

**THE EFFECT OF CREDIT POLICY ON THE FINANCIAL PERFORMANCE
OF DEPOSIT TAKING SACCOS IN KENYA**

BY

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DECLARATION

I hereby certify this Research project is my original work and has not been presented for examination in any institution of higher learning.

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DEDICATION

I especially dedicate this project as a token of appreciation to my parents (Mr. Samuel Wachira and Mrs. Esther Anne Wangechi) for the gift of education and believing in me and the virtues of hard work that has been a source of inspiration to me.

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LIST OF ABBREVIATIONS

ACCOSCA	African confederation of co-operative savings and credit Association
ATMs	Automated Teller Machines
BOSA	Back Office Service Activities
CIC	Cooperative Insurance Company of Kenya
CODIC	Cooperative development Information Centre
DICO	Deposit Insurance Corporation of Canada
FOSA	Front Office Service Activities
HR	Human Resource
NKCC	New Kenya Cooperative Creameries LTD
KERUSSU	Kenya Rural Savings & Credit Co-operative Societies Union Ltd
KNFC	Kenya National Federation of cooperatives LTD
KPCU	Kenya Planters Co-operative Union
KUSCO	Kenya Union of Savings and Credit Cooperatives
MFI	Micro Finance Institutions
NACHU	National Cooperatives Housing Union LTD
NCUA	National Credit Union Administration
RIA	Regional investment Agency
SACCO	Savings and Credit Cooperative Society
SASRA	Sacco Societies Regulatory Authority
WOCCU	World Organization Council of credit union

ABSTRACT

The main purpose of the study was to investigate the effect of Credit policies on the financial performance of deposit taking Saccos in Kenya. The study is significant to the management and members of the deposit taking Saccos and also the government as it will be able to sensitize the Saccos on the impact of the Regulatory Authority policies to their financial performance and facilitates them to develop and implement effective strategies to comply with the regulatory authority policies. It also provides a background to researchers who may want to carry out further research. The researcher used a census approach for the six deposit taking Sacco in Kenya to get the data required. The main way of getting information was through secondary data from the central bank of Kenya and the individual institutions. The findings indicated a positive significant relationship ($r=0.199$) implying that regulatory authority policies affects the financial performance of deposit taking Saccos with a minimal effect since there are other more factors that affect financial performance with a greater effect. The result of the regression analysis indicate that the dependent variables are both individually and jointly significant and have an effect on financial performance. From the values of the coefficients we discern that the independent variables are correlated to the dependent variable. The results indicated that credit standard policy significantly affects financial performance. ($\beta=47.9$, $p\text{-value}=0.48$), credit terms by ($\beta=-86.5$, $p\text{-value}=0.123$) and collection effort by ($\beta=-129.5$, $p\text{-value}=0.383$). In conclusion, the study established that the three independent variables significantly affect financial performance. From the study, it is recommended that deposit taking Saccos organizations should not concentrate so much on the regulatory authority policies but also other factors since even though the policies affect deposit taking Sacco's financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The International Co-operative Alliance (ICA) defines a co-operative as an autonomous association of person coming together in a jointly owned enterprise for economic, social and cultural purposes. For the last 100 years, co-operative have been instrumental in the generation of wealth and employment creation. Several (national) strategies have been promulgated to support and guide cooperative development. Largely due to government sponsored governance and institutional reforms since 2003, the number of registered co-operative societies in Kenya has grown steadily, increasing from 9,443 in 2000, to 11,968 at the end of 2008. (International Co-operative Alliance (ICA)).

The highest concentration of new co-operative activities is within the financials services sector (45%) the agricultural commodity co-operative account for 37%, while the other types constitute 18%. Over the period 2000 – 2008 the Sacco sub-sector registered an impressive 25% growth with the number of registered societies growing from 3,627 in 2000, to 5,350 by 2008, while the growth of agricultural based co-operative societies rose modestly from 4,349 in 2000 to 4,471 at the end of 2008. Furthermore, the asset base of the co-operative movement has grown from just over Kshs.100 million at independence to Kshs.200 billion. (Source: Ministry of Co-operative, Development and Marketing).

The co-operative Movement began in England in the second half of the industrial revolution. This was motivated by the loss of the common use of land and the workers had nothing to sell but their labour. During the early part of the 1800's Robert Owen, a Welshman who made his fortune in cotton, tried to establish co-operative communities, but his early efforts foundered. Despite this setback, Owen had identified some of the profound underlying values of co-operation as a means of organizing economic activity. In 1827 these were taken-up and it

communicated the ideas through a monthly periodical, the co-operator, which he published for 3 years.

Through this application, he disseminated the ideas and urged the formation of small local co-operatives, which would tackle poverty and distress and improve the situation of working families (co-operative Development Society-London 2009).

During the same period, strikes by the weavers in United Kingdom had failed to have any lasting effect on wages and living conditions. The weavers wondering if there is a better way of improving their situation turned to the ideas of Owen and King. With 28 members they started the first successful Co-operative enterprises, the Rockdale Equitable Pioneer Society which was set up at Toad Lande which started trading on 21st December, 1844 and in honor of this first cooperative enterprise the date has been recognizing as the birth date of the co-operative movement. They further formulated 7 key principles which have been adopted by the rest of the co-operatives enterprises worldwide. The seven key principles are:- Voluntary and open to all eligible people without discrimination, Democratic member controlled; Member economic participation in accordance to their means, are autonomous and independent, to educate, train and inform their members and management committee, promotion of co-operation among co-operative structure.

According to the Government of Kenya Economic survey (2999) implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. Co-operative faced increased competition from bank, micro finance institutions, and other financial service providers for the same customer base and stated experiencing dwindling membership, decrease in contributions, increased rate of loan defaults and consequently insufficient funding for onward lending to members. Hence fund mobilizing which is an element of financial management in the co-operative societies.

1.1.1 Regulatory Authority Policies

The Sacco Societies Regulatory Authority (SASRA) is a Semi-Autonomous Government agency under the Ministry of Co-operative, Development and Marketing. It is a creation of the Sacco

Societies Act 2008 and was inaugurated in 2009 charged with the prime responsibility to license and supervise deposit taking Sacco Societies in Kenya.

The establishment of Sasra falls within the Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of Sacco members and ensuring that there is confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings. (Sacco Societies Act of 2008, Republic of Kenya, 2008b).

The authority derives its powers to regulate the deposit taking Sacco Societies in Kenya from the Sacco Societies Act 2008 and the regulations issued there under. The mandate of the authority as provided by the Authority as provided by the Act includes the following:

- a) License Sacco Societies to carry out deposit taking business in accordance with this Act.
- b) Regulate and supervise Sacco Societies.
- c) Do all such other things as may be lawfully directed by the minister; and
- d) Perform such functions as are conferred on it by this Act or by any other written law, 9 Sasra, 2009)

1.1.2 Financial Performance of Sacco

Financial performance is a company's ability to generate new resources, from day to day operations, over a given period of time; performance is gauged by net income and cash from operations. (Apps, 1996). Financial performance can be measured using the following repayment rate, portfolio quality ratios, arrears ratio rate, portfolio rate and delinquent borrowers. Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate portfolio risk and the ratio delinquent borrowers.

The arrears ratio rate shows how much of the loans have become due and has not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due. Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of

delinquent loans. The policies are meant to maximize the value of a firm operating and financial ratios have long been used as tools for determining the condition and the performance of a firm.

Modern early warning models for financial institutions gained popularity when Sinkey (1975) utilized discriminate analysis for identifying and distinguishing problem banks from sound banks and Altman (1977) examined the savings and loan industry. The CAMELS MODEL (Gasbarro et al., 2002) which is a financial analysis tool, provides a framework for measuring financial performance of credit unions. IN Kenya, the Central Bank also applies the CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset quality, Management Quality, Earnings and Liquidity (CBK, 2010).

1.1.3 Credit policies and financial Performance

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, These are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable.

Credit policy is a guide to successful credit administration and benefits must be weighed against the cost to ensue the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses (Pandey, 2001).

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 policy are made and implemented. Among other factors, weakness in credit risk management has all along been cited as the main cause for lending institutions financial performance.(Richard et al., 2008 and Chijoriga, 1997).

1.1.4 Deposit Taking Sacco's in Kenya

Deposit taking Sacco's were formed to act as a means of facilitating savings and to provide affordable credit to employees and the public. The objectives include; Mobilization of savings, Afford them credit at fair and reasonable rates. On the other hand the society responded to members banking needs and introduced the front office service activity (FOSA) in April 2003 to offer basic banking services to members.

There two main types of primary Co-operatives are savings and credit societies (Sacco's) and marketing Co-operatives. Savings and Credit Co-operatives are currently the most aggressive. These are formed by workers in organizations. Example Teachers Sacco's for the teaching fraternity. Housing Co-operatives are formed by people who want to create synergy to own houses either for own occupier or rental to generate income, for example Mbalizi Sacco.

Consumers Sacco's are formed by members to offer transport services for a return. Marketing Co-operatives are also very popular and effective in Kenya. These are formed by small scale producers who pool their produce and collectively market at bulk. As a Co-operative, they benefit by deriving the bargaining power of a supplier. They also purchase production input as a Sacco, hence enjoying the economies of scale. As a Sacco they can employ services of professionals and spread the cost among the members.

The Kenyan Parliament passed the country's first Sacco -specific regulation in November 2008 the legislation provides updated frameworks for Sacco safety and soundness and the provision of services, which enables them to effectively compete with the country's banks.

Sacco Cap helps Saccos meet proposed regulatory standards by: implementing new charts of accounts, installing updated information systems, standardizing policies and procedures, ensuring adequate provisioning, addressing governance issue, enforcing proper administrating of loans and developing adequate products and services.

In today's environment managers are required to continuously transform the business, develop a strong relationship with both internal and external stakeholders operate in horizontal rather than vertical chains and across cultural divides, empower employees and develop networks and alliances.

1.2 Research Problem

The overall objective of Credit Union is credit delivery and therefore requires stable regulation that safeguards member's funds. Credit unions operate on agreed framework and on the principle of solidarity based on funds generated from member's savings. Credit union has started competing with banks and other financial institutions with similar products to banks. Due to growth in products. Credit unions have been forced to operate deposit taking business to sustain loan and other products demands.

Credit union programs apply the graduation principles in their lending operations for saving members, so as to increase the size of repeat loans according to repayment record of previous loans. Demand has forced credit unions to operate beyond saving grantor ship and advance other tailor made fosa loan including micro-finance. Hence, it is essential to have sufficient regulation to sustain its core duties. Increased competition from Bank, Micro finance institutions and other financial institutions has affect the financial stability of co-operatives as members financial commitment has been drastically reduced.

The co-operative movement that began in England in the second half of the industrial revolutions. This was motivated by the loss of the common use of land and the workers had nothing to sell but their labor. During the early part of the 1800's Robert Owen, a Welshman who made his fortune in cotton, tried to establish co-operative communities, but his early efforts foundered. Despite this setback, Owen had identified some of the profound underlying values of co-operation as a means of organizing economic activity.

Sacco management challenges include increasing returns to shareholders and such come at a cost of increases in risks. Insolvency defined by (Saunders & Cornett, 2009) as risk that a Finance

Institution may not have enough capital to offset a sudden decline in the value of its assets relative to its liabilities, is an ever present reality in Sacco sector. The enhanced regulatory framework in the sector is not the panacea for inadequacies in the sector. In September 2012 Sasra issued a communication to Sacco's to comply with capital adequacy requirements as set out in (Sacco Society Act, 2008). SASRA developed a web-based electronic submission of financial returns (Camels) for objective analysis of the financial returns submitted by the licensed Sacco's

The study of Owen (2007) found that lack of financial regulation and supervision are the biggest weaknesses of the Sacco system with the major threat to Sacco's being the competition from Banks and MFIS. Mwaoama (1976) found that small holder farmers had limited access to credit and saving facilities because the formal credit institutions tended to consider them high risk customers.

Therefore, Sacco frequently suffer from liquidity shortages and most cases resort to loan rationing, overdraft from banks, resulting in on time repayment being weakened. With time arrears rates have increased, further deteriorating the liquidity position of the Sacco. This kind of arrears produces a snow-ball effect that has lead to near technical bankruptcy of the institution. Therefore, the purpose of this research study is to investigate the effect of Regulatory Authority policies to the financial performance of deposit taking Sacco's in Kenya.

1.3 Research Objective

The objective of this study is to investigate the effect of Credit policies on the financial performance of deposit taking Saccos'.The specific objectives are;

- i)** To determine the effect of the credit standards to the financial performance of deposit taking saccos
- ii)** To determine the effect of the credit terms and conditions to the financial performance of deposit taking saccos.
- iii)** To determine the effect of the collection efforts to the financial performance of deposit taking saccos

1.4 Value of the Study

This study is significant to the Credit Union Management. The result of the funding will be of importance to the management and membership of Sacco as it will be able to understand the effect of regulatory authority to Credit Union financial performance. As for the Credit Union Members, contributors and stakeholders will benefit from the study as it will shed light on regulatory that will safeguard their fund and act as framework for operation. This will guide them as they influence the Sacco management and operations.

The study will provide complementary knowledge for the government useful in advancing policies and regulatory framework on the operation of Sacco's, particularly in light of the Sacco movement in channel of poverty eradication. The study will provide background information to research organization and scholars who may want to carry further research in this area. The study will also facilitate individual researchers to identify gaps in the current research and carry out research in those areas.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter literature, which is related to and consistent with the objectives of this study, is reviewed. Important theoretical and practical problems are brought out, relevant literature on the aspects pertaining to the effect of SASRA policies on financial performance and deposit taking Sacco's. The literature under review will be obtained from journal articles, websites and text.

2.2 Review of Theoretical Literature

2.2.1 Market Power Theory

Applied in Saccos the MP hypothesis posits that the performance of Credit union is influenced by the market structure of the industry. There are two distinct approaches within the MP theory; the structure-Conduct-performance (SCP) and the Relative Market Power hypothesis (RMP). According to the SCP approach, the level of concentration in the credit union market gives rise to potential market power by Credit Unions, which may raise their profitability. Saccos in more concentrated markets are most likely to make abnormal profits by their ability to lower deposits rates and to charge higher loanrates as a results of collusive (Explicit or tacit) or monopolistic reasons, than the Unions operating in less concentrated markets, irrespective of their efficiency (Tregenna, 2009).

Unlike the SCP, the RMP hypothesis posits that Sacco's profitability is influenced by market share. It assumes that only large Saccos with differentiated products can influence prices and increase profits. They are able to exercise market power and earn noncompetitive profits. The

above theoretical analysis shows that MP theory assumes Sacco's profitability is a function of external market factors.

2.2.2 Efficient Structure Theory

The ES hypothesis, on the other hand posits that Saccos earn high profits because they are more efficient than others. There are also two distinct approaches within the ES; the X-efficiency and Scale-efficiency hypothesis. According to the X-efficiency approach, more efficient Saccos are more profitable because of their lower costs. Such firms tend to gain larger market shares which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability (Athanasoglou et al, 2006).

The scale approach emphasizes economies of scale rather than differences in management or production technology. Larger Unions can obtain lower unit cost and higher profits through economies of scale. This enables large Saccosto acquire market shares, which may manifest in higher concentration and then profitability. The ES like the Portfolio theory largely assume that Sacco's performance is influenced by internal efficiencies and managerial decisions.

2.2.3 Behavioral Finance Theory

The behavioral finance ideas started emerging in the early 1990s opposing the Efficient Market Hypothesis with research based on the judgment and decision makes process of the participants of the financial markets. Thaler (1993) called behavioral finance as "simply open-minded finance." What makes behavioral finance theory different from the classical finance is that it is not only based only on mathematical calculus, but it applies all other social sciences as psychology, sociology, anthropology. Political science or, since recently, neuroscience.

The main ideas of this discipline were inspired by the breakthrough studies by psychologists Ksahneman and Tversky (1974) on human biases and cognitive errors, which later developed to what is called a prospect theory. When members of the public want to make the decision of

either joining a Sacco, their decisions are not only influenced by the financial impact and the market but also their social and psychological behavior will contribute to their ultimate decision.

2.3 Determinants of Performance

2.3.1 Collection Efforts

McNaughton (1996) defines a collection of efforts as the procedure an institution follows to collect past due account. Collection policy refers to the procedures Sacco institutions use to collect due accounts. This collection process can be rather expensive in terms of both product expenditure and lost good will (Brighan, 1977). Collection efforts may include matching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation (Myers, 1998). Methods used by credit unions could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay the legal enforcements.

Dickerson et al, (1995) assets that collection policy is a guide that ensures prompt payment and regular collections. The rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. According to Myers (1998) many micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency.

Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. Thus collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits (Pandley, 1995).

However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors (Van Horn 1995). Ssemukono, (1996) states that collection efforts are directed to accelerating recovery from slow payers and decreases

bad debts losses. This therefore calls for vigorous collection policy is its slackness in arousing slow paying customers

2.3.2 Credit Terms.

A credit 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 organization risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. Kakuru (1998) explains the significance of discounts in credit terms.

Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period, in case of clients who would like to be offered a loan. This discount is normally expressed as a percentage of a loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

Ringtho (1998) observes that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit terms may include; Length of time to approve loans, this is the time taken from applicants to the loan disbursement of receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position. Maturity of a loan, this is the time period it takes loan to mature with the interest there on. Cost of loan.

This is interest charged on loans, different Sacco institutions charge differently basing on what their competitors are charging. The chartered institute of bankers and lending text (1993) advises lending institution to consider amount given to borrowers. Robinson M.S (1994) pointed out that the maximum loan amounts per cycle are determined basing on the loan and the ability of the client to repay (including guarantee).

2.3.3 Credit Standards.

Credit Union standards according to Mehta (1972), advancing loans, credit Union standards must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Van Horne, 1994). Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at risk of loss through bad debts.

A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and 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, the firm can make profits. 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 be basing on the individual credit application by considering character assessment, capacity condition collateral and security capital.

According to Campesy and Brigham (1995) the evaluation of an individual should involve; gathering of relevant information on the applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of the 5Cs of lending. The 5Cs of lending are Capacity, Character, Collateral, Condition and Capital. Capacity refers to the customer's ability to fulfill his/her financial obligations. Capacity, this is subjective judgment of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical or observation.

Collateral is the property, fixed assets, chattels, pledged as security by clients. Collateral security, this is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to

acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Girma, 1996). According to Chan and Thankor (1987), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it.

Capital portends the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios.

Condition relates to the general economic climate and its influence on the client's ability to pay. Condition is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay (Kakuru, 2000)

2.4 Empirical Review

Kenya is a country where the cooperative movement has grown strong through the last decades. In order to help farmers with credit and savings facilitates and marketing of their produce cooperative societies and union banking sections were formed already in the early 1970s, a study by Sunderland and Oberg (2001) examined how Sacco's, UBSs (Union Banking Sections) and the cooperative Bank have managed to overcome these problems and how they collaborate with the primary Co-operative societies.

They included that these collaboration helped smallholder farmers to overcome some of their problems but that their requirements by mainstream banks for obtaining credit were too rigorous. The study recommended that Sacco's receive payments directly from employers, processors or marketing organizations had allowed many Sacco's to build up membership and assets.

Several Kenyan Sacco's even having enough capital to become banks. However the study found that lack of financial regulation and supervision are the biggest weaknesses of the Sacco system with the major threat to Sacco's being the competition from banks and MFIs. Mwatoama (1976)

found that smallholder farmers and limited access to credit and saving facilities because the formal credit institutions tended to consider them high risk customers.

Formal credit institutions demanded collateral with small holder farmers cannot provide since they normally do not legally own their land or have too small land holdings. The study found that high minimum balances also limited the possibilities for the farmers to access formal financial services. Coffey (1998) in his assessment found that high transaction costs limited the access to financial services for the poor, with market imperfections such as asymmetric information between lenders and borrowers in the rural financial market resulting in high transaction costs.

The study concluded that through small holder farmers needed small loans and transaction costs were burdensome in relation to the value of the loan itself. According to WOCCU lack of proper regulatory authority and framework causes Sacco's to fail.

Most credit unions institutions have credit policies according to the client needs. A lot of studies have been done relating to credit risk and the various risks that affect the lending institutions. The study conducted by Macaulay (1988) in the United States and found credit risk management is best practice in bank and above 90% of the bank in country have adopted the best practice.

Inadequate credit policies are still the main source of serious problems in the financial industry as result effective credit risk management has gained an increased focus in recent years. The main role of an effective credit policy must be to maximize a bank's risk adjusted rate of return by maintaining credit exposure within acceptable limits. Moreover, banks need to manage credit risk in the entire portfolio as well as the risk in individual credits transactions.

Jappelli (1990), for example, investigates lenders' and borrowers' behaviors in consumer rationing activities for the United States' credit market in 1983. He found that most of the applicants are rejected because of their credit history, their age or their income. Amount of collateral, which is property, offered by borrowers to secure a loan in case of delinquency, is another important factor affecting credit-granting decisions.

Sacco institutions should adopt stringent policy as a method of collecting loans as compared to lenient policy. This is because stringent policy yields high loan performance compared to lenient policy.

The banks very frequently suffer from poor lending practice (Koford&Tschoegl, 1999) monitoring, and other appropriate steps, are necessary to control or mitigate the risk of connected lending when it goes to companies or individuals (Besel, 1999), therefore, the Nepal Rastra Bank (NRB) i.e. Central Bank, has issued guidelines which attention to general principles that are prepared for governing the implementation of more detailed lending procedures and practices within the Banks. The NRB has issued some criteria, such as the credit assessment of borrowers (macro-economic factors and firm specific analysis), the purpose of credit, track records, repayment capacity, liquid status of collateral for new credit, as well as the renewal and expansion of existing credit (NRB, 2010). It is mandatory for a bank to prepare credit.

Policies guidelines (CPG) for making investment and lending decisions and which reflect a bank tolerance for credit risk. Prior to consent to a credit facility, the bank should make an assessment of risk profile of its customers, such as of their business, and which can be done through the credit procedure (NRB, 2010).

According to Ssewagudde (2000) credit policy provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institutions' levels. Many microfinances undergoes a set of three procedures of evaluating credit applicants to establish whether or not loans should be granted, these are credit information, credit investigation and analysis in a bid to maintain proper credit standards, avoid excess risk and evaluate business opportunity (ies)

Ngugi, (2001) postulates that in order to determine the needs of the financial institutions with regard to risk management and credit policy, the central bank of Kenya conducted a survey in September 2004 that provided a status position on the extent to which risk management and credit policy is practiced in the financial institutions operating in Kenya.

The survey revealed that there is a high level of awareness in financial institutions on the importance of employing systematic methods of identifying, analyzing and controlling or mitigating risks (Cuthbertson and Nitzsche, 2003), the studies on consumer credit applications examining the lenders' decisions to grant the loan and the studies on consumer credit clients examining the borrowers' ability to pay the loan, there are many studies on scrutinizing and improving the rejection and acceptance criteria of credit lenders' decisions.

The bank of Jamaica (2003) conducted an empirical study on the implementation of credit risk management policies and the credit policies put in place by commercial banks in that country. The study which involved all the 73 banks in that country found out that only 46% had implemented them in full. This was partly attributed to the poor way in which the regulations had been communicated.

Credit policies establish the framework for lending and reflect an institution's credit culture and ethical standards. To be effective, policies must be communicated in a timely fashion, be implemented through all levels of the organization by appropriate procedures and revised periodically in light of changing circumstances.

2.5 Summary of Literature Review

The size of Sacco membership determines Sacco's compliance with regulatory authority. There are several requirements that limit membership type has a bearing on the amounts. The membership type determines the management and investment objectives of the Sacco and this has a bearing on the amounts saved and borrowed. The type of membership will ultimately determine the activity of the Sacco and this determines its regulation framework.

Sacco's face competition from various financial institutions such as the commercial banks, microfinance institutions, non-governmental organizations, hire purchase companies and even money lenders. The financial services sector consists of a large number competing institutions which vary in formality, commercial orientation, professionalism, visibility, size and

geographical coverage. In the traditional economic model, lack of regulation has led to liquidation of Saccos.

It is therefore crucial for Sacco's to embrace regulations so as to safeguard member's deposits and formulate proper regulatory frame work. Liberalization has resulted in new types of Sacco emerging some based on industry sector such as those in the tea and transport industry and services rendered such as those specializations on savings and lending banking services such as the FOSA and check off systems. Lack of proper regulations hinders growth and degrades confidence of Sacco's.

Credit granting procedures and control systems are necessary for the assessment of credit, which then guarantees a credit union institution total credit portfolio as per the institutions overall integrity (Boyd, 1993). It is necessary to establish a proper credit risk environment, sound credit granting processes, appropriate credit risk by use of an optimum credit policy (Basel, 1999).

Most studies have been inclined to focus on the problems of developing an effective method for the disposal of bad debts, rather than for the provision of a good credit policy framework for their prevention and control of quality portfolio (Campbell, 2007). Its therefore evident that the credit policy influences the financial performance of the organizations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methodology that was used in the entire study. The chapter looks at study area, study design, target populations, sampling techniques, research instruments, data collection and data analysis.

3.2 Research Design

The researcher used descriptive research design in investigating the effect of Credit policies on financial performance of Saccos. Cooper and Chandler (2003) indicated that a descriptive study aims at finding out who, what, where and how of a phenomenon as a descriptive study. The design was preferred because it entails complete description of the situation, thus limiting the level of biasness in the collection of data and eventual reduction of errors in interpreting the data collected. Descriptive research allows the researcher to evaluate the states of a defined population with respect to certain variables.

3.3 Population

According to Mugenda and Mugenda (2003) a population refers to an entire group of individuals, events or objects having a common observable characteristic. The target population of the project will comprise of five licensed deposit takings Sacco institutions in Kenya as at the year 2010

3.4 Sample Design

Stratified sampling technique was used to select the sample. The technique produced estimates of overall population parameters with greater precision. The population will be stratified into three

strata-staff, board members and members. According to Kothari (2000), a stratified random sample is used when a population is not homogenous making it the most appropriate sample to come up with the target sample. This sample size is considered representative and comprehensive in the coverage of the study objectives and economical in terms of time and money.

3.5 Data Collection

The researcher used secondary data that is available to the public under the company profile and websites. The data can be viewed using the financial statements to see the financial performance of the credit union and after the implementation of the regulatory policies of the Saccos and more information from the management reports, audit reports and available articles under Sacco.

3.6 Data Analysis

The finding of the research was written down and worked out, edited and analyzed using comparison and percentage approaches with the help of SPSS computer program to draw conclusions and recommendation which allows wide manipulation of data percentages, frequencies, means, and mode act and also ease presentation of the information derived from the analysis.

Measures of dispersion were used in assessing the variability of the effect of Sacco society regulatory authority policies on the financial performance of the deposit taking Sacco's. The collected data will thoroughly be examined and checked to ensure completeness, consistent, and comprehensibility.

3.6.1 Analytical Model

The regression model that will be used in analyzing the effects of credit policies on financial performance of the deposit taking Sacco's in Kenya

The model of this study is as follows;

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

Where:

α = Constant term

Y = Financial performance

X_1 = Credit Standards

X_2 = Credit terms and conditions

X_3 = Collection efforts

ε = Error term normally distributed about the mean of zero.

Whereby Y is dependant variable (financial performance), B_0 is the regression constant or Y intercept, B_1 ----- B_3 are the coefficients of the regression model. The basis of the model is to help in measuring financial performance by exploring the contribution of various components. The test of significance will be the ANOVA test.

3.6.2 Operationalization of the study variables.

Variable	Measurement
Financial performance	Ratio of net profit to total assets (ROA)
	Credit union specific variables
Credit standards	Bad debt cost to total cost
Credit terms and conditions	Total cost to total amount of loans
Collection efforts	Non-performing loans to total loans.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, presentation and findings, within the framework of the research objective of the study. The study has one objective which is to establish the effect of Credit Policies on the financial performance of deposit taking Sacco. Data was analyzed in relation to the study's objective and the findings are presented in the various categories below.

4.2. Findings

The data presented below is data from the central bank of Kenya and some from the specific deposit taking sacco's since not all the data was in the CBK's websites.

Table 4.1 Analysis of Bad Debt Cost and Total Cost for the Year 2010-2012

					Total cost		
	2010	2011	2012		2010	2011	2012
Chai Sacco	78,293	29,122	38,000		1,168,348	1,051,000	1,326,000
Ukulima Sacco	649,980	53,000	32,000		2,588,808	3,830,000	3,730,000
Harambe Sacco	27,134	53,000	32,000		279,096	390,000	436,000
Jamii Sacco	2	2,000	2,000		20	27,000	38,000
Nacico Sacco	1	0	12,000		35	41,000	218,000
Sheria Sacco	3	2,000	5,000		17	19,000	26,000

The tables above represent data for 3 years (2010-20 12) of the bad cost debt and total cost for the respective deposit taking Sacco in Kenya.

4.2 Analysis of Total Cost and Total Amount of Loans for the Year 2010-2012

				Total cost		
	2010	2011	2012	2010	2011	2012
Chai Sacco	1,168,38	1,051,000	1,326,000	2,549,152	3,238,000	4,949,000
Ukulima Sacco	2,588,808	3,830,000	3,730,000	11,627,407	11,200,000	12,873,000
Harambe Sacco	279,096	390,000	436,000	1,181,882	1,445,000	1,454,000
Jamii Sacco	20	27,000	38,000	35	41,000	86,000
Nacico Sacco	35	41,000	218,000	86	104,000	508,000
Sheria Sacco	17	19,000	26,000	27	32,000	38,000
(Source: Central Bank of Kenya Website)						

The tables above represent data for 3 years (2010-2012) of total cost and total loans for the respective deposit taking Sacco in Kenya.

Table 4.3 Analysis of NPL and Total Loans for the Year 2010-2012

				Total cost		
	2010	2011	2012	2010	2011	2012
Chai Sacco	67,000	78,000	190,000	2,949,152	3,238,000	4,949,000
Ukulima Sacco	941,761	445,000	757,000	627,407	11,200,000	12,873,000
Harambe Sacco	38,000	49,000	265,000	1,181,882	1,445,000	1,445,000
Jamii Sacco	1	1,000	10,000	41,000	35	46,000
Nacico Sacco	1	77,000		86	104,000	508,000
Sheria Sacco	1	1,000	7,000	32,000	27	38,000

(Source: Central Bank of Kenya Website)

The tables above represent data for 3 years (2010-2012) of the non-performing loans and total loans for the respective deposit taking Sacco in Kenya.

Table 4.4 Analysis of EBIT and Total Assets for the Year 2010-2012

				Total cost		
	2010	2011	2012	2010	2011	2012
Chai Sacco	162	216	326	3,894	5,141	7,638
Ukulima Sacco	18,958,394	256	1,263	415,005	17,036	20,384
Harambe Sacco	1,789,565	112	170	13,127	1,998	2,290
Jamii Sacco	(6)	(13)	(12)	88	124	181
Nacico Sacco	(10)	(22)	8	242	441	1,838
Sheria Sacco	(5)	(10)	(2)	32	59	78

The tables above represent data for 3 years (2010-2012) of the EBIT and Total assets for the respective deposit taking Saccos in Kenya

Table 4.5 Statistics

	N	Range	Minimum	Maximum	Mean	Mean	Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Error	Statistic
Credit Standards	18	0.75	0.01	0.76	0.1283	0.04006	0.16996	0.029
Credit Terms& Conditions	18	0.46	0.22	0.68	0.4172	0.03564	0.15122	0.023
Collection Effort	18	0.286	0.012	0.298	0.07772	0.01843	7	0.07822
Return on Asset	18	136.5	-0.17	136.33	10.0978	7.846	33.28775	1108.074
Valid N (listwise)	18							

Source: Research data

The table above presents the descriptive statistics computed using statistical package for social sciences (SPSS).

Table 4.6 Summary of the Coefficients

Model	Unstandardized Coefficients		Standardised Coefficient	t	Sig	95% C.I
	B	Std	Error			Lower Bound
Constant	50.079	24.505		2.0,44	0.06	-2.479
Credit Standards	47.965	66.153	0.245	0.7,25	0.48	-93.92
Credit Terms & Conditions	-86.457	52.696	-0.393	1.6,41	0.123	-199.477
Collection Effort	-129.505	143.669	-0.304	0.9,01	0.383	-437.646

a. Dependent Variable: return on asset

Source: Research Data

Table above presents the coefficients of the variables, the significance of those coefficients and the standard error term. As per the SPSS generated table 4.2.4, the

$$\text{equation} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Becomes;

$$Y = 50.1 + 47.965X_1 - 86.457X_2 - 129.5X_3 + 24.505$$

The results indicate that there is a negative relationship between credit terms and collection efforts with financial performance while a positive relation with credit standards. This indicates that the DTM's can increase their financial performance by reducing their non-performing loans

i.e. tightening their collection efforts, increasing the quality of their credit standards.

Table 4.7: Analysis of Variance Statistics for 2010-2012 Data

ANOVA^b

Model	Sum of squares	df	mean square	F	Sig
Regression	3742.982	3	1247.661	1.157	.361 ^a
Residual	15094.278	14	1078.163		
Total	118837.261	17			

Predictors :(Constant), collection effort, credit terms & conditions, credit standards

Dependent Variables: Return on Assets.

Source: Research data

The researcher used 36°4or 0.36 as the significant level and can be denoted by the Greek letter ct. statistically, the significant data refers to the P-values. If an obtained P-value is less than the chosen level of 0.36, the P-value is significant.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.446 ^a	0.199	0.027	32.83539	0.199	1.157	3	14	0.361

Source: Research data

Predictors: (Constant), collection effort, credit terms & conditions, credit standards, According to the F statistics above the variables used in the model fits well in the model. The model shows that the three credit policy variable combine have a significant relationship (R 0.446, P=0.361) with performance. It is also shows that they can predict up to 19.9% of the variance in performance.

Table 4.9: Correlation Table

Pearson Correlation	Return on Asset	1	0.017	-0.389	-0.137
	Credit Standards	0.017	1	0.033	0.706
	Credit Terms & Conditions	-0.389	0.033	1	0.014
	Collection Effort	-0.137	0.706	0.014	1
Sig.(1-tailed)	Return on Asset	.	0.473	0.055	0.294
	Credit Standards	0.473	.	0.448	0.001
	Credit Terms & Conditions	0.055	0.448	.	0.478
	Collection Effort	0.294	0.001	0.478	.
N	Return on Asset	18	18	18	18
	Credit Standards	18	18	18	18
	Credit Terms & Conditions	18	18	18	18
	Collection Effort	18	18	18	18

Source: Research data

4.3. Summary and Interpretation of Findings

The purpose of this study was to examine the effects of Credit Policies on financial performance of deposit taking Saccos in Kenya. Specifically, the study established whether there is a relationship between the dependent variable and independent variable. Regression analysis was used in analyzing data to achieve the study objective.

Table 4.2.4 represents the summary statistics computed using the statistical package for social sciences (SPSS). From the output, the number of years for the study is three (3). The results show that the maximum, minimum, standard deviation, mean and variance of the variables return on assets, credit standards, credit terms and conditions and collection efforts of the deposit taking saccos as a whole for the three years being studied.

Table 4.2.5 summarizes the coefficients of the variables. According to the regression equation established, taking all factors (credit standards, credit terms and conditions, collection efforts) constant, the financial performance of the deposit taking Saccos as a result of the independent factors will be 50.079. This regression model shows that credit standards have a positive relation while collection effort and credit terms and condition have a negative relation in the financial performance of deposit taking Sacco institutions.

The error term amounts to a positive figure of 24.5 which is the standard error expected for the factor (independent factors) to be considered effective in controlling financial performance of deposit taking Saccos.

The results from the coefficients summary indicate that significance of coefficients of credit standards, credit terms and conditions and collection efforts are 0.48, 0.12 and 0.38 respectively. The significance of coefficients range is 0.1 to 0.9, whereby the coefficients closer to 0.1 indicate less impact and those close to 0.9 indicate greater impact.

It therefore implies that both the coefficients are significant though have an impact at different significance i.e. credit standards and collection efforts have a greater impact compared to credit terms and conditions on the financial performance of deposit taking saccos. The deduction on the standard error covers a level of up to 24.5 whereby the credit standard has an error of 66.2, credit terms and conditions has an error of 52.7 and the collection effort has an error of 143.7.

The sum of squares column in table 4.2.6 represents the amount of the total sum of squares in the dependent variable that is not explained by the least squares regression line. SPSS refers to sum of squares error as sum of squares residual error. Thus of the total sum of squares that is explained by the regression line this regression model leave 15094 unexplained. The results show that the researchers used 36% or 0.36 as the significant level and can be denoted by the Greek letter α . This therefore means that other factors which have not been covered in this study contribute 36%.

The model summary in table 4.2.7 contains R square representing the proportion of the variability in one series that can be explained by the variability of one or more series in a regression model. The table illustrates the R value for the model. R^2 measures correlation between the dependent and the independent variables. R^2 is therefore a statistic measurement that provides information about fitness of a model. The higher the value of R^2 the better is the fitness of a model. The value of R^2 is between 0 and 100%. If R^2 is 1(100%), the regression line

perfectly fits the data and vice-versa. R^2 is 19.9% implying that there is a low percentage that the line perfectly fits the data.

Coefficient of determination, R squared also explains the extent to which changes in the dependent variable can be explained by the change in the independent variable or the percentage of variation in the dependent variable (financial performance) that is explained by independent variables (credit standards, credit terms and conditions and collection efforts).

The three independent variables that were studied explain only 19.9% of the relationship between independent variables (credit standards, credit terms and condition and collection efforts) and the dependent variable (financial performance). This therefore means that other factors not studied in this research contribute 80.1% of the financial performance of deposit taking sacco. Therefore further studies should be conducted to investigate the other factors that affect financial performance of deposit taking Saccos institution.

The adjusted R square also called the coefficient of multiple determinations is the percent of variance in the dependent explained uniquely or jointly by the dependent variable. The findings further indicate that adjusted overall R-squared was 0.027 meaning that the regression line explains 2.7% of financial performance (dependent variable). The changes are caused by the independent variable included in the regression line. Therefore error term or the residual account for the other factors is 97.3%.

This means that there is no relationship between financial performance and credit standards, credit terms and conditions and collection efforts. ANOVA F2, 2 has a statistic of 1.157 is significant with a P-value > 0.05. This means the model does not establish a relationship between

financial performance and credit policy. It was evident from the study that the three variables are individually significant but in a small proportion.

The findings are in line with Yoron (1994) who argues that credit is so costly to financial institutions as they influence the profits of deposit taking sacco institutions. She further stresses that losses have been the largest cost borne by financial intermediaries and the principal cause of insolvency, and increased reliance on state bailouts thus affecting the organizational profitability.

The findings are in agreement with Van Home et al, (1997) who contends that credit policies are the chief influences on the level of a firm's financial performance. Policies save time by ensuring that the same issue is not discussed over and over again each time a decision is to be made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandkar and Khan, 1998). According to

McNaughton (1996), credit policy provides a frame work for the entire management practices. Most financial institutions have written cre8it policies which are the cornerstone of sound credit management, they set objectives, standards and parameters to guide Sacco officers who grant loans and manage loan portfolio.

The objective of the study was to establish the effects of Sacco Society Regulatory Authority Policies on the financial performance of deposit taking Saccos. This was a descriptive study that adopted a time series of three (3) years. The population of interest in this study consists of the six licensed deposit taking saccos in Kenya.

The study used data obtained from the financial statements of the deposit taking micro finance organizations in Kenya for the years 2010-2012. The variables of interest i.e .credit standard,

credit terms and conditions and collection efforts were entered into statistical package for social sciences model and analyzed to examine their relationship and hence achieve the research objective.

The coefficients were put into a regression model to determine the relationship between independent and dependent variables in attaining the desired results on the study of interest. It is evident from our statistics that the coefficients of credit terms and conditions and collection efforts are negative while that of credit standards are positive. The findings reveal that the bulk of the financial performances of deposit taking Saccos are not influenced by the variables of the credit policy. This suggests that other factors apart from the credit policy affect the financial performance of deposit taking Saccos.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, conclusion and recommendation of the whole study. From the findings the researcher was able to come up with the summary, conclusion and recommendation.

5.2 Conclusion

The objective was to establish the effect of Credit Policies on the financial performance of deposit taking micro finance in Kenya. The results indicate that there is a relationship between credit policy variables and financial performance under the study but the effect is very minimal.

Empirical evidence from the study indicates that there is a negative relationship between credit terms and conditions and collection efforts, that is, a decrease in credit terms and condition which is calculated by total cost/total amounts of loan will increase the financial performance of the deposit taking Saccos and also a decrease in collection efforts which is decreasing default rate of the organization will increase the financial performance of the deposit taking saccos.

The study also shows that the other variable which is credit standards has a positive relationship would increase the financial performance of the deposit taking micro finance organization. Implementation of a good credit policy in an organization would increase its financial performance.

Regression results revealed that R-Square was 0.199 implying that 19.9% variation from the expected and actual output of dependent variable i.e. financial performance is explained by independent variables credit standards, credit terms and conditions and collection efforts. This shows that credit policy plays a smaller role in financial performance whereby other factors cover 80.1 %.Credit terms and conditions and collection efforts have a significant effect on financial performance of deposit taking Saccos. This is evident by their negative relationship in the regression model illustrated. It means that when the credit terms and conditions and collection efforts reduce, the financial performance increases.

However there is a positive relationship between the credit standard and the financial performance meaning good credit standards may lead to an increase in financial performance. Therefore deposit taking saccos, should work on good credit standards and reduce default rate by working on collection efforts and also work on the credit terms and conditions to increase financial performance.

The importance of a good credit policy is beyond no doubt even though it affects financial performance at a minimal level. All deposit taking sacco realize that for the long-term profitability and success of their operations other factors affecting financial performance are required apart from the credit policy since it affects financial performance at a minimal level.

5.3 Recommendations to Policy and Practice

The findings on the effects of a credit policy on financial performance can be used to ensure that the variables set in the policy affect the organization positively in terms of increasing financial performance even though it will be affected minimally. It is important to note that a deposit

taking sacco credit policy has a relative influence on the financial performance of the organization however small it may be. There is therefore a need for the government to impose a proper policy that will help deposit taking Saccos increase financial performance.

From the findings, the study recommends that in order for the deposit taking micro finance to have a high financial performance the organization will have to also concentrate on other factors affecting its operations. This is because according to the study done credit policy affects the organization with a small percentage therefore concentrating so much on it will not improve the financial performance of a deposit taking Sacco as expected.

The solution to bias is not abandoning any variable in the credit policy as misleading, but rather being aware of the biases finding a way of working on it by introduce a way forward and letting that knowledge guide in use of the credit policy. In analysis of data, the choice of period and methodology can influence the outcome.

The problem of data bulkiness should thus not limit one from giving accurate results. Apart from the credit policy there are other factors that influence the financial performance of deposit taking Saccos in Kenya which are to be studied. These factor affect the performance either positively or negatively. The credit policy itself should also be studied in details to know exactly what factors affect the formation of an optimal credit policy.

5.4 Limitations of the Study

This study confined to the use of secondary data which raises reliability issues of the data used. Relying on the secondary data means that any error in the source will also be reflected in the

research, that is, errors and assumptions not disclosed in the source documents will also reoccur in the research.

The research was also conducted over a short period of time. Data collection had to be limited and verification of the collected data being nearly impossible, since the reliability of the data depend on the source. Some of the deposit taking saccos were licensed recently and therefore getting data was quite difficult from them since they are still coming up in business and for the years of study they were not there.

The researchers only assumed credit policy of the regulatory authority in coming up with the findings. Credit standards, credit terms and conditions and collection efforts are affected by other external factors which need to be looked into in details. Taking into consideration that credit policy is what affects financial performance of deposit taking Saccos, minimally coming up with the findings might lead to a weak model.

Sacco need to engage in significant capacity building in different levels,- Board, staffs and members so as to enable compliance and safeguard members deposits. It is very important for Saccos to have staff and board members who has necessary skills to implement, interpret and manage Saccos and compliance with SASRA policies efficiently. There is need to recruit staff with necessary skills and develop staffs, board members and members to efficiently run Sacco's transformation

5.5 Suggestions for Further Research

There is further research that needs to be done on this research to find out how the credit policies are implemented to the organizations. This will help to explain if the financial performance is affect with the implementation of the credit policy to the organizations.

There also a large percentange of other factors that affects financial performance of deposit taking Saccos which should be put into consideration since this research show that credit policy

have a minimal impact on financial performance. Therefore the other factors should be researched on.

This study suggest further research on deposit taking Saccos to strategically place themselves in the market so as to be able to increase their financial performance and be able to be highly operation since even if they have a good credit policy there are other many factors affecting them. The researchers should find out how deposit taking Saccos can strategically position themselves in the market.

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APPENDICES

APPENDIX I: DEPOSIT TAKING SACCOS

- 1) Chai Sacco Society Ltd
- 2) Ukulima Sacco Society Ltd
- 3) Harambee Sacco Society Ltd
- 4) Jamii Sacco Society Ltd
- 5) Nacico Sacco Society Ltd
- 6) Sheria Sacco Society Ltd

APPENDIX II: BUDGET ESTIMATES

ITEM	AMOUNT (KSH.)
Printing and Photocopying	1000
Travelling & Lunch	1500
Internet Costs	2000
Binding of final copies (7 Copies)	4500
TOTAL COST	9,000