES 14.4 billion (USD $192 million). Agricultural cooperatives' total turnover was KES 8.4 billion (USD $112 million) (Ministry of Cooperative Development & Marketing, 2008).

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

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

GENERAL OBJECTIVE

The General objective of this study was to analyze the effect of credit risk management practices on the performance of Harambee Sacco.

SPECIFIC OBJECTIVES

1. To establish the client appraisal methods employed by Harambee Sacco
2. To evaluate the systematic defaulter follow-up and Loan defaulter Reports used by Harambee Sacco
3. To establish how credit policy is formulated by the Harambee Sacco as a means to mitigate credit risk.
4. To examine the modern credit risk monitoring and control methods employed by Harambee Sacco.

LITERATURE REVIEW

Tools of credit risk management in Saccos

Prompted by the Bank for International Settlements, and in some cases required by regulatory mandate, banks and other financial institutions have been on the lookout for new means of measuring and managing their credit risk. There include: a rapid pace of product innovations, further diversification by financial institutions into new geographical and product market areas, and a stepped up rate of credit intermediation (both in scope and pace). The net effect is the development of more sophisticated approaches to the measurement and the management of credit risk exposure. Included among these has been the introduction of the increasingly more sophisticated and complex hedging techniques. More intriguing, and of particular interest has been the development of models that can be used to measure credit migration and default risk at the portfolio level and that can also be used to allocate capital. These can be broadly classified into two types; proprietary (internal) models of credit risk management, and the vendor-marketed models which, in-spite of their general-application nature, are almost universally quite elaborate. For clear reasons, not enough information can be obtained about the capabilities of the former category of these models. However, some detail is generally available about the latter category. This category includes models marketed by Algorithmic, Credit Metrics, Credit Risk+, KMV's Portfolio Manager, Loan Pricing Corporation, and McKinsey's Credit Portfolio View (Barrow, 2011).

In a survey of the largest financial institutions based in the US, it was found that identifying counterparty default risk is the single most-important purpose served by the credit risk models utilized. Close to half of the responding institutions utilize models that are also capable of dealing with counterparty migration risk. Surprisingly, only a minority of banks currently utilize either a proprietary or a vendor-marketed model for the management of their credit risk. Interestingly, those that utilize their own in-house model also utilize a vendor-marketed model. Not surprisingly, such models are more widely used for the management of non-traded credit loan portfolios than they are for the management of traded bonds. It then maps these rates into cumulative migration probabilities by country and by industry. As this brief description of some

of these models suggests, the increasing complexity of the world of credit risk has given rise to an equally complex set of models designed to measure and manage this risk. This study provided a picture of the use of such models by the largest US-based banks (Fatemi & Fooladi, 2010).

Non-performing loans

The IMF paper (2011) presents two main reasons for the occurrence of NPL: poor risk management and plain bad luck in form of external independent factors. The inflation, deregulation and special market conditions can lead to poor credit lending decision which in turn leads to NPLs. In fact, many NPL studies are conducted in the countries with financial market recession .In prior studies; NPL is usually mentioned in East Asian countries' macroeconomic studies, while they run into serious economic downturn, as one of the financial and economic distress indicators. Japan and China, are those of most mentioned in this regard. Moreover, IMF working paper from December 2001 encourages better account of NPL for macroeconomic statistics which makes NPL to be widely used in macroeconomic statistics. Macroeconomic stability and economic growth are associated with declining level of NPLs; while the adverse macroeconomic situation is associated with rising scope of NPLs (Hippolyte, 2009).

Ongoing financial crises suggest that NPL amount is an indicator of increasing threat of insolvency and failure. However, the financial markets with high NPLs have to diversify their risk and create portfolios with NPLs along with Performing Loans, which are widely traded in the financial markets. In this regard, Germany was one of the leaders of NPL markets in 2006 because of its sheer size and highly competitive market (Wadman & Peterson, 2008). Nonetheless, not many studies have done research on NPL market in Western Europe or Scandinavia. During the crises in the early 1990's in Sweden, the Swedish government created the workout units in order to improve the situation with loan losses in banks and succeeded. The same paper claims that no NPL market exists in Sweden since four major banks showed loan losses below 0.25% for the year 2003 (Petersson et al,. 2008).

Efficient credit risk management supports the fact that lower NPLR is associated with lower risk and lower deposit rate. However it also implies that in long run, relatively high deposit rate increases the deposit base in order to fund relatively high risk loans and consequently increases possibility of NPLR. (Brewer et al., 2009) .Therefore, the allocation of the available fund and its risk management heavily depend on how the credit risk is handled and diversified to decrease the NPL amount. NPL is a probability of loss that requires provision. Provision amount is "accounting amount" which can be further, if the necessity rises, deducted from the profit. Therefore, high NPL amount increases the provision amount which in turn reduces the profit. The above stated discussion proves that NPLR can be reasonably considered as credit risk management indicator and will be used in this study (Manzula & Juanjuan, 2009).

Credit Risks in Financial Institutions

SACCO loan is a debt, which entails the redistribution of the financial assets between the lender and the borrower. The SACCO loan is commonly referred to the borrower who got an amount of money from the lender, and need to pay back, known as the principal. In addition, the SACCOs normally charge a fee from the borrower, which is the interest on the debt. The risk associated with loans is credit risk (Lynnette, 2008). Credit risk is perhaps the most significant of all risks in terms of size of potential losses. Credit risk can be divided into three risks: default risk, exposure risk and recovery risk. As the extension of credit has always been at the core of SACCO operation, the focus of these institutions' risk management has been credit risk management. It applied both to the SACCO loan and investment portfolio. Credit risk management incorporates decision making process; before the credit decision is made, follow up of credit commitments including all monitoring and reporting process (Bessis, 2008). The credit decision is based on the financial data and judgmental assessment of the market outlook, borrower, management and shareholders. The follow-up is carried out through periodic reporting reviews of the SACCO commitments by customer. Additionally, "warning systems" signal the deterioration of the condition of the borrower before default, whenever possible (Bessis, 2008).

Loans that are in default or close to being default become NPLs. The terms of the default rate in loans are defined by each SACCO. Usually, loan becomes non-performing after being default for three months but this can depend on contract terms. NPLR shows the proportion of the default or near to default loans to the actual performing loans. It indicates the efficiency of the credit risk management employed in the SACCO. Therefore, the less the ratio the more effective the credit risk management (Gorter & Bloem, 2011).

Credit risk and performance Standards

Performance measurement is the process of identifying the strengths and weaknesses of the firm (Pandey, 2008). Performance measurement is vital part of the control process because what gets measured gets done as observed (Coulthurst, 2011). Performance standards give a benchmark indicator of risky behavior or good performance, thereby helping in setting up credit rating systems for savings and Credit co-operatives. Financial institutions already have performance standards and are currently rated in the credit markets by private rating agencies. Credit rating will be of particular interest to commercial lenders and clients who want to evaluate the financial standing and performance of savings and credit cooperatives. Without a commonly accepted and implemented set of industry performance standards, it becomes fairly difficult to gauge the financial standing and performance of savings and credit cooperatives and make informed decisions on their quality as financial intermediaries (Coulthurst, 2011). While there are those savings and credit cooperatives with adequate capitalization and substantial deposits, there are also those at the other extreme, characterized by inadequate capitalization, poor organizational

and operational structures, weak internal control systems and inappropriate financial technologies and systems. Performance standards are important because they supplement prudential regulation and they can be a good guide for prudent behavior. They can, however, only go so far since their utility may be limited by the fact that adherence to a set of performance standards may be difficult to achieve without an external disciplining body (Gilberto & Cresente, 2010).

Savings and credit cooperatives are usually governed by a volunteer board of directors elected by and from the membership. Small, young savings and credit cooperatives are also often staffed entirely by volunteers. As they grow, more sophisticated and risky operations require professional managers. Problems occur when volunteer board members continue to make operational decisions, after professional managers have been recruited, instead of focusing on monitoring operations. It is difficult for board members to balance the contradictory interests of net borrowers and savers (Tufano & Perold, 2009).

Borrower domination is unhealthy because net borrowers have few incentives to ensure prudential discipline or profitability, unlike net savers who are most interested in protecting their deposits and earning an attractive rate of return. Although "one person, one vote" decision-making is meant to ensure equality of user rights and responsiveness of service, many members do not exercise their control because they wield little individual influence. As a result, in some cases, community elites or net borrowers are able to dominate the structure for their own benefit. In Kenya, the elected directors of the railroad's SACCO facilitated privileged loans to their supporters to maintain their control of the SACCO (Tufano & Perold, 2009).

According to the UK code (the Cadbury [sic] code), corporate governance consists of "the system whereby companies are directed and controlled." The Italian Preda Code proposes a similar definition: "Corporate governance is the set of rules by which companies are managed and controlled". So the concept of governance refers to the way of managing, the way of controlling the operations of an organization. This definition can be enriched by saying that "corporate governance involves a set of relationships among the company's management, its board, its shareholders and other stakeholders" (Wahlstrom, 2009). With respect to the ultimate goals of corporate governance, the Preda Code states that "the main aim of a corporate governance system is creating shareholder value." However, it doesn't specify which shareholders. The French Vienot report claims that "the ultimate mission of a firm is the common interest of the country rather than the interests of its shareholders or stakeholders."

The general definition in this context can therefore be put as the systems put in place to achieve good governance in credit risk management policies, procedures, and controls in the Saccos. Good governance enables a citizen-friendly, citizen-caring and responsive SACCO

administration, and in the process, results in the exercise of public authority for the common good (Desrocher & Fischer, 2007).

RESEARCH METHODOLOGY

Research Design

This study was carried out through a descriptive research method. Orodho (2008) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Creswell (2008) stated that the descriptive method of research is to gather information about the present existing condition. The emphasis was on describing rather than on judging or interpreting. The descriptive approach was quick and practical in terms of the financial aspect.

Target Population

Target population as described by Borg and Crall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator generalized the result. The target population of this study was credit officers of Harambee SACCO, Nairobi. As per the Sacco's records in 2014, there were 178 credit officers (Harambee SACCO, 2014).

Sampling Technique

According to Cooper & Schindler (2003), the sampling frame describes the list of all population units from which the sample will be selected. Simple random sampling technique was used for this study. According to Sekaran (2011), simple random sampling has the lease bias and offers the most generalization and hence for the study to be more representative, it is important that the right method is chosen. According to Mugenda and Mugenda (2003), the population target should be between 10- 30%, the researcher therefore used 30% of the targeted population to come up with a sample of 53 credit officers from Harambee SACCO (Mugenda & Mugenda, 2003). Additional Sacco information was considered confidential and was only used when the employees volunteered it.

Data Collection

The questionnaire was used to obtain and gather information to analyze and compare different practices of credit risk management in the SACCO. The method was mainly employed in primary data collection although observation method was used for confirmation of secondary data like annual accounts. The questionnaire was formulated with both open ended and close ended questions based on the objectives of the study. Both the questionnaires and the Data collection sheet were administered to the Sacco credit officers through drop and pick method.

Data Processing and Analysis

The data was then coded and checked for any errors and omissions (Kothari, 2007). Frequency tables, percentages and means will be used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS v.21) programme to analyze the data. The responses from the open-ended questions were listed to obtain proportions appropriately; the response was then reported by descriptive narrative. Descriptive statistics such as mean and standard deviation was used. The study also used inferential statistics to establish effect of credit risk management on financial performance of Saccos. Specifically, the study used Spearman correlation to establish this relationship. The correlation coefficient was expected to be two-tailed as the relationship outcome is expected to be either positive or negative and at 95% confidence level.

The regression equation was:

$$\mathbf{Y = \beta_0 + \beta_1 Ca_1 + \beta_2 Sd_2 + \beta_3 Cp_3 + \beta_4 Cm_4\ \varepsilon}$$

Whereby the variables were identified as follows

Dependable variable Y = Financial Performance of Saccos

Independent variable **Ca** $_1$= Credit appraisal methods,
Independent variable **Sd** $_2$ = Systematic defaulter follow-up
Independent Variable **Cp** $_3$= Credit policy
Independent Variable **Cm** $_4$= modern credit risk monitoring and control methods
While β_1, β_2 and β_3 are coefficients of determination and ε is the error term.

RESEARCH RESULTS

Inferential Analysis

To compute the correlation between dependent variable and the independent variables the study conducted inferential analysis which involved Karl Pearson's coefficient of correlation, regression analysis, model summary and a multiple regression analysis.

Karl Pearson's Coefficient of Correlation

In trying to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings, it was clear that there was a positive correlation between financial performance of Saccos and client appraisal methods as shown by a correlation figure of 0.521, it was also clear that there was a positive correlation

between financial performance of Saccos and systematic defaulter follow up and loan defaulter reports with a correlation figure of 0.618, there was also a positive correlation between financial performance of Saccos and credit policy with a correlation value of 0.587 and a positive correlation between financial performance of Saccos and credit risk monitoring and control methods with a correlation value of 0.553. This shows that there was a positive correlation between financial performance of Saccos and client appraisal methods, systematic defaulter follow up and loan defaulter reports, credit policy and credit risk monitoring and control methods. This notwithstanding, all the variables were significant as their P-values were less than 0.05.

Table 1: Coefficient of Correlation

		Financial performance	Client appraisal methods	Systematic defaulter follow up	Credit policy	Credit risk monitoring and control methods
Financial performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Client appraisal methods	Pearson Correlation	.5210	1			
	Sig. (2-tailed)	.0032				
Systematic defaulter follow up	Pearson Correlation	.6180	.3421	1		
	Sig. (2-tailed)	.0021	.0014			
Credit policy	Pearson Correlation	.5870	.1240	.0621	1	
	Sig. (2-tailed)	.0043	.0120	.0043		
Credit risk monitoring and control methods	Pearson Correlation	.5530	.3420	.0000	.1660	1
	Sig. (2-tailed)	.0172	.0031	1.000	.0031	

Coefficient of Determination

The coefficient of determination was carried out to measure how well the statistical model was likely to predict future outcomes. The coefficient of determination, r2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the contribution of the four independent variables (client appraisal methods, systematic defaulter follow up and loan defaulter reports, credit policy and credit risk monitoring and control

methods) to the dependent variable. As summarised on Table 2, of the four independent variables that were studied, only 55.1% of the financial performance of Saccos was represented by the adjusted R2. This therefore means that other factors not studied in this research contribute 44.9% of financial performance of Saccos. Therefore, further research should be conducted to investigate the other effects (44.9%) of credit risk management that determine the financial performance of Saccos.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.742	0.551	0.641	0.0438

Multiple Regression

The researcher further conducted a multiple regression analysis so as to identify relationship of effects of credit risk management on financial performance of Saccos. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. As per the SPSS generated table 4.14, the equation,

($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$) becomes:

$$Y= 1.279+ 0.508\ X_1+ 0.613X_2+ 0.525X_3+0.514\ X_4$$

The regression equation above has established that taking all factors into account (client appraisal methods, systematic defaulter follow up and loan defaulter reports, credit policy and credit risk monitoring and control methods) constant at zero, financial performance will be 1.279. The findings presented on table 3 also show that taking all other independent variables at zero, a unit increase in client appraisal methods will lead to a 0.508 increase in financial performance; a unit increase in systematic defaulter follow up and loan defaulter reports will lead to a 0.613 increase in financial performance; a unit increase in credit policy will lead to a 0.525 increase in financial performance and a unit increase in credit risk monitoring and control methods will lead to a 0.514 increase in financial performance.

This infers that systematic defaulter follow up and loan defaulter reports determine financial performance of Saccos to a great extent, followed by credit policy then credit risk monitoring and control methods while client appraisal methods determine little to financial performance of Saccos in comparison.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients B	Standardized Coefficients Std. Error	Beta	t	Sig.
(Constant)	1.279	1.316		0.972	0.357
Client appraisal methods	0.508	0.310	0.172	1.639	.0276
Systematic defaulter follow up	0.613	0.322	0.067	1.904	.0202
Credit policy	0.525	0.156	0.210	3.365	.0285
Credit risk monitoring and control methods	0.514	0.245	0.148	2.098	.0249

On the objective of client appraisal methods, the study found that the Sacco used guarantors, Collaterization, shareholding and insurance as risk mitigation strategies in credit risk management. The Sacco also used outstanding debt, bankruptcies, delinquencies, late payments and new applications for credit as parameters for rating credit worthiness when giving new loans. In determining the credit worthiness of a member the study found out that the Sacco looked at the existing personal debt, income, ability to repay the loan with earnings from other investments, the character of the member, reputation and credit history, potential for long term loan and past earnings, projected cash flow and future prospects, employment history and number of accounts from other credit sources.

From the study, the study found out that the Sacco used standardized or automated credit reminder procedure thus making it fast and effective to communicate credit reminders to customers. The study further found out that credit reminder duration for the Sacco was after 1-3 months default payment. To recuperate loan, the study found out that the Sacco follow-up guarantors to pay, use collateral as security, public auction of private property and claim with insurance. The study also established that loans in the Sacco were classified on the basis of credit risk. Additionally the study established that the board of directors and senior management were active in credit risk assessment and internal control processes and that the supervisors evaluated the effectiveness of the SACCO's credit Risk policies and practices for assessing loan quality monthly.

On credit risk policy the study found that the Sacco offered personal loan, emergency loan, home renovation, business loan, education loan and housing loan. Further the study established that the

Sacco requested for assets, cash deposit, Shares, land, debentures and life insurance policy as security for loans and that the Sacco has diversified its resources in government bonds/ securities.

On credit risk monitoring and control methods the study established that credit risk management help to improve the performance of Saccos to a great extent and that there was an oversight body in place involved in the implementation and compliance of credit risk policy and strategy. Additionally the study found out that there was a customized computer based reporting system which allow for detection of overdue loans in the shortest possible time.

CONCLUSIONS

The study aimed at finding out the effects of credit risk management on financial performance of Saccos. Based on the findings, the study concludes that Saccos use different risk mitigation strategies in credit risk management such as guarantors, Collaterization, shareholding and insurance. The study also concludes that Saccos use various parameters such as outstanding debt, bankruptcies, delinquencies, late payments and new applications for rating credit worthiness when giving new loans.

The study further concludes that to make it fast and effective to communicate credit reminders to customers Saccos use standardized or automated credit reminder procedure and the that credit reminder duration is short between 1-3 months default payment. The study also concludes that for Saccos to recuperate their loans they follow-up guarantors to pay use collateral as security, public auction of private property and claim with insurance. Additionally the study concludes that as part of credit risk management, Saccos' board of directors and senior management are active in credit risk assessment and internal control processes.

On credit risk policy the study concludes that Saccos offer different loan products such as personal loan, emergency loan, home renovation, business loan, education loan and housing loan. To secure the loans the study concludes that the Saccos requested for assets, cash deposit, Shares, land, debentures and life insurance policy.

The study further concludes that credit risk management help to improve the performance of the Saccos to a great extent and that there was an oversight body in place involved in the implementation and compliance of credit risk policy and strategy. Finally to detect overdue loans in the shortest possible time, the study concludes that Saccos have in place customized computer based reporting system.

RECOMMENDATIONS

In line with the findings and conclusions of the study the study recommends that management of the Saccos should carefully consider their client appraisal methods, systematic defaulter follow-up and loan defaulter reports, credit policy and credit risk monitoring and control methods as they all affect the financial performance of the Saccos. Moreover, management of Saccos in Kenya should ensure that there is adoption and implementation of sound credit risk management practices and that there is appropriate risk-return tradeoff policy.

All stake holders in the cooperative movement in Kenya should ensure that there exists favorable internal business environment and that appropriate credit risk limits are set as they impact on the financial performance of the Saccos. The government and other stakeholders should ensure that there is favorable external business environment for Saccos in Kenya. Finally, with regard to the obstacles facing credit risk management by Kenyan Saccos, management should overcome inadequate knowledge among the implementing staff/managers by providing the necessary knowledge through training and promotion of further studies in risk management among their staff.

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