

**THE EFFECT OF CREDIT POLICY ON FINANCIAL
PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT
CO-OPERATIVE SOCIETIES IN NAIROBI COUNTY**

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DECLARATION

This research project is my original work and has not been presented for award of any degree in any University for examination purposes.

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DEDICATION

This project is dedicated to my family who has been by my side throughout my study and whose inspirations keep me going.

ABSTRACT

Efficient credit policy influences sharing of information among financial institutions about borrowers, stabilizes interest rates, reduces non-performing loans, increases deposits and increases credit extended to borrowers. In Kenya, credit management became widely adopted by regulated SACCOs to mitigate loan defaults and improve financial performance. This study sought to fill the existing knowledge gap by answering the question what is the effect of credit policy on financial performance of SASRA regulated SACCOs in Nairobi. The study adopted correlation research design. The study population consisted of all 40 SASRA Regulated SACCOs registered under the Societies Act in Nairobi, Kenya. The data was collected from regulated SACCOs financial books and financial reports of the societies. The correlations were used to determine whether the relationships between credit policies and financial performance are weak or strong. A multivariate regression model of financial performance versus credit policies was applied to examine the relationship between the variables. The study revealed that regulated SACCOs had adopted credit standards as a credit policy and credit term policy loan ratio in determination of how much a client would borrow. The study revealed that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans, loan-loss provision coverage ratio and application of credit policy which increased Return on Assets (ROA) for the regulated SACCOs to a great extent. From the regression results, use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non performing loans to total loans would significantly lead to increase in profitability. The study concluded that there existed a significant strong and positive correlation between credit Standards (BDC Ratio) and ROA as correlation co-efficient. The study concluded that the application of credit standards led to significant increase in financial performance, use of credit standards would improve return on assets of regulated SACCOs and that application of credit terms policy significantly increased ROA of regulated SACCOs hence decreasing loan to assets ratio significantly leading to increase in financial performance. For policy implications, the study recommends that regulated SACCOs should adopt and implement credit standards as it would result into significant increased in return on Assets to a great extent.

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ABBREVIATIONS

CAPR	- Ratio of Capital to Total Assets
CARs	- Capital Adequacy Ratios
CBK	- Central Bank of Kenya
DP	- Default Rate
EBIT	- Earnings Before Interest and Tax
GDP	- Gross Domestic Product
MCR	- Minimum Capital Requirement
MFI s	- Microfinance Institutions
ROA	- Return on Assets
SACCOs	- Savings and Credit Co-operatives Societies
SASRA	- SACCO Societies Regulatory Authority

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Regulated credit unions belong to a wider group of financial institutions regarded as semi-formal financial institutions (Microfinance Act 2003). Regulated Savings and Credit Cooperative Societies adopt a credit policy that helps to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal involving specific documented guide lines, credit checks and customer credit applications. The policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instinct as their credit policy (Blair, 2002).

The importance of a credit policy is to maximize the value of a firm (Puxty and Dodds,1991). An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts. Credit policy enhances credit administration, increases market share, retention of existing customers, acquisition of new ones, improves risk management and increases financial performance (Pandey, 2001). In Kenya, regulated SACCOs have adopted credit policies and submit financial returns on monthly and quarterly intervals for offsite monitoring and evaluation (SASRA, 2015).

1.1.1 Credit Policy

Credit policy is a set of policy actions designed to minimize costs associated with credit while maximizing the benefit from it (Kakuru, 2000). The objective of this policy is to have optimal

recovery from debtors as a firm may follow a lenient or stringent credit policy. Blue microfinance employs a combination of three decision variable measures which are credit standards, credit terms and collection efforts (Meyer, 2002). Credit standards are criteria to decide the types of customers for purpose of extending credit such as capital adequacy and asset quality.

Credit policy is important in the management of accounts receivables. The main reach for policy is to ensure operation's consistency and adherence to uniform sound practices. Policies should be the same for all and are general rules designed to guide each decision, simplifying and listening to each decision making process. A good credit policy involves effective initiation, analysis, credit monitoring and evaluation.

1.1.2 Financial Performance of SACCOs

Achieving better performance is the objective of any enterprise. High performance indicates that the enterprise has been successful. According to Ochieng (2012) Success of a firm is measured in terms of business performance. He further indicated that profitability is the commonly used performance measure. Furthermore production of new products and services, lowering firm costs, increase in firm revenue, improvement in quality of customer service and improvement of work productivity are some of the objective measures used in evaluating firm performance (Mjos, 2002). Bhole (2004) indicated that performance in SACCOs can be measured through effectiveness, efficiency, quality of products, productivity, quality of work life, innovation and profitability.

Financial performance of SACCOs is very important because managers need to know how well the SACCOs are performing. There are two major reasons as to why SACCOs should have financial performance measurement (Arun, 2005). The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance. Financial performance of regulated SACCOS can be evaluated using many financial indicators such as liquidity ratios, profitability ratios and others (Saleh & Zeitun, 2007).

1.1.3 Credit Policy and Financial Performance in SACCOs

Credit policy is one of the most important tools in any financial institutions and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. According to Okpra (2010) effective credit policy is a prerequisite for a financial institution in achieving high financial performance. The achievement of high profitability of credit institutions largely depend on the effectiveness of their credit policies as these institutions generate most of their income from interest earned on loan disbursed to individuals and small and medium enterprises.

Weakness in credit risk management has all along been cited as the main cause for failure of lending institutions financial performance (Richard et al., 2008). According to (Gasbarro *et al.*, 2002) a financial institutions credit policy affects the financial performance of that institution. The credit policy of an institution affects the capital adequacy, asset quality, management quality, earnings and liquidity of a financial institution either positively or negatively depending on how well the policies are made and implemented.

1.1.4 Deposit Taking SACCOs

SACCO Societies Regulatory Authority (SASRA) is a state corporation established under an Act of Parliament (the Sacco Societies Act, 2008) with the mandate to license SACCOs to carry out deposit taking business in accordance with the Act, to regulate and supervise SACCOs in Kenya. The government of Kenya established SASRA to improve governance in SACCOs (GOK, 2008). SASRA policy objective is to establish prudential regulation of deposit taking SACCOs to enhance transparency and accountability in the SACCO subsector.

It is the responsibility of the board of directors and the management to analyze their business reality against the operational regulations and prudential standards and develop strategies through the business plans for consideration by the Authority as part of the licensing process (Musyoki, 2008). SACCOs in Kenya are required to adhere to regulations set in the SACCO regulation authority (SASRA) and improve on governance and financial performance. The management has to present the capital adequacy return reports, liquidity statement report, Statement of financial position and Statement of deposit return as well as Return on investments report which compares land, building, and financial assets to the SACCO's total assets and its core capital.

Operational regulations and performance standards are specific and prescriptive, not to make SACCOs non competitive and stifle their growth but to ensure that they operate and grow within a framework that promotes sound financial and business management practices and improve on profitability.

1.2 Research Problem

Efficient credit policy influences sharing of information among financial institution about borrowers, stabilizes interest rates, reduces non-performing loans, increases deposits and increases credit extended to borrowers. Effective management of credit policy influences credit union viability, systemic union stability, efficient allocation of capital in the economy and improves profitability level (Psillaki, Tsolas & Margaritis, 2010). Miller (2008) posited that credit policies enhance efficient management of receivables.

In Kenya, credit management became widely adopted by regulated SACCO's to mitigate loan defaults and improve financial performance (Modurch, 2012). Deposit Taking SACCOs have different credit policies which affect their financial performance. According to SASRA, the SACCO society regulations and credit policies are meant to improve the competitiveness and improve financial return. SACCOs may be forced to adjust their credit policy in line with other regulated credit unions in the market where a certain behavior is practiced. Despite increase in use of credit policies in regulated SACCOs in Kenya, empirical studies on effects of credit policies on financial performance of SASRA regulated SACCOs has not been carried out.

Ayodele, Thomas and Ajayi (2014) carried out a study on impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank Plc as a case study and revealed that a good credit policy reduces bad debts. Owizy (2013) evaluated the impact of credit management on financial performance of Nigerian banks and revealed that credit standards, credit terms and credit appraisal have a significant impact on the profitability of Nigeria banks. Byusa & Nkusi (2012) investigated effects of credit policy on bank performance in selected Rwandan Commercial banks and found out that commercial banks increased their accounts,

increased customer base and improved their financial indices, thereby maximizing their profits. Soke Ho and Yusoff (2009) in their study on effects of credit policy of selected financial institutions in Malaysia, found out that majority of financial institutions and banks experienced high default rates due to inability of financial institutions enforcing credit policy on customers.

Local studies focus on effects of financial regulations on financial performance in SACCOs. Kungu, Wanjau, Waititu, Gekara (2014) carried out a study on effects of credit policy elements, credit terms, collection efforts, credit period and credit standards on profitability of manufacturing firms in Kenya. The results showed that there is a positive relationship between profitability and credit policy in the manufacturing firms in Kenya. Kiage Misyoka Muturi (2013) investigated the influence of credit information sharing determinants on financial performance of commercial banks in Kenya and established that costs of information sharing had a negative influence on financial performance of commercial banks hence the need to ensure confidentiality between financial institutions and credit bureaus, collaboration/free sharing of information between financial institutions and credit reference bureaus.

Gatuhu (2013) carried a study to determine the effects of credit management on the financial performance of Microfinance Institutions (MFIs) in Kenya and established that client appraisal, credit risk control and collection policy significantly influences financial performance of MFIs in Kenya. Nyawera (2013) carried out a study on the effects of credit policy on financial performance of micro finance organizations. The findings indicated a positive significant relationship implying that credit policies affects the financial performance of deposit taking micro finance organizations with a minimal effect. Kitaka (2001) carried out a survey on the use of financial performance indicators by

MFIs in Kenya and established that credit policy had an impact on profit maximization and improved shareholders value.

Despite significant application of credit policies in SACCOs, both international and local studies have focused on determining the effects of credit policies on financial performance in commercial banks and MFIs. This study sought to fill the existing knowledge gap by answering the question what is the effect of credit policy on financial performance of SASRA regulated SACCOs in Nairobi?

1.3 Objectives of the Study

The objective of the study was to establish the effect of credit policy on financial performance of SASRA regulated SACCOs in Nairobi, Kenya

1.4 Value of the Study

The research will be beneficial to various parties. For the SASRA regulated SACCOs, they will be able to know the importance of their credit policy, the effects it has on their financial performance and how they can be able to use their credit policy to their benefit. SASRA regulated SACCOs and other financial institutions must develop a credit policy to govern their credit management operations. The study will also be important to policy makers who will gain insight on the effect of credit policy on financial performance of SASRA regulated SACCOs and formulate strategies to enhance credit policy formulation that will improve financial performance in SASRA regulated SACCOs in Kenya.

The study will be significant to the academic researchers and scholars. There is very little literature if any in the field of credit unions and SACCOs, especially in the developing countries.

The scholars will gain insight on effect of credit policy on financial performance of SASRA regulated SACCOs. The study will form a foundation to the researchers who wishes to carry out further research on credit policy and financial performance in regulated credit unions such as SACCOs in developing countries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review. It presents the theoretical and empirical review on studies related to the purpose of the study. The chapter will also present determinants of credit policy and financial performance and finally a chapter summary is provided.

2.2 Theoretical Review

The study was grounded on the following theories, asymmetric information theory, transactions costs theory and the 5 C's model of client Appraisal

2.2.1 Asymmetric Information Theory

The asymmetric information theory was first introduced by Akerlof's 1970 which shows that there exists information asymmetry in assessing bank lending applications (Binks and Ennew, 1997). Information asymmetry theory describes the condition in which relevant information is not known to all parties involved in an undertaking (Ekumah & Essel, 2003). Eppy (2005) describes a condition in which all parties involved in an undertaking do not know relevant information. The theory point out that perceived information asymmetry poses two problems for the financial institution, moral hazard, monitoring entrepreneurial behavior and adverse selection that is making errors in lending decisions.

The theory informs the study in that if credit unions exchange information about their clients' credit worth, they can assess also the quality of foreign credit applicants and lend to them as carefully as

they lend to local customers (Denis, 2010). By reducing information asymmetry between lenders and borrowers, credit registries allow loans to be extended to safe borrowers who had previously been priced out of the market, resulting in higher aggregate lending and low default rates.

2.2.2 Transactions Costs Theory

Transaction cost theory has proven to be an essential framework for decisions on the vertical boundaries of a firm. Williamson (2000), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins. First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

A threat to breach the contract can be seen as untrustworthy, since there is no alternative. A lock-in of one transaction party leads to a hold up. Low specificity exists, if there is a range of homogeneous services or goods and supply is secured. This theory informs the study in that financial institutions develop credit policies such as credit terms and credit standard procedures to evaluate their customer credit-worthiness and ability to repay credit facilities.

2.2.3 The 5 C's Model of Client Appraisal

Credit Unions use the 5Cs model developed by Myers & Forgy (2005) of credit to evaluate a customer as a potential borrower .The 5Cs help regulated SACCOs to increase credit performance, as they get to know their customers better (Abedi, 2000). These 5Cs include character, capacity,

collateral, capital and condition. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers & Forgy, 2005).

The theory informs the study in that, the SASRA regulated SACCO's will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. The success of SACCOs largely depends on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned, savings and on loans extended to members. The SACCOs will consider the member ability to repay credit facility from the business, the timing of the repayment and the successful repayment of the loan.

2. 3 Determinants of Financial Performance in Deposit Taking SACCOs

The two fundamental functions of SACCOs are financial intermediation and investment. The most basic one is financial intermediation. That is bringing savers and borrowers together (Pelrine, 2001). Kifle, Tesfa and Mariam (2012) emphasized on gender, household income, amount of loan borrowed and year of cooperative membership .Sambasivam (2013) emphasized on the financial health, sign of growth, efficiency of saving mobilization and the loan services strategies. This study focuses on credit policies as determinants of financial performance in deposit taking SACCOs.

2.3.1 Credit Standards

This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (1998) noted that it's important that credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral and security capital. Tight credit standards make a firm lose a big number of customers and when credit

standards are loose, firms get an increased number of clients but at a risk of loss through bad debts, hence lack of credit standards and credit policy increases bad debts recovery.

In agreement with other scholars, Van Horne (1994) advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so that the regulated credit unions can make profits. This is a criteria used to decide the type of client to whom loans should be extended to, to reduce chances of loan loss. Credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral and security capital.

2.3.2 Credit Terms

A Credit term is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2002) furthermore, these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments.

It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position (Christen & Rosenberg, 2000). Maturity of a loan, this is the time period it takes a loan to mature with the interest there on. Cost of loan, by understanding the borrower, the risk premium can be ascertained and the profit erosion from bad debts can be decreased hence increasing bank performance.

2.3.3 Collection Policy

The collection process can be rather expensive in terms of both product expenditure and lost good will (Tandelilin, Kaaro, & Supriyatna, 2007). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets and courts litigation. Methods used by regulated SACCOs could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements. Zimmer (2003) asserts that collection policy is a guide that ensures prompt payment and regular collections.

Collection procedure is required because some clients do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts. According to Dawkin (2010) posited that prompt payments aimed at increasing turnover and keeping bad debts low. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debt losses and increases profitability of the banking institution.

2.3.4 Capital Adequacy

The risk management derives from the objectives of financial regulation. The problem of systemic risk constitutes part of the embodiment of the rationale for financial regulation (Stiglitz, 2001). Regulators impose liquidity monitoring measures on banks to meet specified minimum levels of withdrawals. However, such measures are precautionary against short-term cash flow problems rather than a situation of panic outburst (Gleeson, 2006).

Capital adequacy regulation establishes the maximum level of leverage that a financial institution is allowed to reach on its operations (Jansson, 2007). It is measured by the ratio of risk-weighted assets relative to regulatory equity. Benh-Khedhiri, Casu, and Sheik-Rahim (2005) found that

capital regulation influences profitability and interest rates differentials in Tunisian banking industry. More specifically, capital regulation focus on the determinants of credit unions' net interest margins as indicators of the sector's efficiency.

2.3.5 Loan-loss Provision Policy

Loan-loss provisioning policy is critical in assessing financial system stability, in that it is a key contributor for fluctuations in financial institutions' profitability and capital positions, which has a bearing on banks' supply of credit to the economy (Beatty and Liao, 2009). In principle, loan loss provisions allow banks to recognize in their profit and loss statements the estimated loss from a particular loan portfolio(s), even before the actual loss can be determined with accuracy and certainty as events unfold and are actually written off (Demirguc-Kunt, Laeven & Levine, 2003).

A loan loss reserve is a contra income account that enables banks to recognize in their profit and loss statements the expected loss from a particular loan portfolio(s). Depositors are protected against unexpected loss through capital adequacy reserve and protected against anticipated loss through loan loss provision reserve (Beatty & Liao, 2009). Financial institution with less loan loss provision has high asset quality and higher profitability.

2.4 Empirical Review

Ntiamoah, Diana and Kwamega (2014) carried out a study on assessment of the relationship between credit management practices and loan performance using some selected microfinance institutions in the Greater Accra region of Ghana as a case study. Results of the study indicated

that there was high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

Ayodele, Thomas, Raphael & Ajayi (2014) carried out a study on impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank Plc as case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that having a good credit policy in place goes a long way in minimizing the incidence of bad debts.

Owizy (2013) evaluated the impact of credit management on financial performance of Nigerian banks, with particular reference to UBA Plc. Financial ratios as measures of bank performance and credit indicators were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004 - 2008. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit management has a significant impact on the profitability of Nigeria banks.

Byusa and Nkusi (2012) investigated effects of credit policy on bank performance in selected Rwandan Commercial banks. The aim of this study was to investigate the effects of credit policy on bank performance using data on selected Commercial Banks. The results obtained indicated that the Rwanda's commercial banks increased their accounts, increased customer base and improved their financial indices, thereby maximizing their profits. However, inadequate competition in the banking system led to high spreads. Banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency.

Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. The findings revealed that credit risk management has a significant impact on the profitability of

Nigerian banks. Al-Khouri (2011) assessed the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. The results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets.

Soke Fun Ho and Yusoff (2009) in their study on effects of credit policy of selected financial institutions in Malaysia, majority of financial institutions and banks experienced high default due to poor application of credit policies and inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions hence poor profitability. Credit risk emanates from a bank's dealing with individuals, corporate, financial institutions or sovereign entities. A bad portfolio may attract liquidity as well as credit risk

Kiage, Musyoka and Muturi (2015) conducted a study on the influence of positive credit information sharing determinants among commercial banks in Kisii town, Kenya. The study established that competition had a positive influence on financial performance of Commercial Banks. Privacy protection had a negative influence on financial performance of commercial banks. Wanja (2013) investigated the effects of credit policy used by commercial banks on their performance. The objective of the study was to examine relationship between loan terms and conditions and performance. The study found that the nature of loan terms and conditions have a large effect on the bank's competitiveness.

Gatuhu (2013) carried out a study to determine the effect of credit management on the financial performance of Microfinance Institutions in Kenya. The study adopted a descriptive survey design. The study found that client appraisal, credit risk control and collection policy had effect

on financial performance of MFIs in Kenya. The study established that there was strong relationship between financial performance and client appraisal, credit risk control and collection policy.

2.5 Summary and Conclusion

From the review of the literature, credit policy plays a critical role in improving financial performance in commercial banking institutions. Most studies such as (Ntiamoah, Egyiri, Fiaklou & Kwamega (2014) have been inclined to focus on determining effects of credit policies on performance of non-performing loans and financial performance in commercial banks, rather than for the provision of a good credit policy framework for their prevention and control of quality portfolio

Review of local studies such as Gatuhu (2013) and Wanja (2013) had focused on determining effects of credit policy used by commercial banks and Microfinance Institutions in Kenya. It is therefore evident that the studies determining effects of credit policy on financial performance of regulated SACCOs in Kenya remain elusive. This motivates the study to determine the effect of credit policy on financial performance in SASRA Regulated SACCOs in Nairobi to fill the research gap that exists.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presented the research design and methodology that was used to carry out the research. It also presents the population, data collection and data analysis.

3.2 Research design

Research design refers to the way the study is designed, that is the method used to carry out the research (Mugenda and Mugenda, 2003). The study adopted correlation research design. A correlation research design is a quantitative method of research in which two or more quantitative variables from the same group of subjects are analyzed to determine if there is a relationship. It is chosen as it attempts to determine the extent of a relationship between two or more variables using statistical data.

In this type of design, relationships between and among a number of facts was sought and interpreted to establish the causal and effects relationship between variables. The design helped the study in establishing whether credit policy has significant effects on financial performance in SASRA regulated SACCOs in Nairobi, Kenya.

3.3 Target Population

The study population consisted of all 40 SASRA Regulated SACCOs registered under the societies Act in Nairobi, Kenya (SASRA Report, 2015). The list of the SACCOs was obtained

from the Ministry of Cooperative, Development and Marketing. The study targeted the 40 Deposit taking SACCOs operating under SASRA. This was a census study hence no sampling.

3.4 Data collection

The study used secondary data. Secondary data refers to the information obtained from articles, books, newspapers, internet and magazines. The data was collected from regulated SACCOs financial books and financial report of the institutions. From financial report, interest & taxes (EBIT) and total Net assets was also be extracted from financial statement. Default rate (DR) Ratio was from profit and loss statement, Bad debt cost ratio from financial statements, Cost per loan asset ratio from balance sheet statement loan loss provision was extracted from balance sheet statement, Capital Regulation ratio (CAPR) was extracted from balance sheet statement of SACCOs. Data was collected from the period 2010-2014

3.5 Data Analysis

The collected data was analyzed through description statistics, means and standard deviations to determine the extent to which credit policies influence financial performance in regulated SACCOs. Results were presented in tables and charts. The correlations were used to determine whether the relationships between credit policies and financial performance are weak or strong.

Multiple regression analysis was used to establish the association and effect of credit policies on financial performance of regulated SACCOs. A multivariate regression model of financial performance versus credit policies was applied to examine the relationship between the variables.

The relationship model was represented in the linear equation below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \quad (1)$$

Where, Y= Financial Performance (ROA), α = Constant Term, $\beta_{1.....5}$ = Beta coefficients, X_1 = Credit Standards, X_2 = Credit terms Policy, X_3 = Collection Policy, X_4 = Capital Adequacy, X_5 = Loan Loss Provision and ϵ = Error Term

3.5.1 Operationalization of Variables

Variables	Indicator	Measurement	Extracted From
Y	Financial Performance (ROA)	ROA= EBIT/ Total Assets	Extracted from financial books on profit and loss statement
X_1	Credit Standards(BDC Ratio)	Bad Debt Cost/Total Cost.	Extracted from financial statement
X_2	Credit Terms Policy (Loan ratio)	Loan Ratio= Total loans to total assets ratio	Balance sheet statement
X_3	Collection Policy (Default Rate (DR) Ratio)	Non- Performing Loans/ Total loans	Profit and loss statement
X_4	Capital Regulation (CAPR)	Capital/ Total assets	From balance sheet statement
X_5	Loan- loss Provision Coverage Ratio	Pretax income + Loan- loss Provision) / Net Charge-offs	From balance sheet statement

3.5.2. Test of Significant

The significance of the regression model was determined at 95% confidence interval and 5% level of significance. The results of significance were interpreted at 5% level of significance. The p-values was interpreted for significance. T-test was used to determine whether there is any significant difference in the financial performance and credit policies. The ANOVA and F-test showed the model goodness of fit that was used in the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study on the the effect of credit policy on financial performance of deposit taking savings and credit co-operative societies in Nairobi county. The chapter presents the data analysis, results and discussion for the findings.

4.2 Descriptive Statistics

The study sought to collect and analyse consolidated data from the 40 regulated SACCOs in Nairobi County. Secondary data obtained from reports published by the Central Bank of Kenya, which is also the regulator of the banking sector was used. The data was collected from regulated SACCOs financial books and financial report of the institutions from SASRA and provided by the SACCOs. From financial reports, interest & taxes and total assets was also to be extracted from financial statements. Data on Non Performing Loans and total loan were also collected. Data on Bad debt and total cost, Loan loss provision and capital was extracted from balance sheet statement. The data collected was for the period 2010-2014.

Mean Financial Performance of SACCOs for Year 2010- 2014

Table 4.1: Descriptive Analysis on Regulated SACCOs Credit Policy for 2010 to 2014

	Minimum	Maximum	Mean	Std. Deviation
Credit Standards(BDC Ratio)	0.01	0.745	0.0521	0.204
Credit Terms Policy (Loan ratio)	0.022	0.701	0.583	0.114
Collection Policy (Default Rate (DR) Ratio)	0.012	0.578	0.370	0.035

Loan- loss Provision Coverage Ratio	0.031	0.684	0.213	0.037
Capital Regulation (CAPR)	0.17	0.792	0.450	0.132
ROA	0.003	0.093	0.067	0.012

From the table, the study found that regulated SACCOs had adopted credit standards as a credit policy to a great extent as indicated by a mean of 0.521 closer to a Max Mean of 0.745. The table indicated that the regulated SACCOs applied credit term policy to a great extent as indicated by a mean of 0.583 closer to Max mean of 0.701. This indicated that regulated SACCOs loan ratio form the base for determination of how much a client would borrow. The study also found that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans when offering credit facility to a great extent as indicated by a mean of 0.370 with a Max mean of 0.578.

The study found that the regulated SACCOs used loan –loss provision coverage ratio to a great extent as indicated by a mean of 0.213 with a Max mean of 0.684 .The study also found that regulated SACCOs adhered to capital regulation to a great extent as indicated by a mean of 0.450 with a Max mean of 0.792. The study found that application of credit policy would led to increase in Return on Assets for the regulated SACCOs to a great extent as indicated by a mean of 0.067 with a Max mean of 0.093.

4.3 Diagnostic Statistics

Table 4. 2: Diagnostic Statistics

Indicator	collinearity		Normality Test
	Tolerance	VIF	KURT
Credit Standards(BDC Ratio)	1.917	5.541	5.3021
Credit Terms Policy ,Loan Ratio (CLA)	3.879	0.243	-2.6657
Default Rate (DR) Ratio	1.895	2.895	-1.3473
Collection Policy (Default Rate	2.912	0.573	3.5285
Credit Risk Mitigation	1.996	6.044	-2.8436

The results on collinearity, the study established that Tolerance for the Independent variables had a Tolerance Value greater than 1 as that of credit Standard was 1.917, Credit Terms Policy had tolerance of 3.879, Default rate had 1,895; collection policy had 2.912 while that of credit risk was 1.996. The VIF of the IVs were 5.541 for Credit Standards (BDC Ratio), 0.243 for Credit Terms Policy, Collection Policy (Default Rate) had a VIF of 0.573 while Credit Risk Mitigation had VIF of 6.044. Multicollinearity did not exist as Tolerance for the independent variables were above .1 and VIF were less than 10 or an average much greater than 1.

On normality test, the study used Kurtosis test. The study established that credit standards had Kurt of 5.3021 indicating a relatively peaked distribution among all the SACCOs. The study established that data on credit Terms Policy, Loan Ratio (CLA) was relatively flatter distribution as indicated by KURT of -2.6657. The study also found that Default Rate (DR) Ratio had a relatively flatter distribution with KURT of -1.3473. The KURT for Collection Policy (Default

Rate was 3.5285 indicating a relative peaked distribution while KURT for credit risk Mitigation was -2.8436 indicating a flatter distribution .

4.4 Summary of Credit Policy For Regulated SACCOs for year 2010-2014

Table 4.3: Summary of Credit Policy for Regulated SACCOs for year 2010-2014

Indicator	Measurement	YEAR 2010	YEAR 2011	YEAR 2012	YEAR 2013	YEAR 2014
Return On Assets (ROA)	EBT/Total Assets	0.04	0.051	0.571	0.051	0.062
Credit Standards(BDC Ratio)	Bad Debt Cost/ Total Costs	0.187	0.272	0.115	0.251	0.226
Loan Ratio (CLA)	Total costs/ Total loans	0.0132	0.013	0.01	0.03	0.04
Default Rate (DR) Ratio	Non-Performing Loans/ Total Loans	0.03	0.06	0.03	0.04	0.017
Capital Regulation (CAPR)	Capital/ Total Assets	0.044	0.048	0.04	0.05	0.07
Loan- loss Provision Coverage Ratio		0.024	0.025	0.015	0.041	0.210

The study found that Return on Assets for the regulated SACCOs increased from 0.04 to 0.062 from year 2010 to 2014. The study also found that loan ratio for 2010 was 0.0132, 2011 was 0.013, 2012 was 0.01, 2013 was 0.03 while in 2014, it increased to 0.04. Capital ratio for regulated SACCOs improved due to increase in credit policy from 0.044 to 0.07 in 2010 to 2014 and capital ratio was on increase trend as in year 2011 it was 0.048 and slightly declined to 0.04 in 2013. The credit standards also improved as in year 2010 it was 0.187, 0.272 in year 2011, 0.115 in year 2012, 0.251 in year 2013 and 0.226 in year 2014.

The default rate remain low as in year 2010 it was 0.03 while in year 2014, it was 0.017. In year 2011, the default rate was 0.06, 0.03 in the year 2012 while in 2013 the default rate was 0.04. The regulated SACCOs also experience loan default and hence provision for loss loan was 0.024 in year 2010, 0.025 in the year 2011, 0.015 in year 2012, 0.041 in the year 2013 while in year

2014 it was 0.07. This clearly demonstrated that regulated SACCOs were using credit policy to improve on return on asset.

4.5 Correlation Analysis

Table 4.4: Correlation between Credit Policy and Return on Assets

		ROA	Credit Standards(BDC Ratio)	Credit Terms Policy (Loan ratio)	Collection Policy (Default Rate)	Credit Risk Mitigation	Capital Regulation (CAPR)
	Pearson Correlation	1					
ROA	Sig. (2-tailed)	0.000					
	N	43					
Credit Standards(BDC Ratio)	Pearson Correlation	0.612*	1				
	Sig. (2-tailed)	0.0001	0.000				
	N	43	43				
Credit Terms Policy (Loan ratio)	Pearson Correlation	0.523*	0.317	1			
	Sig. (2-tailed)	.0002	.067				
	N	43	43	43	1		
Collection Policy (Default Rate)	Pearson Correlation	0.451*	0.764	0.465	0.509		
	N	43	43	43	43		
	Sig (2-tailed)	0.0012	0.001	0.0032	0.438		
Credit Risk Mitigation	Pearson Correlation	.534*	.798	0.611	0.764	1	
	Sig. (2-tailed)	0.011	0.000	0.3214	0.2767		
	N	43	43	43	43	43	
Capital Regulation (CAPR)	Pearson Correlation	0.781*	.704	0.603	0.564	0.498	1
	Sig. (2-tailed)	0.003	0.584	0.114	0.0019	0.231	0.760
	N	43	43	43	43	43	43

Pearson correlation is used to evaluate the relationship between the variables. The study sought to determine the correlation between the variables. From the correlation results, the study found that there existed significance strong and positive correlation between Credit Standards (BDC Ratio) and ROA as Correlation coefficient $r=-0.612$, $P=0.0001<0.05$. The study found that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs as the correlation coefficient $r=-0.523$, $P=0.0002<0.05$. This was significant correlation at 0.05 confidence level.

The study found that there existed a significant strong positive correlation between collection policy (Default Rate) and financial performance. ROA in regulated SACCOs as correlation coefficient $r=-0.451$, $P=0.0012<0.05$. The study further established that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs as correlation coefficient $r=0.534$, $P=0.011<0.05$. The study further established that there existed a significant strong positive correlation between Capital regulation and financial performance in regulated SACCOs as correlation coefficient $r=0.781$, $P=0.003<0.05$ indicating that capital regulation enhance credit policy in regulated SACCOs.

4.6 Credit Policy and Financial Performance

A regression analysis between the dependent variable and the independent variables was performed; independent variable being credit policy and financial performance being dependent variable.

Table 4.5: Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
0.748a	0.559	0.522	0.468	0.0021

Independent Variables: (Constant), Credit Standards, Credit Terms Policy (Loan ratio), Collection Policy (Default Rate, Credit Risk Mitigation, Capital Ratio

Dependent Variable: Financial Performance

Adjusted R^2 is called the coefficient of determination and indicated that there was great significant variation in credit policy as the value of adjusted R^2 is 0.522. $P=0.0021$. This implies that, there was a significant variation of 52.2% of ROA varied with variation in credit policies with confidence level of 95%., $P= 0.0021 < 0.05$

Table 4.6: Analysis of Variances in the Regression Model

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.036	4	1.759	8.186	0.001a
Residual	71.748	36	1.993		
Total	80.863	40			

Independent Variables: (Constant), Credit Standards, Credit Terms Policy (Loan ratio), Collection Policy (Default Rate, Credit Risk Mitigation, Capital Ratio

Dependent Variable: Financial Performance

The Results in Table 4.6 gives the analysis of variances in the regression model. These results indicate that the model had an F-ratio of 8.186 $P=0.001<0.05$. This result indicates that the overall regression model had a significant goodness of fit as F-calculated, 10.547 was greater

than critical F at 8.186. This further indicates that use of credit policies would be statistically significant in predicting ROA in regulated SACCOs

Results in table 4.7 below present the test of the statistical significance of the independent variables in the model. This provides the estimates of independent variables, their standard error and the t-ratios.

Table 4.7: Test of Significance of Independent Variables

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
(Constant)	5.871	1.008		10.976	0.0003
CAPR Ratio	0.689	0.0876	0.612	10.468	0.0061
Credit Standards	0.790	0.251	0.643	11.026	0.0012
Credit Terms Policy	0.675	0.232	6.879	13.587	0.042
Collection Policy (Default Rate)	0.581	0.451	0.376	12.703	0.0013
Credit Risk Mitigation	0.454	0.012	4.187	10.980	0.0003

Independent Variables: (Constant), Credit Standards, Credit Terms Policy (Loan ratio), Collection Policy (Default Rate, Credit Risk Mitigation, Capital Ratio)

Dependent Variable: Financial Performance

The resultant regression model take the form of $Y=5.871+0.790X_1+0.675X_2+ 0.581X_3+0.454X_4+ 0.689X_5+ \epsilon$. The study's established that financial performance of regulated SACCOs would be at 5.871 holding credit policies at constant zero. The study found that compliance with capital requirements enhanced credit policy and had a positive influence on financial performance as $r=0.689$, $P=0.0061$, $t=10.468$.

The use of credit standards would led to significant increase in financial performance, ROA as $r=0.790$, $P=0.012$, $t=11.026$. This clearly indicated that application of use of credit standard would improve return on assets of regulated SACCOs.

The study found that use of Credit Terms Policy to a very great extent led to significant increase in ROA of regulated SACCOs as $r=0.675$, $P=0.0042$, $t=13.587$. This clearly indicates that decreasing loan to assets ratio would significantly led to increase in financial performance.

The study found that use of Collection Policy (Default Rate) led to significant increase in ROA of regulated SACCOs as $r=0.581$, $P=.0.0013$, $t=12.703$. This clearly indicates that lowering non Performing loans to total loans would significantly lead to increase in profitability.

The study found that use of credit risk mitigation led to significant increase in ROA as $r=0.454$, $P=0.0003$, $t=10.980$. This clearly indicates that use of credit risk mitigation practices to a great extent led to a significant increase in financial performance, ROA in regulated SACCOs in Kenya.

Discussion of the Findings

The study found that regulated SACCOs had adopted credit standards as a credit policy to a great extent as indicated by a mean of 0.521 closer to a Max Mean of 0.745. The regulated SACCOs applied credit term policy to a great extent as indicated by a mean of 0.583 closer to Max mean of 0.701 and that regulated SACCOs loan ratio form the base for determination of how much a client would borrow. The study found that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans when offering credit facility to a great extent as indicated by a mean of 0.370 with a Max mean of 0.578.

The study revealed that Return on Assets for the regulated SACCOs increased from 0.04 to 0.062 from year 2010 to 2014. The study also found that loan ratio for 2010 was 0.0132, 2011 was 0.013, 2012 was 0.01, 2013 was 0.03 while in 2014, it increased to 0.04. Capital ratio for regulated SACCOs improved due to increase in credit policy from 0.044 to 0.07 in 2010 to 2014 and capital ratio was on increase trend as in year 2011 it was 0.048 and slightly declined to 0.04 in 2013. The credit standards also improved as in year 2010 it was 0.187, 0.272 in year 2011, 0.115 in year 2012, 0.251 in year 2013 and 0.226 in year 2014.

The default rate remain low as in year 2010 it was 0.03 while in year 2014, it was 0.017. In year 2011, the default rate was 0.06, 0.03 in the year 2012 while in 2013 the default rate was 0.04. The regulated SACCOs also experience loan default and hence provision for loss loan was 0.024 in year 2010, 0.025 in the year 2011, 0.015 in year 2012, 0.041 in the year 2013 while in year 2014 it was 0.07. This clearly demonstrated that regulated SACCOs were using credit policy to improve on return on asset.

The regulated SACCOs were found to use loan-loss provision coverage ratio to a great extent as indicated by a mean of 0.213 with a Max mean of 0.684 as well as adhering to capital regulation to a great extent as indicated by a mean of 0.450 with a Max mean of 0.792. The study further found that application of credit policy would lead to increase in Return on Assets for the regulated SACCOs to a great extent as indicated by a mean of 0.08 with a Max mean of 0.12. From the correlation results, the study found that there existed significance strong and positive correlation between Credit Standards (BDC Ratio) and ROA as Correlation coefficient $r = -0.612$, $P = 0.001 < 0.05$. The study revealed that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs

as the correlation coefficient $r=0.523$, $P=0.002<0.05$. This was significant correlation at 0.05 confidence level.

The study found that there existed a significant strong positive correlation between collection policy (Default Rate) and financial performance as correlation coefficient $r=0.451$, $P=0.0012<0.05$ and that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs as correlation coefficient $r=0.434$, $P=0.001<0.05$. The correlation result further indicated that there existed a significant strong positive correlation between Capital regulation and financial performance in regulated SACCOs as correlation coefficient $r=0.781$, $P=0.003<0.05$ indicating that capital regulation enhances credit policy in regulated SACCOs. The findings were similar to Ntiamoah, Diana and Kwamega (2014) who found that results of the study indicated that there was high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

The resultant regression model take the form of $Y=5.871+0.790X_1+0.675X_2+0.581X_3+0.454X_4+0.689X_5+ \epsilon$. The study's found that compliance with capital requirements enhance credit policy had a positive influence on financial performance as $r=0.689$, $P=0.0061$, $t=10.468$. The application of credit standards would lead to significant increase in financial performance, ROA as $r=0.790$, $P=0.012$, $t=11.026$. This clearly indicated that use of credit standard would improve return on assets of regulated SACCOs. Application of Credit Terms Policy to a great extent would significantly increase ROA of regulated SACCOs as $r=0.675$, $P=0.0042$, $t=13.587$, decreasing loan to assets ratio would significantly lead to increase in financial performance. The findings were consistent with Kargi (2011) who evaluated the impact of credit risk on the

profitability of Nigerian banks and found that credit risk mitigation improve bank profitability.

The study found that use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs as $r=0.581$, $P=0.0013$, $t=12.703$ hence lowering non Performing loans to total loan would significantly lead to increase in profitability. The study found that use of credit risk mitigation led to significant increase in ROA as $r=0.454$, $P=0.0003$, $t=10.980$ implying that use of credit risk mitigation practices to a great extent led to a significant increase in financial performance and ROA in regulated SACCOs in Kenya. The findings concurred with Soke Fun Ho and Yusoff (2009) who found that banks experienced high default due to poor application of credit policies and inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions hence poor profitability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter present summary, conclusion and recommendation of the findings. The objective of the study was establishing the effect of credit policy on financial performance of regulated SACCOs in Nairobi County.

5.2 Summary of Findings

The study revealed that regulated SACCOs had adopted credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow. The study revealed that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans, loan-loss provision coverage ratio and application of credit policy which increased Return on Assets for the regulated SACCOs to a great extent. From the correlation results, the study established there existed significance strong and positive correlation between Credit Standards (BDC Ratio) and ROA as correlation coefficient. The study revealed that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs as the correlation coefficient and that there existed a significant strong positive association between collection policy (Default Rate) and financial performance of regulated SACCOs. The study also indicated that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs.

The study established that compliance with capital requirements enhanced credit policy in regulated SACCOs. The study established that the application of credit standards led to

significant increase in financial performance, application of credit standard would improve return on assets of regulated SACCOs. Application of Credit Terms Policy significantly increased ROA of regulated SACCOs, hence decreasing loan to assets ratio would significantly led to increase in financial performance.

From the regression results, use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non Performing loans to total loan would significantly lead to increase in profitability. The study established that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Kenya.

5.3 Conclusions

The study concluded that regulated SACCOs had adopted credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow, applied collection policy, considered non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy which increased Return on Assets for the regulated SACCOs to a great extent. The study concluded that there existed significance strong and positive correlation between credit Standards (BDC Ratio) and ROA as Correlation coefficient. The study concluded that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs as the correlation coefficient and that there existed a significant strong positive association between collection policy (Default Rate) and financial performance of regulated SACCOs. The study also indicated that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs.

The study concluded that the application of credit standards led to significant increase in financial performance, use of credit standard would improve return on assets of regulated SACCOs and that application of Credit Terms Policy significantly increased ROA of regulated SACCOs, hence decreasing loan to assets ratio would significantly lead to increase in financial performance.

The study concluded that use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non Performing loans to total loan would significantly lead to increase in profitability and that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Kenya.

5.4 Recommendations

For policy implications, the study recommend that regulated SACCOs and other financial institutions such as Microfinance Institutions should adopted and implement credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow and applying collection policy, considering non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy as it would result into increase in Return on Assets to a great extent.

The management of financial institutions including regulated SACCOs, requires to enhance application of credit standards as this would lead to significant increase in financial performance, application of credit standards would improve return on assets of regulated SACCOs

The study recommend that commercial banking institution should apply Credit Terms Policy as it would significantly increase ROA, hence decreasing loan to assets ratio would significantly lead to increase in financial performance.

The study recommend that management should use collection policy (Default Rate) to significantly increase in ROA of regulated SACCOs indicating that lowering non Performing loans to total loan would significantly lead to increase in profitability and that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Kenya.

From the findings, the study recommends that in order for the regulated SACCOs and other financial institutions to have a high financial performance, the organization will have to also concentrate on other factors affecting its operations such as capital requirements. The study recommends that SACCO Societies should ensure compliance to financial regulations to accentuate efficiency of credit policies and increase in return on assets.

5.5 Limitations of the Study

In conducting the study, the researcher encountered a number of challenges. One of the challenges was lack of cooperation from some of the SACCOs who were unwilling to give information. This study was dependent on financial statements and records from SACCOs but some were unwilling to give such information. However, the researcher explained to the SACCOs authorities that the sought information was just for academic purposes and would not be released to third party.

The main limitation of study was inability to include more financial institutions. This study concentrated only on regulated SACCOs. The study would have covered more financial institutions across financial sectors so as to provide a more broad based analysis. However, resource constraints placed this limitation.

The study also faced limitation where the management were failing to reveal the financial performance of the SACCOs and sometimes delayed in offering the reports. The researcher did follow up to ensure data was collected without further delays.

The study also faced a limitation, whereby the management was found to be uncooperative because of the sensitivity of the information required for the study. The researcher explained to the management that the information they provided was to be held confidential and was only for academic purpose only.

5.6 Suggestions for Further Research

This study examined the effects of credit policy on financial performance in regulated SACCOs'. The study recommends that a further study should be carried out to determine the relationship between credit management and Loan Performance in regulated SACCOs, banks and deposit taking Micro Finance Banks and other financial institutions.

A further study should be carried out to examine the determinant of credit policy in regulated SACCOs, commercial banks and deposit taking Microfinance institutions. A further study should be conducted to determine effects of credit policy on level of non-performing loans in financial institutions.

The study also recommends that a further study should be carried out to determine the challenges affecting implementation of credit policies in SACCO Societies. This would provide the management with insight on what measures could be adopted to implement credit policies effectively.

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APPENDICES

Appendix1; List of SACCOs Under SASRA in Nairobi County

1. AFYA SACCO SOCIETY LIMITED
2. AIRPORTS SACCO SOCIETY LIMITED
3. ASILI SACCO SOCIETY LIMITED
4. CHAI SACCO SOCIETY LIMITED
5. CHUNA SACCO SOCIETY LIMITED
6. COMOCO SACCO SOCIETY LIMITED
7. FARIJI SACCO SOCIETY LIMITED
8. HARAMBEE SACCO SOCIETY LIMITED
9. HAZINA SACCO SOCIETY LIMITED
10. JAMII SACCO SOCIETY LIMITED
11. KENPIPE SACCO SOCIETY LIMITED
12. KENYA POLICE STAFF SACCO SOCIETY LIMITED
13. KINGDOM SACCO SOCIETY LIMITED
14. MWALIMU NATIONAL SACCO SOCIETY LIMITED
15. KENVERSITY SACCO SOCIETY LIMITED
16. MILIKI SACCO SOCIETY LIMITED
17. ARDHI SACCO SOCIETY LIMITED
18. MWITO SACCO SOCIETY LIMITED
19. NATION STAFF SACCO SOCIETY LIMITED
20. STIMA SACCO SOCIETY LIMITED
21. ORTHODOX DEVELOPMENT SACCO SOCIETY LIMITED
22. SAFARICOM SACCO SOCIETY LIMITED
23. SHERIA SACCO SOCIETY LIMITED
24. SHIRIKA SACCO SOCIETY LIMITED
25. TRANSACOM SACCO SOCIETY LIMITED
26. UNITED NATIONS SACCO SOCIETY LIMITED
27. MAGEREZA SACCO SOCIETY LIMITED
28. UNIVERSAL TRADERS SACCO SOCIETY LIMITED
29. KENYA BANKERS SACCO SOCIETY LIMITED
30. NACICO SACCO SOCIETY LIMITED
31. NAFKA SACCO SOCIETY LIMITED
32. NAKU SACCO SOCIETY LIMITED
33. NEST SACCO SOCIETY LIMITED
34. WANA-ANGA SACCO SOCIETY LIMITED
35. WANANDEGE SACCO SOCIETY LIMITED
36. WAUMINI SACCO SOCIETY LIMITED
37. UKULIMA SACCO SOCIETY LIMITED
38. UKRISTO WA UFANISI WA ANGLICANA SACCO SOCIETY LIMITED
39. UFUNDI SACCO SOCIETY LIMITED
40. UFANISI SACCO SOCIETY LIMITED

Financial Performance 2010

Research data; Source SASRA				
	Profitability	Size- (LOGTA)	Loan intensity	Management quality
Name of DTS-Nairobi county	ROA (%)	(LOGTA)	(TL/TA)	(PE/TA)
AFYA SACCO SOCIETY LTD	0.06	10.08	0.73	0.03
AIRPORT SACCO SOCIETY LTD	0.05	8.62	0.72	0.02
CHAI SACCO SOCIETY LTD	0.06	9.19	0.92	0.03
CHUNA SACCO SOCIETY LTD	0.04	9.24	0.98	0.02
COMOCO SACCO SOCIETY LTD	0.00	8.76	0.77	0.02
ELIMU SACCO SOCIETY LTD	0.04	8.89	0.60	0.04
FUNDILIMA SACCO SOCIETY LTD	0.09	8.74	0.83	0.01
HARAMBEE SACCO SOCIETY LTD	0.05	10.25	0.82	0.02
HAZINA SACCO SOCIETY LTD	0.09	9.55	0.85	0.01
JAMII SACCO SOCIETY LTD	0.10	9.26	0.88	0.02
KENPIPE SACCO SOCIETY LTD	0.10	9.16	0.87	0.01
KENVERSITY SACCO SOCIETY LTD	0.10	9.04	0.88	0.01
KENYA BANKERS SACCO SOCIETY LTD	0.05	9.70	0.68	0.02
KENYA POLICE SACCO SOCIETY LTD	0.10	10.06	0.88	0.01
KINGDOM SACCO SOCIETY LTD	0.02	8.73	0.70	0.03
MAGEREZA SACCO SOCIETY LTD	0.06	9.64	0.54	0.01
MAISHA BORA SACCO SOCIETY LTD	0.10	9.18	0.91	0.01
MILIKI SACCO SOCIETY LTD	0.01	7.86	0.61	0.04
MWALIMU NATIONAL SACCO SOCIETY LTD	0.10	10.39	0.86	0.02
MWITO SACCO SOCIETY LTD	0.06	8.93	0.96	0.02
NACICO SACCO SOCIETY LTD	0.05	9.41	0.63	0.02
NAFAKA SACCO SOCIETY LTD	0.05	8.47	0.62	0.04
NAKU SACCO SOCIETY LTD	0.05	9.18	0.78	0.02
NASSEFU SACCO SOCIETY LTD	0.08	8.97	0.79	0.02
NATION SACCO SOCIETY LTD	0.08	8.97	0.82	0.01
NEST SACCO SOCIETY LTD	0.03	7.70	0.75	0.12
SAFARICOM SACCO SOCIETY LTD	0.06	9.19	0.85	0.01
SHERIA SACCO SOCIETY LTD	0.07	9.45	0.82	0.01
STIMA SACCO SOCIETY LTD	0.09	0.00	0.00	0.00
TELEPOST SACCO SOCIETY LTD	0.06	9.00	0.46	0.03
TEMBO SACCO SOCIETY LTD	0.10	8.97	0.74	0.01
TRANSCOM SACCO SOCIETY LTD	0.00	8.76	0.38	0.01
UFANISI SACCO SOCIETY LTD	0.06	8.06	0.86	0.04
UFUNDI SACCO SOCIETY LTD	0.00	9.12	0.19	0.01
UKRISTO NA UFANISI WA ANGLICANA SACCO SOCIETY LTD	0.02	8.89	0.96	0.03
UKULIMA SACCO SOCIETY LTD	0.06	9.86	0.77	0.03
UNAITAS SACCO SOCIETY LTD	0.06	9.74	0.68	0.05
UNITED NATION SACCO SOCIETY LTD	0.12	9.88	0.86	0.01
WANA-ANGA SACCO SOCIETY LTD	0.05	8.99	0.78	0.01
WANANCHI SACCO SOCIETY LTD	0.03	8.99	0.71	0.04
WANANDEGE SACCO SOCIETY LTD	0.04	9.07	0.49	0.04

WAUMINI SACCO SOCIETY LTD	0.07	9.33	0.77	0.01
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SACCO Performance 2011

Research data; Source SASRA				
	Profitability	Size- (LOGTA)	Loan intensity	Management quality
Name of DTS-Nairobi county	ROA (%)	(LOGTA)	(TL/TA)	(PE/TA)
AFYA SACCO SOCIETY LTD	0.02	0.01	9.97	0.77
AIRPORT SACCO SOCIETY LTD	0.03	0.01	8.45	0.68
ARDHI SACCO SOCIETY LTD	0.05	0.00	8.99	0.85
ASILI SACCO SOCIETY LTD	0.00	0.00	9.09	0.80
CHAI SACCO SOCIETY LTD	0.04	0.02	9.08	0.85
CHUNA SACCO SOCIETY LTD	0.04	0.01	9.19	0.94
COMOCO SACCO SOCIETY LTD	0.06	0.01	8.72	0.78
ELIMU SACCO SOCIETY LTD	0.00	0.00	0.00	0.00
FUNDILIMA SACCO SOCIETY LTD	0.06	0.03	8.68	0.88
HARAMBEE SACCO SOCIETY LTD	0.00	0.00	0.00	0.00
HAZINA SACCO SOCIETY LTD	0.10	0.00	9.40	0.88
JAMII SACCO SOCIETY LTD	0.07	0.04	9.10	0.88
KENPIPE SACCO SOCIETY LTD	0.09	0.02	9.05	0.92
KENVERSITY SACCO SOCIETY LTD	0.09	0.01	8.93	0.76
KENYA BANKERS SACCO SOCIETY LTD	0.06	0.00	9.63	0.74
KENYA POLICE SACCO SOCIETY LTD	0.09	0.01	9.89	0.78
KINGDOM SACCO SOCIETY LTD	0.03	0.01	8.29	0.74
MAGEREZA SACCO SOCIETY LTD	0.06	0.01	9.53	0.60
MAISHA BORA SACCO SOCIETY LTD	0.09	0.01	9.06	0.90
MILIKI SACCO SOCIETY LTD	0.12	0.05	7.76	0.73
MWALIMU NATIONAL SACCO SOCIETY LTD	0.09	0.00	10.28	0.78
MWITO SACCO SOCIETY LTD	0.05	0.01	8.79	0.90
NACICO SACCO SOCIETY LTD	0.03	0.01	9.37	0.60
NAFAKA SACCO SOCIETY LTD	0.05	0.00	8.41	0.87
NAKU SACCO SOCIETY LTD	0.04	0.01	8.95	0.79
NASSEFU SACCO SOCIETY LTD	0.04	0.02	8.96	0.74
NATION SACCO SOCIETY LTD	0.08	0.03	8.83	0.84
SAFARICOM SACCO SOCIETY LTD	0.06	0.01	8.98	0.90
SHERIA SACCO SOCIETY LTD	0.05	0.00	9.21	0.86
STIMA SACCO SOCIETY LTD	0.08	0.01	9.88	0.83
TELEPOST SACCO SOCIETY LTD	0.00	0.00	9.09	0.70
TEMBO SACCO SOCIETY LTD	0.07	0.04	8.69	0.75
TRANSCOM SACCO SOCIETY LTD	0.00	0.00	8.64	0.46
UFANISI SACCO SOCIETY LTD	0.05	0.00	7.99	0.74
UFUNDI SACCO SOCIETY LTD	0.00	0.05	8.76	0.46
UKRISTO NA UFANISI WA ANGLICANA SACCO	0.04	0.03	8.55	0.84

SOCIETY LTD				
UKULIMA SACCO SOCIETY LTD	0.07	0.01	9.71	0.81
UNAITAS SACCO SOCIETY LTD	0.05	0.15	9.45	0.29
UNITED NATION SACCO SOCIETY LTD	0.11	0.01	9.75	0.87
WANA-ANGA SACCO SOCIETY LTD	0.05	0.01	8.91	0.81
WANANCHI SACCO SOCIETY LTD	0.01	0.10	8.89	0.62
WANANDEGE SACCO SOCIETY LTD	0.03	0.02	9.08	0.50
WAUMINI SACCO SOCIETY LTD	0.07	0.01	9.14	0.80

SACCO Performance 2012

Research data; Source SASRA				
	Profitability	Size- (LOGTA)	Loan intensity	Management quality
Name of DTS-Nairobi county	ROA (%)	(LOGTA)	(TL/TA)	(PE/TA)
AFYA SACCO SOCIETY LTD	0.04	0.01	10.03	0.73
AIRPORT SACCO SOCIETY LTD	0.00	0.01	8.55	0.67
ARDHI SACCO SOCIETY LTD	0.05	0.00	9.04	0.87
ASILI SACCO SOCIETY LTD	0.01	0.02	9.16	0.74
BANANA HILL SACCO SOCIETY LTD	0.04	0.00	8.02	0.62
CHAI SACCO SOCIETY LTD	0.05	0.02	9.11	0.88
CHUNA SACCO SOCIETY LTD	0.04	0.01	9.15	0.95
COMOCO SACCO SOCIETY LTD	0.04	0.01	8.72	0.79
ELIMU SACCO SOCIETY LTD	0.01	0.04	8.81	0.65
FUNDILIMA SACCO SOCIETY LTD	0.06	0.00	8.71	0.81
HARAMBEE SACCO SOCIETY LTD	0.03	0.01	10.20	0.90
HAZINA SACCO SOCIETY LTD	0.08	0.00	9.47	0.88
JAMII SACCO SOCIETY LTD	0.09	0.33	9.18	0.13
KENPIPE SACCO SOCIETY LTD	0.10	0.02	9.10	0.93
KENVERSITY SACCO SOCIETY LTD	0.08	0.01	8.98	0.88
KENYA BANKERS SACCO SOCIETY LTD	0.05	0.00	9.69	0.72
KENYA POLICE SACCO SOCIETY LTD	0.10	0.01	9.95	0.86
KINGDOM SACCO SOCIETY LTD	0.02	0.01	8.47	0.68
MAGEREZA SACCO SOCIETY LTD	0.05	0.02	9.57	0.57
MAISHA BORA SACCO SOCIETY LTD	0.09	0.01	9.11	0.91
MILIKI SACCO SOCIETY LTD	0.04	0.02	7.80	0.78
MWALIMU NATIONAL SACCO SOCIETY LTD	0.10	0.00	10.34	0.86
MWITO SACCO SOCIETY LTD	0.05	0.01	8.86	0.93
NACICO SACCO SOCIETY LTD	0.03	0.02	9.37	0.57
NAFAKA SACCO SOCIETY LTD	0.04	0.01	8.45	0.78
NAKU SACCO SOCIETY LTD	0.04	0.07	9.06	0.77
NASSEFU SACCO SOCIETY LTD	0.08	0.01	8.99	0.84
NATION SACCO SOCIETY LTD	0.08	0.03	8.87	0.92
NEST SACCO SOCIETY LTD	0.04	0.00	7.56	0.77

SAFARICOM SACCO SOCIETY LTD	0.07	0.01	9.03	0.87
SHERIA SACCO SOCIETY LTD	0.04	0.01	9.37	0.80
STIMA SACCO SOCIETY LTD	0.08	0.01	9.97	0.87
TELEPOST SACCO SOCIETY LTD	0.01	0.00	9.15	0.68
TEMBO SACCO SOCIETY LTD	0.09	0.05	8.83	0.68
TRANSCOM SACCO SOCIETY LTD	0.00	0.00	8.75	0.36
UFANISI SACCO SOCIETY LTD	0.06	0.00	8.02	0.86
UFUNDI SACCO SOCIETY LTD	0.00	0.01	8.75	0.46
UKRISTO NA UFANISI WA ANGLICANA SACCO SOCIETY LTD	0.04	0.03	8.73	0.87
UKULIMA SACCO SOCIETY LTD	0.06	0.00	9.81	0.75
UNAITAS SACCO SOCIETY LTD	0.06	0.05	9.60	0.62
UNITED NATION SACCO SOCIETY LTD	0.13	0.01	9.82	0.90
WANA-ANGA SACCO SOCIETY LTD	0.05	0.02	8.96	0.85
WANANCHI SACCO SOCIETY LTD	0.01	0.14	8.95	0.54
WANANDEGE SACCO SOCIETY LTD	0.03	0.03	9.08	0.52
WAUMINI SACCO SOCIETY LTD	0.07	0.01	9.22	0.80

SACCO Performance 2013

Research data; <i>Source SASRA</i>	Profitability	Size- (LOGTA)	Loan intensity	Management quality
Name of DTS-Nairobi county	ROA (%)	(LOGTA)	(TL/TA)	(PE/TA)
AFYA SACCO SOCIETY LTD	0.06	0.01	10.08	0.73
AIRPORT SACCO SOCIETY LTD	0.05	0.01	8.62	0.72
ARDHI SACCO SOCIETY LTD	0.00	0.00	0.00	0.00
ASILI SACCO SOCIETY LTD	0.00	0.05	9.20	0.71
BANANA HILL SACCO SOCIETY LTD	0.03	0.00	8.01	0.68
CHAI SACCO SOCIETY LTD	0.06	0.02	9.19	0.92
CHUNA SACCO SOCIETY LTD	0.04	0.01	9.24	0.98
COMOCO SACCO SOCIETY LTD	0.00	0.01	8.76	0.77
ELIMU SACCO SOCIETY LTD	0.04	0.04	8.89	0.60
FUNDILIMA SACCO SOCIETY LTD	0.09	0.01	8.74	0.83
HARAMBEE SACCO SOCIETY LTD	0.05	0.01	10.25	0.82
HAZINA SACCO SOCIETY LTD	0.09	0.01	9.55	0.85
JAMII SACCO SOCIETY LTD	0.10	0.05	9.26	0.88
KENPIPE SACCO SOCIETY LTD	0.10	0.01	9.16	0.87
KENVERSITY SACCO SOCIETY LTD	0.10	0.01	9.04	0.88
KENYA BANKERS SACCO SOCIETY LTD	0.05	0.01	9.70	0.68
KENYA POLICE SACCO SOCIETY LTD	0.10	0.00	10.06	0.88
KINGDOM SACCO SOCIETY LTD	0.02	0.01	8.73	0.70
MAGEREZA SACCO SOCIETY LTD	0.06	0.02	9.64	0.54
MAISHA BORA SACCO SOCIETY LTD	0.10	0.01	9.18	0.91

MILIKI SACCO SOCIETY LTD	0.01	0.04	7.86	0.61
MWALIMU NATIONAL SACCO SOCIETY LTD	0.10	0.00	10.39	0.86
MWITO SACCO SOCIETY LTD	0.06	0.01	8.93	0.96
NACICO SACCO SOCIETY LTD	0.05	0.02	9.41	0.63
NAFAKA SACCO SOCIETY LTD	0.05	0.02	8.47	0.62
NAKU SACCO SOCIETY LTD	0.05	0.04	9.18	0.78
NASSEFU SACCO SOCIETY LTD	0.08	0.02	8.97	0.79
NATION SACCO SOCIETY LTD	0.08	0.04	8.97	0.82
NEST SACCO SOCIETY LTD	0.03	0.00	7.70	0.75
SAFARICOM SACCO SOCIETY LTD	0.06	0.01	9.19	0.85
SHERIA SACCO SOCIETY LTD	0.07	0.01	9.45	0.82
STIMA SACCO SOCIETY LTD	0.00	0.00	0.00	0.00
TELEPOST SACCO SOCIETY LTD	0.06	0.00	9.00	0.46
TEMBO SACCO SOCIETY LTD	0.10	0.03	8.97	0.74
TRANSCOM SACCO SOCIETY LTD	0.00	0.00	8.76	0.38
UFANISI SACCO SOCIETY LTD	0.06	0.00	8.06	0.86
UFUNDI SACCO SOCIETY LTD	0.00	0.01	9.12	0.19
UKRISTO NA UFANISI WA ANGLICANA SACCO SOCIETY LTD	0.02	0.04	8.89	0.96
UKULIMA SACCO SOCIETY LTD	0.06	0.00	9.86	0.77
UNAITAS SACCO SOCIETY LTD	0.06	0.04	9.74	0.68
UNITED NATION SACCO SOCIETY LTD	0.12	0.01	9.88	0.86
WANA-ANGA SACCO SOCIETY LTD	0.05	0.03	8.99	0.78
WANANCHI SACCO SOCIETY LTD	0.03	0.11	8.99	0.71
WANANDEGE SACCO SOCIETY LTD	0.04	0.04	9.07	0.49
WAUMINI SACCO SOCIETY LTD	0.07	0.01	9.33	0.77

SACCO Performance 2014

Research data; <i>Source SASRA</i>				
	Profitability	Size- (LOGTA)	Loan intensity	Management quality
Name of DTS-Nairobi county	ROA (%)	(LOGTA)	(TL/TA)	(PE/TA)
AFYA SACCO SOCIETY LTD	0.05	0.01	10.08	0.73
AIRPORT SACCO SOCIETY LTD	0.06	0.01	8.62	0.72
ASILI SACCO SOCIETY LTD	0.00	0.05	9.20	0.71
CHAI SACCO SOCIETY LTD	0.06	0.02	9.19	0.92
CHUNA SACCO SOCIETY LTD	0.04	0.01	9.24	0.98
COMOCO SACCO SOCIETY LTD	0.00	0.01	8.76	0.77
ELIMU SACCO SOCIETY LTD	0.04	0.04	8.89	0.60
FUNDILIMA SACCO SOCIETY LTD	0.09	0.01	8.74	0.83
HARAMBEE SACCO SOCIETY LTD	0.05	0.01	10.25	0.82
HAZINA SACCO SOCIETY LTD	0.09	0.01	9.55	0.85
JAMII SACCO SOCIETY LTD	0.10	0.05	9.26	0.88
KENPIPE SACCO SOCIETY LTD	0.10	0.01	9.16	0.87

KENVERSITY SACCO SOCIETY LTD	0.10	0.01	9.04	0.88
KENYA BANKERS SACCO SOCIETY LTD	0.05	0.01	9.70	0.68
KENYA POLICE SACCO SOCIETY LTD	0.10	0.00	10.06	0.88
KINGDOM SACCO SOCIETY LTD	0.02	0.01	8.73	0.70
MAGEREZA SACCO SOCIETY LTD	0.06	0.02	9.64	0.54
MAISHA BORA SACCO SOCIETY LTD	0.10	0.01	9.18	0.91
MILIKI SACCO SOCIETY LTD	0.01	0.04	7.86	0.61
MWALIMU NATIONAL SACCO SOCIETY LTD	0.10	0.00	10.39	0.86
MWITO SACCO SOCIETY LTD	0.06	0.01	8.93	0.96
NACICO SACCO SOCIETY LTD	0.05	0.02	9.41	0.63
NAFAKA SACCO SOCIETY LTD	0.05	0.02	8.47	0.62
NAKU SACCO SOCIETY LTD	0.05	0.04	9.18	0.78
NASSEFU SACCO SOCIETY LTD	0.08	0.02	8.97	0.79
NATION SACCO SOCIETY LTD	0.08	0.04	8.97	0.82
NEST SACCO SOCIETY LTD	0.03	0.00	7.70	0.75
SAFARICOM SACCO SOCIETY LTD	0.06	0.01	9.19	0.85
SHERIA SACCO SOCIETY LTD	0.07	0.01	9.45	0.82
STIMA SACCO SOCIETY LTD	0.05	0.4	7.98	0.65
TELEPOST SACCO SOCIETY LTD	0.06	0.00	9.00	0.46
TEMBO SACCO SOCIETY LTD	0.10	0.03	8.97	0.74
TRANSCOM SACCO SOCIETY LTD	0.00	0.00	8.76	0.38
UFANISI SACCO SOCIETY LTD	0.06	0.00	8.06	0.86
UFUNDI SACCO SOCIETY LTD	0.00	0.01	9.12	0.19
UKRISTO NA UFANISI WA ANGLICANA SACCO SOCIETY LTD	0.02	0.04	8.89	0.96
UKULIMA SACCO SOCIETY LTD	0.06	0.00	9.86	0.77
UNAITAS SACCO SOCIETY LTD	0.06	0.04	9.74	0.68
UNITED NATION SACCO SOCIETY LTD	0.12	0.01	9.88	0.86
WANA-ANGA SACCO SOCIETY LTD	0.05	0.03	8.99	0.78
WANANCHI SACCO SOCIETY LTD	0.03	0.11	8.99	0.71
WANANDEGE SACCO SOCIETY LTD	0.04	0.04	9.07	0.49
WAUMINI SACCO SOCIETY LTD	0.08	0.02	6.31	0.73