

Loan Collection Policies and Financial Performance of Savings and Credit Cooperatives in Kakamega County, Kenya

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Abstract

Evidence from studies on SACCOs shows that majority of them have failed to focus on loan collection policies and financial performance of the SACCOs. This signifies existence of a gap in empirical literature. In Kenya, current reports indicate that they are on the brink of collapse as a result of liquidity problems. Government efforts through legislations to safeguard Saccos have hit a snag. Experts have observed that Saccos sector remains fragile. Evidently, SASRA recently gave strict licenses to Saccos that had failed to meet capital requirement of Kshs 10 million. Likewise, unscrupulous Saccos have also colluded among themselves to fleece members of their deposits and investments. Further, parliament recently passed a bill that made mandatory university qualification a requirement for one to hold leadership in Sacco. Though effort by all stakeholders to save troubled Sacco sector is commendable, dynamism of Sacco sector and unending desperate effort to revamp it has now put to question and left most stakeholders in a dilemma on whether loan policies have influence, if any on financial performance of Saccos. This study will therefore investigate the influence of loan collection policies on financial performance SACCOs in Kakamega County, Kenya. This study is supported by Modern portfolio theory. A descriptive survey was adopted and targeted 143 senior management staff from 13 SACCOs located in Kakamega County with a sample size of 105 selected using stratified random sampling technique. A structured questionnaire was used as instrument. A pilot study was conducted among 20 senior management staff of SACCOs in Bungoma County, Kenya, so as to check validity and reliability. The data was coded for completeness and accuracy and stored. Computer software- Statistical Package for Social Sciences (SPSS) version 24 was used in analysis. Descriptive statistics which include percentages, frequencies, mean, and standard deviations will be computed. For variable relationships, correlation analysis, linear and multiple regression analysis was computed. This study will aid SACCO management committees, staff and relevant shareholders in understanding the importance of loan collection policy that enables them seek solutions to the loan defaults. The study findings showed a positive correlation between Loan Collection Policies and financial performance ($R= 0.758$ with ROA). It was evident from results that adherence to Loan Collection Policies positively contributes to financial performance of Sacco's in Kenya and there was variation on financial performance due to changes in loan collection policies. The study recommends that Saccos should adhere to loan collection policies to ensure increased financial performance and increased volume of business. It also recommends Stakeholders should management on toes and ensure they practice good corporate governance. The study concluded that Loan collection policies influence the financial performance of Saccos.

Key Words: Loan Collection Policies, Financial Performance, SACCOs

Background of the Study

Loan Collection Policies are approved by SACCO members in their annual general meetings which are then registered with the ministry of co-operatives in respective countries Reference to loan collection policies is made when dealing with loan administration (Hannah (2015) while Viktar (2014) adds that the management may proceed to incorporate loan collection agents. These are professional bodies or individuals who are licensed to assist financial institutions or individuals on the recovery of overdue loans. These collection agents charge a fee which is determined by the size of the overdue amount, an expense in the SACCOs' income statement

Some empirical evidence has shown that in most developing economies, savings and credit co-operatives have brought millions of citizens into cohesive financial institutions that are succeeding very well in providing financial services to its members for improving their standard of living (Council of Credit Unions, 2009). Likewise previous studies have established that social-economic and demographic factors such as age, income, marital status, gender, family size, occupation, have a bearing on households' credit worthiness and repayment behavior of the borrowers on credit market (Council of Credit Unions, 2009).

In Malaysia, for the period 1996 to 2002 a study done by (Ahmad *et al.*, 2004) compared social SACCOs and conventional SACCOs. Their results revealed that variables namely, management efficiency and weighted average of total assets had positive relationships with loan defaults. However, the study didn't pin point how specific loan policies on loan default costs in the SACCO portfolios affect their financial performance

SACCO Performance: Kenyan Perspective

Kenya has both financial co-operatives and non-financial co-operatives. There are those involved in financial intermediation such as Savings and Credit Cooperative Societies (SACCOs), the Land or Housing Co-operative Societies, and Investment Cooperative Societies. SACCOs help members afford them an opportunity to accumulate savings and create a source of funds at fair and reasonable rate of interest. They also provide an opportunity for each of its members to improve their respective economic and social conditions by providing them credit for purposes of providence or production or both. SACCOs also offer the members complimentary savings and credit services and other financial products as may be required by the members from time to time. SACCOs ensure safety and soundness of the member's funds through a risk management program or appropriate insurance coverage. SACCOs also ensure the progress of its members by educating them continuously on the proper use of credit (Kenya Police Sacco Society Limited, 2017). Cooperative financial institutions tend to be more stable in times of crisis. These investment patterns use the capital of members in ways that best serve their long term needs and interests (Hesse & Cihak, 2007). This impacts the volume of saving, which influences the future income-generating capacity of the economy and also affects the stability of the whole economy. This study therefore seeks to investigate the influence of loan policies on financial performance of SACCOs in Kakamega County in Kenya.

Statement of the Problem

SACCOs in developing countries have been the engine of economic growth and development through provision of financial products and other services compared to any other financial institutions. They offer savings, credit and other investment support to a large portion of the population. Therefore development of loan collection policies to guide their operations is crucial (Ergetew, 2016).

However, most researches on SACCO performance has been on credit facilities with little focus on loan collection policies. More importantly, it is finding by the Council of Credit Unions, (2009) which indicates that SACCOs in rural areas have been experiencing problems including diseconomies of scale in credit and lending, high interest rate on loan and short-term loans. This has led to high rate of default in most developed economies without knowing that crafting viable loan collection policies is a permanent solution to this problem. A study by Magali (2015) on effectiveness of loan portfolio management in rural SACCOs in Tanzania disclosed that the quality of loan portfolio was positively influenced by the loan size and recommended that SACCOs should revise the loan policies in order to improve the quality of the loan portfolios. Further, most researches on loan policies have been based in banks and Micro finance institutions which have even yielded inconclusive study results (Pandey (2004); Agarwal (2009); Ojeka (2012); Byusa and Nkusi (2012); Arishaba (2011); Sindani (2012); Moti, *et al.* (2012); Tengey (2014), with few empirical studies in SACCOs (Maiti, 2015). It is therefore against this backdrop that this study endeavors to investigate the influence of loan policies on financial performance SACCOs in Kakamega County, Kenya

Specific Objectives

To examine the influence of loan collection policy on financial performance SACCOs in Kakamega County

Research Hypotheses

Ho₁: Loan collection policy does not significantly influence the financial performance of SACCOs in Kakamega County.

Significance of the Study

This study is thus of great importance to both SACCO management committees and staff in understanding the importance of loan policy that enables them to seek solutions to the loan defaults and low rates of loan repayment which consequently affect financial performance of SACCOs.

Scope of the Study

The study will only be carried out in SACCOs in Kakamega County, which is one of the forty seven counties located in the Western region of Kenya (Constitution of Kenya, 2010). The study intends to investigate the effect of lending policy, loan collection policy, loan insurance policy and loan security policy on financial performance of SACCOs in the County. The study will be conducted in the Month January and February, 2019.

LITERATURE REVIEW

Modern Portfolio Theory

This was developed by Harry Markowitz in 1992. According to him; investors that are riskaverse in nature can come up with loan portfolio policies in order to spread their risks and increase the expected returns in line with the existing level of market risk. Markowitz (1992) suggested to the investors not to direct all their investment in only one asset rather they should diversify such that if one asset fails the other will be in operation. Markowitz (1992) argued that we tend to look at the expected return and risk of one particular asset which is very risky; rather we should diversify so that we can reduce the risk associated with especially defaults. In SACCOs loans comprise of assets in the institution and the theory relates to this study since it explains well on the importance of SACCOs to develop viable loan portfolio policies that involve all different industries and businesses and based on the purpose, time period and industry. The theory thus informs SACCOs to come up with loan collection policies and diversify the type of loans that they lend to clients so as to minimize default rates associated with particular loan products.

Loan collection policy and financial performance of SACCOs

Sindani (2012) study on effectiveness of credit management system on loan performance: empirical evidence from Micro Finance Sector in Kenya found out that loan collection policies adopted by microfinance institution had an effect on loan performance, stringent policy had a great impact on loan performance, and the lenient policy had an effect but was not as great as that of stringent policy, thus recommended a similar study in to be done on SACCOs so as to compare results because SACCOs heavily on lending, hence loan default rates could have an impact on their financial performance.

Moti et al. (2012) observed that firms in the micro finance sector had adopted the arrear monitoring systems and stringent policy as the most efficient methods of loan collection. However, the study warned that, when lenient policy is adopted, the loan collection is very poor; while Pandey (2004) held that credit policy is needed because sometimes customers do not pay the bank's installments in time and therefore, policies should be put in place to monitor repayment and that these policies should be convenient to both the lender and the borrower.

In a study on lending methodologies and loan losses and default in a microfinance deposit-taking institution in Uganda, Arishaba (2011) listed the following as the pertinent factors influencing loan default: Inadequate

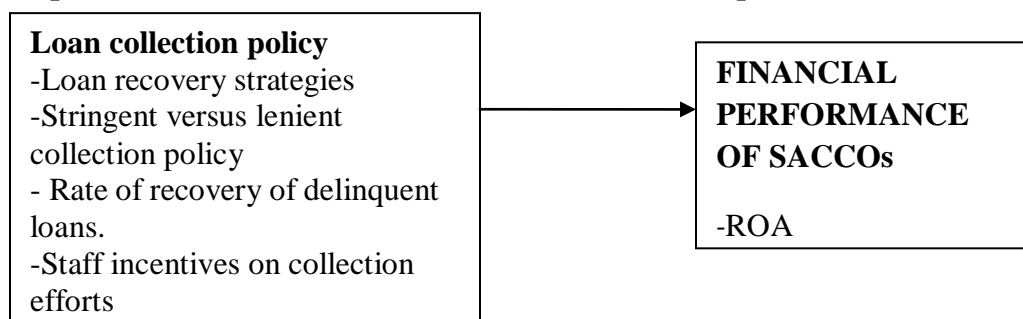
financial analysis, inadequate loan support, illiteracy and inadequate skills, disappearance of loan clients, poor business practices and competitive factors like the existence of many banks being involved in the business of lending, they ignored asking for adequate collateral security which will be addressed in this study. More so, Asantey and Tengey's (2014) study on a loanee's level of education, years of business experience, business size, availability of other income sources, types of products/services, loan size and number of dependents, credit analysis, appropriateness of interest rate and length of time within which the loan is disbursed as the main determinants of bad loans SMEs, but the study did not focus on viable default loan policy that could solve such causes of loan defaults.

2.4 Conceptual Framework

The explanation of the conceptual framework is that there is a direct relationship between the independent variables that is loan collection policy and the dependent variable; the financial performance of SACCOs in Kakamega County. It is further hypothesized that the independent variables i.e loan collection policy may directly influence the dependent variable (financial performance of SACCOs in Kakamega County).

Independent Variables

Dependent Variable



Loan collection policy and financial performance in SACCOs

This will assess the influence of loan collection parameters such as; loan recovery strategies, stringent versus lenient collection policy, rate of recovery of delinquent loans, staff incentives on collection efforts on the financial performance of SACCOs in Kakamega County as measured by ROA. This is because loan recovery efforts especially collection of default loans have an effect on financial performance.

Financial performance in SACCOs

This is the dependent variable in the study. Return on Assets (ROA) falls within the domain of financial performance measures and tracks SACCO's ability to generate income based on its assets. The ratio excludes non-operating income and donations. Financial profitability is the ability of a finance lending institution to cover all of its costs through interest and other income paid by its clients (Ayay & Sene, 2010). ROA provides a broader perspective compared to other measures as it transcends the core activity of finance lending institutions namely, providing loans, and tracks income from operating activities including investment, and also assesses profitability regardless of the finance lending institution's funding structure. ROA is expected to be positive as a reflection of the profit margin of a SACCO for instance, otherwise it reflects non-profit or loss.

$$\text{ROA} = \frac{\text{After-tax profits}}{\text{Starting (or period-average) assets}}$$

These are appropriate indicators for unsubsidized institutions. But donor interventions more typically deal with institutions that receive substantial subsidies, most often in the form of grants or loans at below-market interest rates. In such cases, the critical question is whether the institution will be able to maintain itself and grow when continuing subsidies are no longer available. To determine this, normal financial information must be

“adjusted” to reflect the impact of the present subsidies. Three subsidy-adjusted indicators are in common use: Financial Self-sufficiency (FSS), Adjusted Return on Assets (AROA), and the Subsidy Dependence Index (SDI), (Ayay & Sene, 2010). In this study financial performance of SACCOs will be measured by ROA to assess SACCO’s ability to utilize their loaning facilities productively

2.7 Research Gap

There exist inconsistencies in the existing literature about influence of loan collection policies on financial performance of SACCOs. For instance, studies by; Agarwal (2009), Laferrara, (2004), Ojeka (2013), Byusa (2013), found contradicting positive and negative relationships between loan lending policies and financial performance of SACCOs; while Sindani (2012), Moti, *et al.*, (2012), Pandey (2004), Arishaba (2011), Tengey’s (2014), showed inconclusive results about the relation between loan collection policy and financial performance of SACCOs.

Further researchers such as; Nizar and Javed (2007), Segrado, 2005), Central Bank of Sudan (2007, Miller (2008), Kuo *et al.* (2010), also revealed inconclusive results about the relation between loan security policy and financial performance of SACCOs; and some of these researches were based banks, micro finance institutions with little regard to SACCOs.

Lastly, there is lack of empirical data to support Greenbaum et al. (1991) assertion that when a loan is not repaid it may be due to the loan policies applied in credit assessment procedures, which in turn decides who is granted a loan, consequently influencing financial performance of SACCOs; while Coyle (2000) defines as the potential loss from the refusal or inability of credit customers to pay what is owed in full due to loopholes in loan policies. Therefore, this research endeavours to fill this gap by investigating the influence of lending policy, loan collection policy, loan insurance policy and loan security policy on the financial performance of SACCOs in Kakamega County, Kenya.

Research Design

This study utilized a descriptive survey design. That is, a descriptive survey design helps the researcher to collect information that describes, explore and help the investigator understand social life. Descriptive surveys further enable the researcher to focus on the links among a smaller number of the target population (Mugenda & Mugenda, 1999).

Target Population

This is appropriate as it will involve an in depth study and analysis of the effect of loan collection policy on financial performance of SACCOs in Kakamega County, Kenya. The target population of the study is 143 senior employees of all the 13SACCOs in Kakamega County as indicated in table 3.1. The list of the 13 SACCOs in Kakamega County is enlisted in the appendix.

Table 1: Target Population

CATEGORY OF EMPLOYEE	NO.OF TARGETED RESPONDENTS
CEOs/Branch Manager	14
Finance Managers	12
Internal Auditors	14
Credit Managers	12
Customer Care & Marketing Officers	25
Business Operations officers	26
Loan officers	40
Total	143

Sample Size and Sampling Techniques

The sample size of this study is determined by Taro Yamane’s proportional sampling technique formula. The

importance of this expression is that it gives a researcher the required sampling interval for a given population and a known sample (Gatara, 2010). That is;

$$n = N / (1 + N(e)^2)$$

Where n=Sample size, N=population under study, e=margin error (0.05), 1= constant

Therefore a sample size of 105 senior management staff was selected using a stratified random sampling technique.

Table 3.2: Sample Size

Category of Staff	No. of Senior Management Staff (N)	Sample size n= (N/Target Pop.) X Sample size
CEOs	13	09
Branch managers	01	01
Finance managers	12	10
Internal Auditors	14	10
Credit managers	12	10
Customer Care& Marketing Officers	25	19
Business Operations Officers	26	19
Loan Officers	40	27
Total	143	105

Data Collection Instruments

The study used a structured questionnaire. This is because respondents are provided with questions for each study variable and relevant information can be collected over a short period of time, easy to administer and cost effective (Mugenda & Mugenda, 2003). The structured questionnaire was designed for senior management staff in SACCOs in Kakamega County. The data collection tool adopted a 5-point likert scale where the respondents selected their appropriate response.

3.6 Pilot Testing

A pilot study was conducted on 10 senior management staff of SACCOs in Bungoma County. This is because Cooper and Schindle (2010) argue that as a rule of thumb, 10% of the sample can constitute the pilot test. Further, Cooper and Schindler (2010) point out that a pilot test is conducted to detect weaknesses in design and instrumentation to provide proxy data for the selection of a probability sample. The objective of piloting is to detect any ambiguities in the questions, identifying problems in research methodology and data gathering techniques. In order to test the reliability of the instrument, the Cronbach alpha test which is a measure of internal consistency was used.

Validity of the Instruments

The validity of an instrument is asking the right questions framed as per study variables to avoid ambiguity. Content validity was used in this study, whereby a pre-test of the questionnaires was done during pilot testing to ensure the items in the questionnaire are clearly stated, meaningful and have adequate content.

Reliability of Data Collection Instruments

Adams et al. (2007) define reliability as the degree to which an instrument measures the same way each time it is used under the same conditions and Babbie (2002) argues that Cronbach alpha of 0.7 or above for all the constructs is considered adequate. Pilot testing will thus be done to confirm instrument reliability. That is, Cronbach's alpha coefficient of internal consistency was used to determine the correlation co-efficient of reliability of the research questionnaire.

Data Collection Procedures

The researcher obtained an introduction letter from the school of graduate studies. Then researcher paid a courtesy visit to the CEOs of SACCOs in Kakamega County to avail the letter of notification to carry out research. The researcher then visited SACCOs in Kakamega County to administer the questionnaires to the respondents. The researcher used pick and drop method plus use of research assistants to allow the respondents to fill questionnaires conveniently.

Data Processing and Analysis

The quantitative data collected was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS 24) and presented through percentages, means, standard deviations and frequencies. For variable relationships, correlation analysis and linear regression analysis will be computed

. The multiple regression model equation is;

$$Y = \alpha + \beta_1 X_1 + \varepsilon;$$

Where; Y is the dependent variable (Financial Performance of SACCOs in Kakamega County), α is the constant. β_1 is beta coefficients, X_1 is independent variables loan collection policy ε is the error term.

Assumptions of Multiple Regression Analysis

All regression and models have assumptions that should not be violated to ensure unbiasedness, consistency and efficiency (Hair *et al.*, 2006). Assumptions that were checked are Accuracy of data, Outliers, Normality, Linearity test and Multicollinearity.

RESEARCH FINDINGS AND DISCUSSION

Response Rate

According to Bell (2005) a response rate of 60% was adequate to permit data analysis. Mugenda and Mugenda (2003), adds that a response rate of 50% is sufficient for analysis and reporting; a response rate of 60% is good while a response rate of 70% and over is excellent. Table 4.1 shows that the study achieved a response rate of 76%. The response rate for the study was therefore excellent.

Table 1: Response rate.

Questionnaire	Frequency	Percentage (%)
Returned	108	76
Unreturned	35	24
Total	143	100

Descriptive Analysis

In an attempt to determine the influence of the independent variable as represented by loan collection policies on financial performance of Saccos in Kakamega County as represented by return on asset. The results of descriptive analysis are presented as follows:

Loan Collection policies

The study also sought to determine the influence of loan collection policies on the financial performance of Saccos. This variable was operationalised by Loan recovery strategies, Stringent versus lenient collection policy, Rate of recovery of delinquent loans. Staff incentives on collection efforts and presented in table 4

Table 2 : Descriptive statistics on Loan Collection Policies.

	Frequency and Percentage (%)					Mean	Standard Deviation
	SDA	DA	N	A	SA		
Loan Recovery strategies used	2(2.6)	5 (6.5)	2 (2.6)	56(72.7)	12 (15.6)	3.92	.823
Don't have loan recovery strategies	2(2.6)	3(3.9)	2(2.6)	59(76.6)	11(14.3)	3.96	.751
Effectiveness of stringent loan collection policies	2(2.6)	2(2.6)	3(3.9)	58(75.3)	12(15.6)	3.99	.734
Lenient on loan collection	1(1.3)	2(2.6)	6(7.8)	54(70.1)	14(18.2)	4.01	.698
Rate of recovery on loans	2(2.6)	2(2.6)	5(6.5)	56(72.7)	12(15.6)	3.96	.751
Motivation of Loan Staffs	2(2.6)	2(2.6)	7(9.1)	56(72.7)	10(13.0)	3.91	.747
Incentives for repayment	3(3.9)	2(2.6)	5(6.5)	61(79.2)	6(7.8)	3.84	.762
Valid N (listwise)	108						

Financial performance

The study also analysed financial performance using descriptive statistics. Financial performance was operationalised using return on equity and return on asset and their results presented in table 4.5.

Table 2: Financial performance

No.	Constructs of FP	Min	Max	mean	Std Deviation
2	Return on Assets	4.90	6.70	6.80	0.7426

Test of Statistical Assumptions

The study carried out tests on statistical assumptions such as normality, linearity, a test of independence, homoscedasticity and multicollinearity using Shapiro-wilk test, ANOVA test, Durbin Watson test, Levine test and variance inflation factor (VIF) respectively.

ANOVA tested the linear regression assumption and non-linearity is exhibited when the p-value < 0.05 hence a p-value > 0.05 means that there is a linear relationship. As shown in table 4.6 the p-values were greater 0.05 which means that the linear regression assumption in the linear regression was met.

The normality test was done using Shapiro-Wilk test. When the results of the test give a significance value < 0.05 the normality assumption has been violated and when the value is > 0.05 the variables had a normal distribution. The results in table 4.6 show that normality was met since values are > 0.05 .

This study adopted the Durbin Watson (DW) test to check that the variables in the study were not interdependence. The results as shown in the table show that there was no interdependence among the variables because DW statistics for all the variables were between 1.5 and 2.5 prescribed value for residual independence.

To test for Homoscedasticity Levine test was used. The end results indicate that there was no homoscedasticity because the p values are greater than the 0.05 threshold set for the test.

Table 3 Assumption of Linear Regression

	Threshold Assumption is met if	Loan Collection Policies
Normality test Shapiro-Wilk	p>0.05	0.833
Linearity	p>0.05	0.242
ANOVA Test		
Test of Independence	1.5-2.5	1.819
Durbin-Watson		
Homoscedasticity Test	p>0.05	0.073
Levine Test		
Multi-collinearity Test	VIF 10 Max	0.733 (1.695)

Correlation

The study adopted a Pearson correlation to determine the relationship between the independent and dependent and also check multicollinearity between the independent variables. A Pearson value greater than 0.8 shows the existence of multicollinearity

Table 4 Correlation Matrix

		FP				
Loan Collection policies	Pearson Correlation	0.804**	.021	.656*	.749**	1
	Sig. (2-tailed)	.818	.691	.057	.001	
	N	108	108	108	108	108

** . Correlation is significant at the 0.05 level (2-tailed).

Loan Collection Policies showed a strong association with financial performance.

Regression Analysis

Loan Collection Policies and Financial Performance

Regression analysis was used to show the relationship between interest rate regulations and financial performance therefore how interest rate regulations can be used to predict the financial performance of banks in Kenya. The results of the study are indicated in table 5

Table 5 Loan Collection Policies and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.257 ^a	.066	-.286	.96039	
Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	
1	(Constant)	B	Std. Error	Beta	
	Loan Collection Policies				
	(Constant)	5.343	3.381		1.580
	Loan Collection Policies	-.156	.339	-.257	-.460

Overall Regressions Analysis

Multiple Linear Regression analysis for Loan collection Policies dimensions on financial performance was conducted in order to find out whether Loan policy dimension as a whole jointly influences financial performance of Saccos in Kakamega County, Kenya. This facilitated the formulation of the model of the study and its R square. The outcome of the analysis is in table 6

Table 6 : Overall Regression Analysis

R	R ²	Adjusted R ²	Df	F	Sig.
.899 ^a	.558	.661	(1,108)	26.106	.000 ^b

a. Predictors: (Constant), Loan Collection Policies.

b. Dependent Variable: Financial performance

From table 6, it is evident that there is positive high linear relationship between Financial Performance and all the independent variables which are Loan Collection Policies with correlation coefficient $r = 0.899$ while coefficient of determination resulting from this analysis was $(r^2) = 0.808$, and this shows that 80.8% of proportion of financial performance can be accounted for by the all independent variables in this study while 19.2% of the amount of financial performance can be accounted for by other factors which have not been included in this model.

It can be noted from results given by ANOVA that F test gave a value of $F(1, 108) = 26.16$, $p < .01$, this attempts to support the goodness of fit of the model in accounting for variation in financial performance. This shows that loan collection policies are an important predictor of financial performance of Saccos in Kakamega County, Kenya.

Table 7: Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	.140	.528	.493	.426	.671
X₁	.799	.308	.521	3.683	.000

a. Dependent Variable: Financial Performance

From table 7, Loan Collection policies carried positive and significant predictive power ($P < 0.05$). When there are no loan collection policies, financial performance was found to be 0.140, $p > 0.05$ indicating that while financial performance is still positive, it is insignificant. Recent research by Emmy (2018) also points out similar trend of finding that there exists a positive relationship between Loan Collection Policies and financial performance. However, this result fails to agree with those made by Mwogeti (2014) who found that there is no relationship between Loan collection policies and financial performance of Saccos.

A regression of all these independent variables with regard to financial performance through what is referred to as multiple linear regression analysis resulted in a model that is:

$$\text{Financial Performance} = 0.140 + 0.799X_1$$

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Loan Collection Policies

It is evident from the findings that there is high positive statistical significance between Loan Collection Policies and financial performance of Saccos in Kakamega County, Kenya. Saccos need to continuously update and draft workable loan collection policies and adhere to them in order to witness the improved financial performance and curb the existing crises caused by their collapse. This end result agrees with those found by Emmy and Otinga (2019) loan collection policies has a positive relationship with return on Asset in Kenya.

Conclusions

Sacco sector has witnessed fragility, financial instability and poor performance due to failure to adopt and implement loan collection policies.

Recommendations

SASRA which is a regulatory authority for SACCOs should implement its strict regulations to ensure compliance by SACCOs to minimum capital regulations and other measures.

A competent board of directors should be elected and even employees recruited based on their competence, skills and knowledge.

Shareholders should ensure managers adhere to good corporate governance practices

Employees working in credit section and loan recovery should be motivated to enforce the policies adopted to recover loans.

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