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Effect of Non-Performing Loan Management Practices on Loan Recovery Performance of Deposit Taking Savings and Credit Cooperatives in Kenya.

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ABSTRACT: In Kenya the deposit taking Sacco sector significantly contributes to financial industry, and greatly contributes the country's GDP. Loans remain the asset for the Saccos standing at 73.42% of the total asset base. However due to raise in non-performing loans in Saccos which has received significant attention from the regulator and other stakeholders leading to unprecedented collapse of these Saccos, hence this research study seeks to find out the relationship of loan recovery performance to non-performing loan management practices. The research will seek to review the effectiveness of existing loan management practices which include loan restructuring, guarantee policies, monitoring practices and loan recovery agencies employed by Saccos. The study will use both primary data in form of structured questionnaire and secondary data which will be obtained from annual financial statements of all 166 registered deposit taking Saccos in Kenya. Journals, books and other relevant materials on non-performing loan management practices will also be used in this study to review relevant information to this study. The study will adapt descriptive research design and will take into account on all registered deposit taking Saccos in Kenya and undertake a census based on the indentified independent variables. The study will use a Multiple Linear regression analysis equation to establish the relationship of non-performing loan management practices to loan recovery performance of all registered deposit taking Saccos by Sasra. Inaddtion, Descriptive statistics such as percentages, mean, standard deviation will be used to test the relationship of the dependent variables to the independent variables. The findings of this study will be critical to stakeholders in making appropriate management decisions and policy formulations for loan performance in Saccos

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I. INTRODUCTION

1.1 Background of the Study

The major activities of Saccos is to instilling saving culture, investing activities and offering lending services, which is the major source of raising revenue for Saccos. As noted, large proportion of Saccos asset comprise issued loans to members (Okundi, 2011). Some these loans given out by the SACCOs unfortunately become non-performing hence eventually declared bad debts with adverse consequences for the overall loan recovery performance of the institutions SACCOs play a significant role in the provision of financial services to the target both rural and urban groups (Turyahebwa, 2013).

The issue of non-performing loans (NPL) is becoming an increasing problem that threatens the sustainability and performance of SACCOs in Kenya. Currently the rate of NPLs are on the rise and this has caused much problems in sustainability of SACCOs inadditon, adversely affecting the balance sheet, operations in terms of liquidity, Lending capacity, profitability, debt- servicing capacity, and ability to raise additional capital. Saccos provide savings, credit and investment opportunities to individuals and bonafide members (SASRA 2017). According to Maghimbi (2010) Saccos perform an active financial intermediation function, particularly mediating from urban, semi-urban to rural areas, and between net savers and net borrowers. They also ensure that loan resources remain in the communities from which the savings are mobilized. In Kenya, SACCOs have remained one of the most important financial sector in provision of financial services, and have deeper and extensive outreach and mobilize members for sole purpose to pool resources together and empower members of the community (Njeru, 2016). In addition, to improving livelihoods, SACCOs encourage the behaviour of saving money among the communities than any other type of financial institute (ICA, 2007).

NPLs management and minimizing default by members has benefits to all parties involved, especially the members of the Saccos for sustainability and growth. According to Kwame (2010), financial management practices especially in Non-performing management is the main cause of failure for of the Saccos and deregistration by the regulator, in his report the author defines ccollateral as assets pledged by a borrower to secure a loan. In case of Sacco one has to have a guarantor in order for a member to be advanced with a loan facility, the purpose of this is that the Sacco shield itself from case of default by member. In his view therefore, the use of a guarantor can make it easier for Saccos to obtain loans to finance their investments and for growth purposes. The Sacco has every right to recover the amount loaned to a member from the guarantor only after all mechanisms to recover such amounts has been exhausted (Baker, 2014).

The SACCO sector has facilitated savings, credit and insurance services to a large portion of the population (Turyahebwa, 2013). Financial sector reforms in Kenya were adopted through the Structural adjustment programs supported by World Bank credit. These reforms included liberalization of interest rate attained in July 1991, and exchange rate-attained in October 1993 (Goto, 2004). From the year 2010 new developments and intense competition in lending industry in Kenya's economy was witnessed since the introduction of the economic liberalization will pose serious challenges to the SACCO's (Kamonjo, 2014). The emergence of formal and informal segments in the financial sector fragmentation implies that different segments approached problems such as high transactions costs, risk management, mobilization of funds, grants and capitalization (Godfrey, 2015).

Adequately managing loan delinquency risk in financial institutions is critical for the survival and growth of such institutions. In the case of SACCOs, the issue of loan delinquency is of even greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in (Maina, 2016). SACCOs are in the business of safeguarding money and other valuables for their members besides providing loans and offering investment financial services (Murungu, 2012). Loaning to members is the main income generating activity for the SACCOs. But this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's operations. On the other hand, a SACCO with high credit risk has high bankruptcy risk that puts the members' funds in jeopardy and eventually leading to collapse (Muriithi, 2012). In case there is lack of proper oversight role by the authorities such as SASRA has great risk and effects in operations of SACCOs. Among the risks that face SACCO's is loan delinquency management risk. This forms one of great concern to most SACCOs and Government Regulators (Kamonjo, 2014).

1.1.1Non-performing loans Management Practices in SACCOs

According to Kroszner,(2015), non-performing loans are those loans that are no longer being serviced by a loanee. According to Saccos ACT of 2008 it expressly defines Non-performing loans as to those loans in the portfolio that are more than 90 days overdue on interest or principal repayments and are disclosed in the supplemental financial statement information. In the resent past SACCOs in Kenya have experienced a rapid rise in the level of non-performing loans leading to liquidity among the SACCOs this has also lead to members receiving low dividends. The issue is so serious that the provisions in the law have been enacted to guide treatment of non-performing loans in Saccos.

Non-performing loans ratio is equal to value of non-performing loans divided by the total value of the loan portfolio (including non-performing loans before the deduction of specific loan-loss provisions). Higher non-performing loans ratios means that an organization is not recovering the loans given out as expected. SASRA has pegged a ratio of 5% as the maximum loan default ratio that licensed SACCOs should hold at any time (lipunga,2015).

The essence of non-performing loan management practices by SACCOs is to help in the identification of potential ways related to non-performing loans which include but not limited to loan restructuring, guarantee policy, loan monitoring practices and loan recovery agencies. In addition, the practices mentioned herein, it will help in gathering information required to monitor borrower relationships for changes in risks including determining the appropriate level of monitoring and identifying information required for both the lender and borrower Furthermore, it will help in evaluation of changes in credit management that require action including assessing internal and external factors and recognizing and evaluating warning signals. Moreover, loan delinquency management aims in assisting in selecting appropriate solutions to solve emerging credit problems by using strategies that optimizes the outcome for the institution while also assists in recognition of lending institutions that entail exposure to lender liability. Lastly, it will help in identification of the potential impact of bad loans to the institution (Sam, 2015).

NPLs management practices help in efficient management and administration of the SACCO loan portfolio in order to ensure minimal non repayment of loans by members, and equitable distribution of funds and to encourage liquidity planning (Kiragu, 2014). In order to achieve prudence and accepted best practice, NPLs management practices should always be guided by clearly spelt out policies , procedures, strategic plan, the co-operative act, the SACCO regulatory act rules and regulations (Kinyua, 2013). Basically, Savings and credit co-operative has three operational aspects namely; the savings, the credit and channelling external funds to members (Omino, 2014). The management committee of the SACCO is responsible for formulation, reviewing and amending the loan policies in the institutions of their jurisdiction. The supervisory committee is responsible for ensuring that the loan policy is adequately carried out and that it achieves the goals it was created (Ronald, 2011). The committee determines if the policy comply with by periodically reviewing a sample of loans granted and denied. The policy is expected to achieve the major goals which include to establish a fair loaning system, establish efficient credit administration and coherent reliable procedures to assist in proper recovery of loan funds, and finally to guide staff and board members on the loaning process (Zeller, 2011).

1.1.2 Loan Recovery Performance

Loan recovery performance problems may affect a SACCO's liquidity, profit and total capital position of the sacco. Further, in extreme circumstances may result in the collapse of leading to insolvency (Ogol, 2011). Without proper mechanism employed to shield the SACCOs from non-performing loans then collapse of such SACCO is inevitable. Most SACCOs may have to borrow from the market even at an exceptionally high rate during a liquidity crisis due to non-performing loans. This ultimately causes a decline in the SACCOs' performance. Moreover, a SACCO further borrowing to meet depositors' demand may place the SACCO's capital at stake. Thus, debt to equity ratio will rise, affecting the SACCOs effort to maintain an optimal capital structure (Mutungili, 2011).

Employee based SACCOs have minimal non-performing loans because the employer guarantees loan recovery and remittance (Mutungili, 2011). The biggest challenge in credit management is to up sustainable and cost effective system of loan recovery and default control. Essendi (2013), noted that the firm's credit policies are the chief influence on the level of debtors, measuring the manager position to invest optimally in its debtors to be able to trade profitably with increased revenue.

The SACCO Societies Act (Cap 490B) and the Regulations provides for prudential norms and requirements which SACCOs are required to fully comply with in order to maintain financial stability (SASRA, 2013). The key requirements include core capital and capital adequacy ratios, asset quality, non-earning assets, liquidity requirements, limits on external borrowing and equity investments; and generation of earnings. These are supplemented by regulatory guidelines issued by the Authority from time to time, together with financial best practices (SASRA, 2017). The regulatory framework requires SACCOs to maintain minimum core capital of Kshs 10 million, together with the following capital adequacy ratios: core capital to total assets, core capital to deposit liabilities and institutional capital to total assets at the ratios of 10 percent, 8 percent and 8 percent respectively (SASRA, 2013). Further, Saccos that have effect loan recovery mechanisms employed have minimal non-performing loans.

1.1.3 SACCOs in Kenya

The financial sector in Kenya is made up of, deposit and non deposit taking Sacco's foreign exchange microfinance Institutions, non-bank financial institutions such as BitCoin trading, mortgage companies, bureaus, development finance institutions, pension schemes, insurance companies, commercial banks, and private equity firms among others**.** According to SASRA, (2013), Kenya's sub-sector is the largest in Africa with over 19,600 co-operative societies and over 14 million members representing 33% of the total population of the country. Of the 19,600 registered co-operative societies, 10,000 of these are Savings and Credit Co-operatives whose core business is to mobilize members to save and advance them low-interest rate credit based on their savings – usually three times their savings for normal loans charged at 1% interest rate per month. The rest are agricultural marketing, housing, handicraft, and ranching co-operatives (Berger, 2011).

In Kenya SACCOs have fast grown, this growth has been attributed to the fact that the majority seek financial services with ease due to majorly due to cheap credit and flexible terms offered by the Saccos. However due to poor loan recovery strategies employed by the Saccos, it has lead to some Saccos experiencing liquidity problems and others have faced imminent closer by the regulatory agency (SASRA, 2013). SACCOs in Kenya are guided by core principles and values; voluntary and open membership, democratic member control, economic participation by members, autonomy and independence, education, training and information, cooperation among co-operatives and concern for the community (Wambui, 2012). All these principles are meant to focus on member core needs since co-operatives work for the sustainable development of communities through member friendly development initiatives. SACCOs get their strength from members (Berger, 2011). If members are weak and wrong subscription of weak management styles then SACCOs cannot be strong. SACCOs play a significant role in fighting poverty through advancement of credit to its members and creation of employment opportunities among the citizens. However, it is worth noting that the members advanced with loans from these SACCOs have experienced problems in repaying such loans. The management of such

SACCOs need to undertake thorough screening before advancing loans to members to arrest the issue of loan delinquency (Kithinji, 2010).

In Kenya the cooperatives comprises of both deposit-taking and the non-deposit taking SACCO Societies. The non-deposit taking segment is composed of those SACCO Societies whose business is limited to mobilization of deposits (non-withdrawable) for purposes of lending to members (Odhiambo, 2013). The deposits are non-withdrawable in that they may be used as collaterals for loans only, and can only be refunded upon the member's withdrawal. On the other hand, the deposit-taking segment of the sub-sector is composed of those SACCO Societies which undertake both withdrawable and non-withdrawable deposits (Kinyua, 2013). Whereas the non-withdrawable deposits portion of the business may be used as collateral and are not refundable unless on withdrawal from membership, the withdrawable deposits portion of the business can be accessed by the members at any time (SASRA, 2013).

While Kenya has over 14 million co-operators, it is estimated that three quarters of the Kenyan population nearing 30 million depend on the activities of SACCOs either directly or indirectly for a living (Kilonzi, 2012). In fighting unemployment especially among the youths in Kenya, SACCOs have played a key role in employing over 500,000 people directly. SACCOs account for 80% of the total accumulated savings while Kenya's sub-sector is the largest in Africa, accounting for 62, 65 and 63% of the continent's savings, loan and assets respectively (Chege, 2010).

The successful story of Kenya's SACCO sub-sector has been presumed both locally and internationally. Little or no effort has been directed towards making the co-operative movement a force to reckon with especially in a financial sector where banks continue to make supernormal profits. Just last year, banks were charging interest rates of between 25 to 35% on loans while SACCOs were charging a quarter of that interest yet there was no significant interbank-SACCO shift (SASRA 2013). One would expect the demand for loans in SACCOs to grow exponentially but on the contrary, banks still remained unshaken in terms of mobilizing savings and advancing credit to their respective clients (Owino, 2011).

According to Kiragu (2014), SACCOs continued to perform dismally even during this period the banks are under crisis. Looking at the financial trends such as loan uptake and deposits mobilization during the interest rate spike period by commercial banks last year, it would be rational as always to imagine that consumers will demand low-priced credit from SACCOs than banks. That was not the case and may be, it will never be the case. In fact, evidence from financial statements of banks and SACCOs performance for the 2015 financial year clearly shows spurious correlation. This is the reason why most economic analysts have come to a conclusion that unless drastic measures are taken to monitor and supervise SACCOs effectively, signs are pointing to an imminent crisis that could lead to the collapse of many co-operative societies (Jared, 2013). This may be attributed by the multiple weaknesses in the financial statements of SACCOs that are too glaring to ignore. If there individuals who thought that the recent fall of the three banks was largely due to mismanagement, falsifying of books, and insider borrowing then they are not aware of how deep these rot runs within SACCOs (Kithunzi, 2009).

The survival of any organization will depend on how quickly the revenue is collected and the retention of the customers for continuity (Omara, 2007). Credit risk is defined as the potential that a borrower or counterparty will fail to meet his obligations in accordance with agreed terms. According to Aragon et al. (2007), credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risks since it directly threatens the solvency of financial institutions. While financial institutions have faced difficulties over the years for a multitude of reasons, the major challenges faced by financial institutions continue to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management and lack of attention to changes in economic or other circumstances that lead to deterioration in the credit standing of financial institutions counterparties (Basel, 2002).

1.1.4 Non-performing Loan Management Practice and Loan Recovery Performance Global Perspective

According to Bernstein (2013), the researcher conducted a study on the effect of non-performing loans on financial performance in Bulgaria financial institutions. The study adopted a multi regression analysis approach, where the researcher focused on variables of non-performing loans as independent variable and operational costs as the dependent variable. The study concluded that the level of non-performing loans is significant determinant of the banking costs as well as the estimates of scale economies in banking industr. His study further revealed that the cost of banks with high levels of NPLs have the standard U-shape with the optimal point while on the other hand banks with low levels of NPLs do not indicate the same characteristics.

According to Joetta (2007), many managers find a process for developing a useful set of performance indicators for their organizations difficult. One reason for this is that many indicators give a useful but only partial view of the overall picture. Also some indicators are qualitative in nature, whilst the hard quantitative end of assessing performance has been dominated by financial analysis. In an attempt to cope with this very heterogeneous situation, balanced score cards have been used as a way of identifying a useful, but varied set of key measures. Balanced score cards combine both qualitative and quantitative measures, acknowledge expectations of different stakeholders and relate an assessment of performance to choice of strategy (Kimathi, 2014).

1.1.5 Non-performing Loan Management Practices and Loan Recovery Performance Local Perspective

According to Kalani (2004), conducted a study to establish the causes of non-performing loans in commercial banks in Kenya, the study noted that some bank factors were related to risk management structures in place by banks were to blame for increasing NPLs. These bank factors include lax procedures used in credit assessment, non-monitoring of NPLs, insider loans, lack of trained personnel and aggressive credit collection methods and weak internal controls in place.

Wanjira (2010) conducted a study on the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. study focused on how the financial performance of commercial banks is related to by the non-performing loans management practices. The researcher collected the data by use of both primary and secondary methods. Secondary data was obtained from the audited financial statements of the 46 commercial banks in Kenya. The study revealed that the type of non-performing loans management practices adopted by commercial banks determine their financial performance. The study concluded that indeed non-performing loans had an effect on financial performance of the banks.

The financial sector comprises players from SACCOs (both deposit and non-deposit taking institutions), banking industry, micro finance institutions, capital markets, insurance companies, mutual funds, and development finance institutions (CBK, 2010). In Kenya, SACCOs remain the most important players in provision of financial services and have deeper and extensive outreach than any other type of financial institute (ICA, 2007). Savings and credit cooperatives in Kenya emerged in the 1970’s, initially in the main urban centres, with a major objective of mobilizing savings of their members and enabling them to get loans. SACCOs act as small savings Banks, no deposits are accepted since they are not regulated and registered by the Central Bank of Kenya, and are among the most successful cooperatives in the country. These institutions have played an important role in the mobilization of domestic financial resources for general economic development and poverty alleviation (Kamonjo, 2014).

In the pursuit of better operational performance and profitability, organizations are looking for strategies to reduce in loan delinquency, and boost their profitability. As competition intensifies due to changes in the industry structure and the emergence of new technologies, organizations are determined to reduce their operational costs which enhance their profitability. Similarly, financial performance of SACCOs can also be viewed in light of their overall profitability and return on investment. When analysing the SACCOs loan delinquency management practices we are concerned with evaluating the institutions loans that are performing with respect to those loans that have been honoured in full (Njeru, 2016).

1.2 Statement of Problem

The subject of Loan Performance has received significant attention from scholars in the various disciplines of business and economics. Loans remains the key assets for deposit taking SACCOs comprising 73.42% of the total asset base. This calls for consideration of the quality of the loan portfolio of deposit taking SACCOs, with adequate safeguards to provide for any non-performing portfolios. The total loan portfolio at risk, measured as a ratio of the non-performing loans to gross loans increased to 5.23% from 5.12% registered in 2015. This was driven mainly by the increase on the non-performing loans from Kshs 13.21 Billion in 2015 to Kshs 15. 57 Billion in 2016 (SASRA,2017). According to Ndung’u (2010) notes that the SACCOs are hampered by poor loan management practices, mismanagement of funds and poor investment decisions that have lead to abrupt collapse to some Saccos(SASRA, 2017).

Thabo and Gichira (2003), noted that SACCO societies have problems generating wealth due to poor financial stewardship and undercapitalization of co-operative enterprises. Munyiri (2006), says that such challenges would hinder the achievement of the said objectives and even lead to decline in growth of SACCOs Loan portfolios. Savings and credit organizations in Kenya are facing an imminent collapse due to high appetite and default by members that coupled with low deposits by members. Moreover, there is less oversight regulation by the authorities and lack of proper management practices in order to recover such loans advanced to members (SASRA, 2013).

According to Mambo (2013), carried out a research on effect of non-performing loans on the financial performance of deposit taking microfinance institutions in Kenya. The study concluded that NPLs were a problem to the government, the banking industry and that non-performing loans affect the financial performance among the deposit taking microfinance, however due to the study population he had sampled the study did not comprehensively address the relationship between non-performing loans to financial performance of the deposit taking financial institutions

The above mentioned Sasra reports and study reviewed, conclusively noted that NPL is a problem hence this study seeks to root the effectiveness of existing control mechanisms employed by Saccos to arrest the issue of non-performing loans in Saccos in Kenya.

3 Objectives of the Study
The study will address the following objectives
1.3.1 General Objective
To determine the effect of Non-performing loans management practices on loan recovery performance of deposit taking savings and credit cooperatives in Kenya.

1.3.2 Specific Objectives
i. To assess the effect of loan restructuring practices of non - performing loans on loan recovery performance of deposit taking SACCOs in Kenya.
ii. To examine the effect of guarantee practices of non – performing loans on loan recovery performance of deposit taking SACCOs in Kenya.
iii. To examine the influence of credit monitoring practices in management of non – performing on loan recovery performance of deposit taking SACCOs in Kenya.
iv. To examine the effect of loan recovery agencies practices of non – performing loans on loan recovery performance of deposit taking SACCOs in Kenya.
v. The moderating effect of size of the SACCOs on the effect of non – performing loan management practices on loan recovery performance of deposit taking SACCOs in Kenya

1.4 Research Hypothesis
A hypothesis is a logical conjectured relationship between two or more variables expressed in form of testable statements. The researcher has formulated five null hypotheses for the study as shown below.

1. $\mathbf{H_{O1}}$: Loan restructuring practices does not have a significant effect loan recovery performance of deposit taking SACCO in Kenya.
2. $\mathbf{H_{O2}}$: Guarantee practice has does not significantly affect on loan recovery performance of deposit taking SACCOs in Kenya.
3. $\mathbf{H_{O3}}$**:** Credit monitoring practices has no significantly effect on loan recovery procedures of deposit taking SACCOs in Kenya.
4. $\mathbf{H_{O4}}$**:** Loan recovery agencies practice does not have significance on loan recovery procedure of deposit taking SACCOs in Kenya
5. $\mathbf{H_{O5}}$**:** SACCO size has no moderating significance on loan recovery procedure of deposit taking SACCOs in Kenya.

1.5 Scope of the study
This study seeks to establish the effect of non-performance loan management practices on loan recovery performance of deposit taking SACCOs. The study will focus on all 166 deposit taking SACCOs registered by SASRA regulatory Authority in Kenya as published in the authorities website. The study will restrict to years 2015, 2016 and 2017.

1.6 Significance of the Study
The study will inform the following stake holders on matters non-performing loan practices on loan recovery performance

To the academicians and researchers, they will be furnished with relevant information regarding loan delinquency management practices in savings and credit cooperative societies. The findings will stimulate other researchers to venture into loan delinquency management practices. This will also contribute to the general body of knowledge and form a basis for further research.

To the Sacco, the management, and directors of various registered Saccos, the study will provide an insight into the various approaches towards loan delinquency management practices. Knowledge of contemporary loan delinquency management practices will enable them identify plan, control, and effectively manage loan delinquency advanced by SACCOs to enhance success.

To the Government findings for research can be used to assist in policy formulation regarding taxation, and other regulatory requirements of SACCOs in the country. The policy maker will know how well to incorporate the sector effectively to ensure its full participation.

The study findings will propose some proprietary financial practice to the SACCOs. It will be noted that especially the low-income group will benefit from this knowledge without having to pay royalty fees.

The regulator, the study findings of this study will assist the regulator to formulate stringent policies to tame the rising cases of non-performing loans

Finally, the study provides information on the vision 2030 as regards SACCOs and the role of SACCO in ensuring achievement of this vision's objectives.

II. LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature relevant to this study. Savings and credit Co-operative Societies offer financial services to individual members hence need to have sound proper management practices on non-performing loans. The chapter will highlight the global, regional and local literature on NPLs management practices in SACCOs. Accordingly, past studies will be explored to shed light on this very important topic and identify the gaps in knowledge that this study seeks to fill.

2.2 Theoretical Framework

According to Miriti (2014), the theoretical framework helps to make logical sense of relationship, forming a link between the independent variable and the dependent variable. The theoretical framework will therefore guide the research, determining which factors to be measured.

2.2.1AgencyTheory

The theory of agency was propounded and published by Mitnick Barry & Stephen Ross (1973), who were discussing the issues of the agent and principle in earlier years. Agency theory explains the relationship between the principal and agents and why decisions vary when exhibited by members of a group. Further the theory resolves problems that exist between the principal (Saccos) the agents due to unaligned goals between the two parties. explains differences in decisions where by the two parties most often have different goals. Barry and Mitnick explored the concepts of agency and their applications toward large corporations development. They noted how the interests of the principals and managers (agents) of a given firm differ from those of owners of the firm, and used the concepts of agency and principal The theory acknowledges different concerned parties in a given situation with the same given goal will have different motivations, and that these different motivations can manifest in divergent ways. It states that there will always be partial goal among parties, efficiency is inseparable from effectiveness, and information will always be asymmetric information between principal and agent. The theory has been applied to various disciplines including accounting, economics, politics, finance, marketing, and sociology (Odhiambo, 2012). This theory prescribes that employees must employ a good governance structure since they will be held accountable in their tasks and responsibilities. The power of agency theory is reduced if and when the principal decides to invest in new business. An agent is motivated and monitored to create wealth, portraying the agent as potentially deceitful. (Mitnick,2015).
This theory was applicable to this study simply because incase of proper collection management system and sound loan recovery procedures instituted by the agent then repossession of the unpaid loans can ease hence reducing the non-performing loans thereby by reducing agency costs that affects the overall loan performance in the Saccos, this mutual existence will enhance the relationship between the principal and the shareholder. A loan recovery agency enhances collections of the unpaid loans by member.

2.2.2 Asymmetric Information Theory

The theory was developed by George Akerlof, Michael Spence and Joseph Stiglitz, (1970), Asymmetric information states that in certain situations, where some agent in same trade possesses information while other agents involved in the same trade do not. Asymmetric information refers to situations, where one of the members has more information than the other while other agents involved in the same does not possess the same information. Information asymmetry arises when the borrower has much better information about his financial state than the lender. According to Kipyego, (2013), it may be difficult to distinguish between bad and good borrowers. It is therefore difficult for the lender to significantly know whether the borrower will default leading to non-performing loans. The lender may try to overcome this problem by carrying out screening of the borrower by looking ta the past records such as past credit history and evidence of income/cash flow. However, this only informs the lender of limited information.

According to Okundi., (2015), if member of Saccos borrowers could provide true and comprehensive information regarding their financial status to the lenders at the time of seeking credit, then Saccos could be at a better position of making informed credit decisions thereby reducing the credit risks associated with such a borrower. When credit risk is reduced, level of non-performing loans is reduced hence a good portfolio quality for Saccos. Hence this theory was significant in this study since it inferred credit monitoring practice due to inability/failure of Saccos to monitor the performance of loans in Saccos relevant information on credit applicants leading to the possibility of increase in non-performing loans. This would in turn lead to deterioration in loan recover performance.

2.2.3The Stakeholder Theory

The theory was developed and postulated by Ian Mitroff,(1983), the theory suggest that shareholders are merely one of the stakeholders in the Saccos The stakeholder apart from the shareholders, there are several other agents such as guarantors who are affected by the actions and decisions taken by SACCOs management incase of default . Stakeholders are defines as parties that have an interest in an enterprise or projects .Stakeholder theory asserts that SACCOs management have a social responsibility to protect all stakeholders hence the same should be applied to guarantors. This theory links to the this study to the independent variable guarantor policy practice as all the stakeholders must be considered for loan recovery performance to take effect.

2.2.4. The Financial Accelerator Theory

The financial accelerator theory developed by Bernanke, Gertle & Gertler, (1999) it indicates how economic shocks can have adverse effects on operations of small scale business which in turn affect the borrowing activities of the financial institutions. The theory also notes interplay between member's net worth and the external finance, this situation arises due to asymmetric information between lenders and borrowers. Economic agents net worth is defined as the sum of assets plus collateral value of non assets less outstanding obligations and the external finance premium is defined as the difference between the cost of funds raised externally and opportunity costs internal to the firm (Bernanke, r & Gilchrist, 1999)

The theory argues less the amount of owner's wealth the borrower contributes to project, the more his interests will diverge from the interests of the supplier of the external funds. Borrowers are more eager to undertake riskier projects as the more risky the project is the higher the return. From the borrower's riskier projects are preferred as they have more return. From the lenders, these projects are unfavourable since they bear all, or most of, the costs in the case of low project returns. The theory moreover indicates that due to economic shocks, the borrowers may not have the ability to borrow and are likely to avoid repayment of their loans. Hence this theory is relevant to this in that managers of Saccos should put in place mechanisms such as loan restructuring practices to encourage flexible plans, to reduce the non-performing loans in Saccos.

2.3 Conceptual Framework

The diagrammatic representation of conceptual framework shows how the variables are related. To achieve this objective a pictorial illustration is drawn depicting both the relationship of independent variables and dependent variables.

Conceptual framework

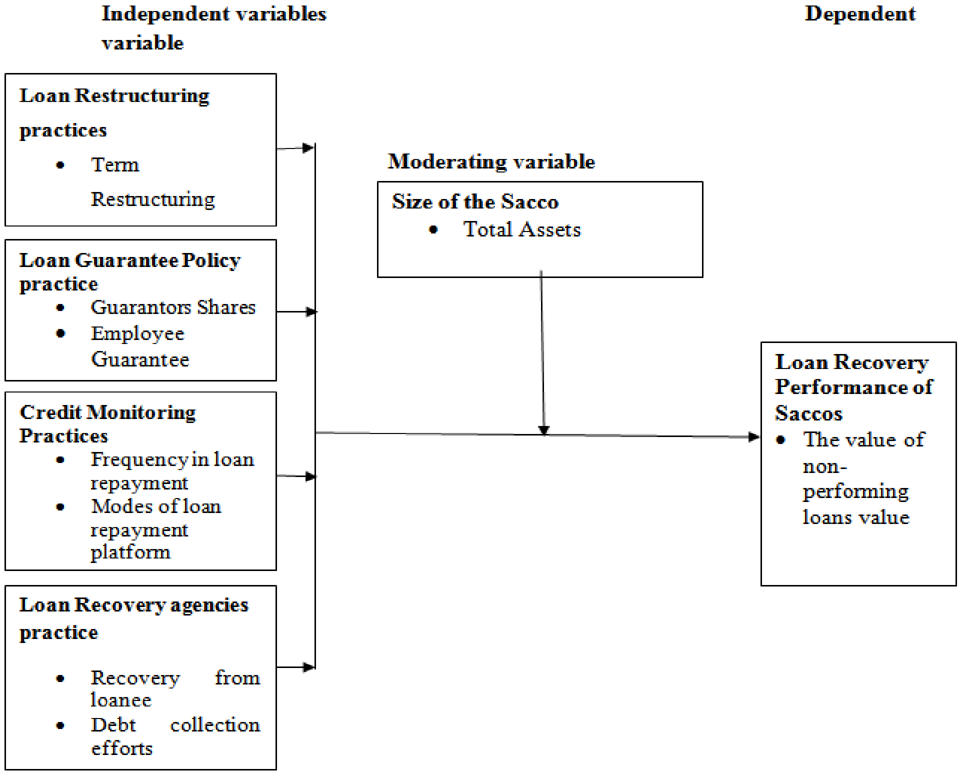

Figure 2.1: Conceptual Framework

2.3.1 Loan Restructuring Practice

According to Gill et al. (2011), problem of non-performing loan does not necessarily mean all the situation cannot be salvaged, hence the defaulter can be engaged and be brought on board and discuss flexible ways to start making payments. One of the ways a sacco can do this, is by has extending credit period of the loan. Loan restructuring is a process that allows Saccos to relook at the terms of the loan and coming up with flexible ways to salvage the situation at hand, or renegotiate its debts to improve or restore liquidity so that it can continue its operations (Kithunz, 2010). Loan restructuring can take a form of replacement of old debt by new debt when not under financial distress is called refinancing (Kipngetich, 2015). Out-of-court legal restructurings, also known as workouts, are increasingly becoming a global reality. Loan restructuring is a process used by SACCOs to avoid non-performing loans on existing debt. The process is carried out by extending the repayment period and reducing the interest rates on the loans (Ferson, 2010). Creditors are made to understand that restructuring a SACCO's debt is in their best interest and also it is in the interest of the activities of Saccos.

Sam (2015), stated that in handling problem loans SACCOs there are two broad choices: ask for guarantors to pay up the loan or use the shares of the borrower to offset the loan, or alternatively declare it as bad debt. The SACCOs choice will be influenced by factors such as impact on the SACCOs reputation if it enforces collection, borrower's honesty and attitude towards debt, borrowers financial strength and ability to meet obligations over time, the value of the borrower to the SACCOs, the costs involved in collecting and rehabilitating the borrower and the return on each option. Further, Sinkey (2012), stated that SACCOs should devise a workout plan only if the workout option presents a positive net present value. The immediate concern for every workout plan is to stem the haemorrhaging of cash flow through cost reduction, asset sales and revenue generation.

2.3.2 Loan Guarantee Policy Practice

In any SACCO set up before the borrower is advanced a loan facility it is the policy of every member must have two guarantors who should be members of such Sacco (Merriam, 2012). Financial institutions are assured by third parties to receive their repayments in the event of delinquency. This helps the cash-flow of the financial institution to consistently flow as per their loan investment returns. Loan portfolio rotation will not be slowed down. It in turn gives the institution the confidence to grant loans knowingly since there is a guarantee that the lending programme would not lose credibility (Song'e, 2015).

Guarantee Policy established by any SACCO, ensures that borrowers must "self-select". Thus, groups are formed by members of the community themselves, not by any outside the SACCO membership. This is because they are drawn from trusted members and are more willing to help each other out during the inevitable times of stress (Mwithiga, 2012). The policy is used to do away with the need to demand physical collateral and thus the cooperatives savings and credit schemes are formed on this premise. Membership rules may seem too strict but it is essential for the SACCOs success. It is noted that the group acts as a self-policing mechanism to ensure on-time repayment (Ronald, 2011). The concept of joint liability depends on members' sense of trust and collective responsibility. Typically, these members are formed around shared characteristics and needs such as economic interests, shared production and marketing needs, common residential or production location or shared ethnic background (Simanowitz, 2013). However, this liability needs to be questioned. With the non-traditional cooperative savings and credit schemes, trust, solidarity and mutual support are required not only to obtain loans secured by group liability, but also to sustain the additional services as insurance that are normally provided.

2.3.3 Credit Monitoring Practices

According Mambo (2014), defines Credit monitoring practices is fundamental process employed by financial institutions to alert them of any changes in the credit that has been advanced to members. This practice assists the credit managers to confirm accuracy of any changes in the running loans to avoid any chances of non-performing loans. The Credit monitoring practice provides for timely information and such information analysed by the credit officers to make appropriate information.

However, from review of some studies it is noted that credit monitoring is not a sure way to certainly monitor credit repayment shortfalls by members. Inorder to ensure effective credit monitoring, Saccos need to critically examine the internal controls in place and evaluate their effectiveness to curb any form of fraud that may be brought by collusion between members of Saccos that have received debt and the credit managers. Every Sacco should employ such tools such as monthly control indicating the amount outstanding, Sacco's inspection reports and risk-based audit reports (Kargi, 2014).

According to Diwan & Rodick (2016), suggested that high increases in rates of non-performing loans can trigger increase of uncertainty regarding the liquidity position of the financial institutions and therefore tend to limit their access liquidity for day to day operations. The non-performing loans are major to cause insolvency among financial institutions and atimes it can lead to total closure of such institutions

2.3.4 Loan Recovery Agency practices

According to Huseyin, (2011) Loan recovery agency practices are those tools employed by a business to recover funds that are overdue, the debt collector engaged by the financial collets the funds on behave and earns a fee for the services rendered. A times the agent might decide to buy all together the debt at discount depending on the best suites the agent and where the agent will earn more premium. The agents employed are known to be aggressive and use of persistent methods in their methods to recover what is due. Failure for the member to own up to pay up, the credit agent might decide to sue the members or report such a member to be listed in the log sheet of credit bureau The aspect of loan management is default assessment which measures the loan default probability. It should be noted that employing services of credit agencies for loan recovery is a very critical factor in financial sustainability and growth of the SACCOs where failure to recover loans has proved difficult (Ronald, 2012).

Some institutions are more intent on disbursing credit than on doing the necessary careful preparation which is vital process to deter or minimize cases of non-performing loans, equally establishing a robust recovery strategy can have great effect in reduces cases of non-performing loans. According to Van (2015), study of co-operative failures in Limpopo province indicated that poor management, strict debt collectors, conflict among members (due mainly to poor service delivery), and lack of funds were important contributory factors raise to Non-performing loans . Weak internal systems, inadequate capital, deficient support systems such as external monitoring and evaluation, and lack of a supportive policy environment have also contributed to co-operative failures (Mishkin &et al, 2015). Hannah (2012), noted that an owner-directors too often make decisions on issuance of loans based on internal politics rather than on sound economics. These participants believed that, on occasion, co-operative directors may be motivated to make decisions that benefit the individual at the expense of the co-operative. This insight may help explain why governance issues are exaggerated at co-operatives relative to corporations (Holstrom, 2013). Much of the volume of rural credit is provided by the informal credit market, each lender providing loans to a relatively small number of borrowers with whom he is typically connected through linkages or other markets or political kinship or other ties from which he has a high profitability of collecting the loans.

2.3.5 Size of the SACCO

According to Chaplin, (2012), The Size of the Sacco can affect Loan recovery performance mechanisms in many ways, the more the Sacco is big the more greater the consequence incase of raise in weak non-performing management practices. This is the same analogy that big company enjoy economies of scale unlike small companies. A smaller Sacco can experience high impact when economic shocks or failure by members paying up loans unlike Big Saccos with huge capital base and has muscle of liquidity. Large firms enjoy economies of scale and are less venerable than small Saccos . Further, small firms may have less relative operating power unlike big Saccos. In competing arena, it’s simply easy for the big Saccos to penetrate the market and command more share than the small Saccos. Previous studies on models of Saccos bankruptcy for the large Saccos in terms of Asstes, have indicated that larger SACCOs are more solvent than the smaller ones even if the numerical values of their financial ratios are the same (Beaver, 2012). This implies that the probability of failure is more likely to strike a smaller company in recessionary times. Empirical evidence supports this view (Mitchell, 2014).

2.4 Empirical Review

Mwangi (2012) carried out a study on the effect of non-performing loans on the financial performance of commercial banks in Kenya. The researcher was aiming to establish how non-performing loans portfolio impacted on the financial profitability of commercial banks in Kenya. The study focused census of 46 commercial banks in Kenya for the period 2005 – 2011. Secondary data was used to capture relevant data obtained from the banks relating to two variables; Return on assets (ROA) which were the dependent variable and NPL which was the independent variable. The study adopted simple linear regression model of the form $Y = a+bx$ to establish the effect of non-performing loans on commercial banks financial performance. The results obtained from the study confirm that during the earlier years of the study, there was a high amount of NPLs resulting to a very low ROA. Later years however showed a different trend where ROA was higher and NPLs were low.

Wanjira (2010) conducted a study on the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. Her study focused on establishing how the financial performance of commercial banks is affected by the non-performing loans management practices adopted by these commercial banks. The study used both primary and secondary data. Secondary data was obtained from the audited financial statements of the 46 commercial banks in Kenya. The study revealed that the type of non-performing loans management practices adopted by commercial banks determine their financial performance.

Omino (2014), observed that repayment performance is significantly affected by borrower's characteristics, lenders characteristics and loan characteristics. Repayment problems can be in form of loan delinquency and default. Whatever the form however, the borrowers alone cannot be held responsible thus the management are also to blame. Wherever problems arise; it is important to examine the extent to which both borrowers and lenders comply with the loan contract as well as the nature and duties, responsibilities and obligations of both parties as reflected in the design of the credit programme rather than heaping blames only on the borrowers (Chaplin, 2012).

Odhiambo (2013), in his study on the relationship between working capital management and financial performance of deposit taking savings and credit co-operative societies licensed by SACCO societies regulatory authority in Nairobi county. Interest rate on members‟ deposits as a measure of financial performance was used as the dependent variable. The independent variable (working capital management) was measured by cash conversion cycle, current ratio, and debt ratio and turnover growth. The findings indicated that efficient working capital management leads to better financial performance of a SACCO, hence a positive relationship existed between efficient working capital management and financial performance variable.

Kenneth (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled several banks and analysed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Study done by Epure (2012), examined bank performance in the presence of risk for Costa-Rican banking industry. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Al-Khouri (2011) assessed the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in six of the Gulf Cooperation Council (GCC) countries. Using fixed effect regression analysis, results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk.

Reta (2011) carried out a study on determinants of loan rrepayment pperformance using on a Case Study in the Addis Credit and Saving Institution Addis Ababa, Ethiopia. The objective was to analyse and identify the factors that influence the loan repayment performance of the beneficiaries of Microfinance Institution. In order to achieve this objective, primary data was collected from 200 randomly selected clients (100 defaulters and 100 non- defaulters) by using structured interview. Moreover secondary data were obtained from the record of AdCSI the data analysis involved, descriptive statistics including mean, frequency and percentages to describe the socio-economic characteristics of the borrowers.

Walsh (2010) in his research paper noted that default in loan repayment by SACCO members is brought about by commitments to other loans, diversion of salary, withholding of salary by an employer due to cash flow problems or employees having discipline issues, unwillingness to pay and unprofitability of the financed units. The image that the lender must receive loan repayments promptly and philosophy of non-tolerance of late loan repayments default imply that borrowers will be committed to loan repayment. Potential borrowers are screened, and only those who are committed to loan repayment end up applying. According to Steams (2012), the manner in which borrowers are selected and the amount of loan given to each successful borrower determine the magnitude of loan delinquency. Borrowers who are given loans they can repay without hardships hardly default in repayment. In any case, default in loan repayment is as a result of bad loans and not bad borrowers. A bad loan is one that the borrower repays with a lot of hardships.

According to Njiru (2003), carried out a study to determine how a Coffee Cooperative Societies in Embu district manage their credit risk, this was in respect of the systems procedures and controls which are put in place to ensure the efficient collection of credit to minimise the risk of non-payment. The study found out the coffee societies in Embu district use a quantitative method to evaluate the creditworthiness of their members. Additionally, all the coffee societies use the qualitative method only the borrower, and the amount of credit due .there is a common feeling that shared information between cooperative societies in Embu district will assist to a large extent in filtering out un-creditworthy members. This is so because most members were found to be becoming to more than one society within the same locality. The credit assessment method applied could influence the level of credit default and that education to members about the dangers of not paying in time could lead to lower level of default.

The result of correlation analysis between independent variables and dependent variable in Njiru (2003) showed that existence of a strong positive correlation between financial performance (ROA) and the asset utilization. A moderate positive correlation relationship exists between operational efficiency and size of SACCOs (assets size). Conversely, there is a significant negative correlation between financial performance (ROA) and the operational efficiency with correlation coefficients. The study also came out with a range of perspectives on the factors affecting the outreach and sustainability of SACCOs under study. Lack of awareness and poor saving culture, weak organizational arrangement and governance, policy and regulatory environment, weak institutional capacity, low capital base, lack of differentiated products, inappropriate loan security requirements, and threats from other financial institutions (MFIs) were among the factors affecting the outreach and sustainability of SACCOs.

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

2.5 Critique of Existing Literature Relevant To The Study

A research article by Sam (2015) on the cash management of savings in growth of matatu Saccos in Bugoma County, the author did cite literature in relation to the area of study. There is enough build-up of information in relation to the research. The study lacks theoretical framework on where the author builds up his research on. There is lack of sequential chronological order of literature as per specific objectives. The author describes the area of study, provides the study population of ten SACCOs and states the usage of longitudinal research design with 2007 as the baseline. The researcher stated usage of both primary and secondary data and the way it was presented. The researcher failed to state the sampling technique, computation of the sample size and analysis of primary data. Usage of inferential statistics was not stated, and there is lack of an econometric model to show the relationship between variables and establish the predictive nature of the information.

According to the research done by Mwangi,(2012) on non-performing loans on financial performance of commercial bank, the study lacked proper theoretical frame work that would resonate with the study subject, inadditon the research focused on oly banks that were situated in Nairobi and concluded on the same without regards to other banks that are outside Nairobi county. The secondary data collected was not appropriate to conclude on the same rendering the research topic having gaps that need to be filled by this study as it equally affect financial institution that is of importance to the economy and to the world of finances.

According to Wanjira (2010), conducted a research on non-performing loans and financial performance in commercial banks, the literature of this study is not sequential hence no link from the study related to the study. The researcher also fails to explain as how the sample of the data was arrived at. Inaddtion the theories noted in this study are not well presented hence difficult to link the same to this study. Hence this study addresses these discrepancies to bring out what really works for non-performing loans.

The research paper that was one by Ownio (2014) on repayment performance of loans on Saccos a case study Kisii county, the researcher failed to address issues that deal effectively with loan delinquency, the variable that the researcher had noted have no effect or have consequential effect in regards to solving the issue of loan delinquencies among sacoo. Inadditon the research focused on a few sample collected hence does not comprehensively address the subject matter.

2.6 Research Gaps

The review of the literature has shown that there are theoretical and empirical gaps. The direct link between the causes of management practices on loan recovery performance on recovery performance on SACCOs has not been shown. Therefore, there is a need to close the gap, and this is exactly what this study aims at.

The regulatory framework defines non-performing loan portfolio as comprising the loans which are classified as substandard, doubtful and loss categories. The non-performing loans increased from Kshs 9.3 billion in 2013 to Kshs 13 billion in 2014 (Njeru, 2015). This presents a worrying trend since the majority of loans advanced by DTSs are a guarantee – backed, thereby reducing the risks of defaults. It also demonstrates the fact that notwithstanding the fact that the loans and credit advances by DTSs are guarantees backed. They are still susceptible to default, and thus additional measures to address the risks ought to be put in place, (SASRA, 2012). While the withdrawable savings deposits do not comprise a significant portion of the balance sheet, DTSs are usually faced with liquidity mismatch when issuing loans based on a multiplier of savings. However, there has been a shift from the multiplier factor to earnings especially with employer-based DTSs (SASRA, 2013).

2.7 Research Summary

The researcher will review the theories noted in the study related to non-performing loans management practices on loan recovery performance of savings and credit cooperatives in Kenya. The researcher will be able to link these theories to the study in order to improve the research further. The study is represented in a comprehensive diagram conceptual frame work highlighting both the independent variables and dependent variable and how they will correlate to each other to help in realizing the objectives of the study. Inadditon the study will highlight empirical literature from other scholars on loan delinquency and their contribution to management practices and performance of Saccos Regionally inoder to build up on the case study at hand.

III. RESEARCH METHODOLOGY

3.1 Introduction

Research methodology tells the researcher how to attain accuracy in the description, explanation, and prediction. It comprises of research design, target population, sampling procedure, data collection methods, data collection instruments, and data analysis.

3.2 Research Design

This research will adopt a descriptive research design. The major purpose of descriptive research design is to describe the state of affairs as it is at present. According to Cooper and Schindler (2011), a descriptive survey research design help in collecting data to test hypotheses concerning the current status of the subjects in the study. The descriptive design refers to a set of methods and procedures that describe variables. This research design involves gathering quantitative data that describe events and then organizes, tabulates, depicts, and describes the data. According to Kothari (2004), a descriptive design involves planning, organizing, collection and analysis of data so as to provide the information being sought. This design also helps in collecting qualitative data to provide a great depth of responses resulting in a better and elaborate understanding of the phenomenon under study.

3.3 Target Population

Target population can be defined as a compute set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from other population (Kothari, 2004). According to Mugenda and Mugenda (1999), a population is a well-defined as a set of people, services, elements and events, a group of things household that are being investigated. The target population of this will take keen interest with senior management team of SACCOs Registered by Sasra as at 2018 in Kenya. There are 166 registered SACCOs (SASRA, 2013).

3.4 Sampling Frame

According to Panseersavan (2007), a sampling frame consists of a list of items from which a sample is to be drawn. The sampling frame consists of registered SACCOs by Sasra, it will comprise of all the registered deposit taking SACCOs in kenya as shown in Appendix IV which is a representative sample selected from the sample frame.

3.5 Sample and Sampling Technique

Sample is a part of population which the researcher will study in order to make inference about the whole population (Kothari, 2004). The study will undertake a census of all the SACCOs registered under Nairobi County. Credit managers will be targeted for questionnaire responses. Census survey is chosen since the number of SACCOs is small hence minimal error (Nachmias, 2004) .

3.6 Data Collection Instruments

The researcher will use both secondary method by obtaining data in levels of non-performing loans and provision of bad debts in the financial statements and primary method of collecting data by use of questioners which will be distributed to Credit Managers in the 165 SACCOs targeted for this study. Questionnaires as source of the Sacco data will be adequate for this study since they are commonly used to collect important information about a population (Orodho, 2004). Each parameter in the questionnaire will be developed to address a specific objective (Mugenda & Mugenda, 2003). The questionnaire is divided into sections of the identified variables: Loan restructuring practices , guarantee policy practices , Credit monitoring practices and loan recovery agency practice on loan recovery performance of SACCOs in Kenya. Responses will be captured in a five or three–point Likert scale. Secondary data sheet will be used to collect the loan recovery performance of SACCOs for five years. The information gathered will be analysed from these documents which will aid the researcher in making pertinent analysis in relation to variables under study.

3.7 Data Collection Procedure

The study will collect data from both primary and secondary sources. The researcher will collect primary data by use of self administered questionnaires, while secondary data will be collected from financial statements. A quantitative method will be employed in data collection since it has advantage of getting responses of the same questions from a large number of people. Responses will then be quantified and conclusions drawn from them. The Qualitative method would enable the researcher to collect data in the actual context in which the actual phenomenon occurs. It is usually an exploratory activity in which data will be collected in a real-life natural setting and is therefore rich, descriptive and extensive (Wellington, 2010). Secondary data will be collected from the SACCOs audited financial statements. The researcher will employ drop and pick later method in getting data from the 165 selected SACCOs.

3.8 Pilot Testing

The data collection phase of a research process typically begins with pilot testing (Wellington, 2010). It is a prior study, before the actual collection of data aimed at making assessment of the level of validity and reliability of the intended tools of data collection. This is a pre-test done prior to the commencement of data collection to determine the accuracy of the research instruments (such as questionnaires and research schedule) that will be applied in obtaining desired information (White, 2013). In this study, a pilot study will be done to test on clarity and ambiguity of the questions. Pre-testing the instrumentation and the entire research design permits refinement before the commencement of the study to test their reliability. Other benefits of pilot testing are that it helps in: assessing the feasibility of the study; designing a research protocol and assessing whether it is realistic and doable; establishing whether the sampling frame and technique are effective; identifying logistical problems which might occur with the proposed methodology; determining resources needed for the planned study and assessing the proposed data analysis techniques to uncover potential problems.

3.8.1 Reliability of the Instrument

Reliability analysis will be done to assess the reliability, internal consistency and validity of the survey instruments used. Reliability analysis will be explained by Cronbach's reliability coefficient. The study made use of Likert scale hence suitability for reliability analysis. Likert scale enables easier analysis as it removes doubt on the type of response given. Cronbach's alpha coefficient was pegged on Mugenda, and Mugenda rule of thumb (0.7). Cronbach's alpha is a measure of reliability.

Alpha is a lower bound for the true reliability of the survey. Mathematically, reliability is defined as the proportion of the variability in the responses to the survey that is the result of differences in the respondents. That is, it answers to a reliable survey was different because respondents have different opinions, not because the survey is confusing or has multiple interpretations. The computation of Cronbach's alpha is based on the number of items on the survey and the ratio of the average inter-item covariance to the average item variance. Under the assumption that the item variances are all equal, this ratio simplifies to the average inter-item correlation, and the result is known as the Standardized item alpha (or Spearman-Brown stepped-up reliability coefficient).

3.8.2 Validity

According to Nachmas (2004), validity in research is concerned with whether research is measuring what is intended for measurement and it arises due to the fact that measurements in social sciences are indirect. Three kinds of validity were considered relevant for this research namely: face validity, sampling validity and construct validity. According to Mugenda and Mugenda (2003), content validity is a measure of the degree to which data collected using a particular tool represents a specific domain of indicators or content of a particular concept. They also define face validity as the degree to which an instrument is judged to be relevant in obtaining accurate and meaningful data on the variables of interest. The face validity -deals with the researcher's subjective evaluation of the validity of the measuring instrument and so the extent to which the researcher believes the instrument is appropriate.

Cooper (2007), explains that content validity is the degree to which the sample test or instrument items represent the content that the instrument is designed for while face validity is the degree to which an instrument appears to measure what it is supposed to measure. Sampling validity deals with whether a given population is adequately sampled by the measuring instrument so as to answer the question, statements or indicators adequately represent the property being measured. To ensure that the research instruments collected the expected data, different measures will taken to ensure content, sampling and face validity. These instruments will be given to my supervisors, colleagues, and other experts in research to check and further interrogate on content and face validity. This will help the researcher to determine the degree to which the instruments will be able to gather the required information. Feedback from my supervisors, colleagues, and other researchers and scholars will help me in making necessary adjustments on the data collection instruments.

3.9 Data Processing and Analysis

Data processing involves editing, coding, classification, tabulation and graphical presentation (Creswell, 2009). The data collected in research will require a certain amount of editing for making it unambiguous and clear as well as for maintaining consistency and accuracy (Hall, 2007). The next part of processing and analysis of data involves exploring, analysis, computation of certain indices or measures, searching for patterns of relationships, trends, estimating values of unknown parameters and testing of hypothesis for inferences (Cooper, 2011). The researcher will use linear regression, multiple regression analysis, ANOVA, Principle Components Analysis, Factor analysis and Correlation analyses to analyse data. The objectives of these analyses will help the researcher to predict the dependent variable based on its covariance with all the concerned independent variables. This was done using the Statistical Package for Social Sciences (SPSS) version 21 for descriptive data and advanced Microsoft excel for quantitative data.

3.9.1 Model Specification

A multiple regression model will be used to test the hypotheses of the combined effect of the four independent variables (loan restructuring, guarantee policy, credit scoring and loan recovery agencies) on the dependent variable (loan recovery performance). The study was guided by the following regression model:

$Y=\beta_0 +\beta_1 x_1 +\beta_2 x_2 +\beta_3 x_3 +\beta._4 x_4 + \varepsilon$

Whereby;

Y=Loan Performance

X_1 = Loan Restructuring

X_2 = Guarantee policy

X_3 = Loan recovery agencies

X_4 = Credit Monitoring Practices

B_0 is the Y intercept,

β_1…to β_3 are the coefficients of the variables

ε = error term

For the moderating variable

$Y=\beta o + Ƶ (\beta_1 X_1 +\beta_2 X_2 + \beta_3 X_3+ \beta_4 X_4)$

Ƶ is the size of the Sacco

3.9.2 Variable Operationalization

To measure the research variables, the study will first determine the indicators/parameters of each independent variable and employ a likert scale to measure the independent variables. The scale compromised of an ordinal scale of 1-5 (1= Strongly Disagree, 2= Disagree 3= Neutral 4= Agree 5= Strongly Agree)

Loan restructuring is a form of management practice to reduce non-performing loan on loan recovery performance. In this study loan restructuring is an independent variable. The researcher will measure this variable by focusing on certain characterises of a loan policies in place, strict loan directive, flexible restructuring process and willingness of the borrower to agree to restructuring process .

Credit Monitoring practices is also another way best can be used to revive non-performing loans on loan recovery performance of loans in Sacco, as an independent variable, the researcher will measure it by focusing on modes of payments of loans, and timeliness in paying up monthly loan rates

Guarantee system is key in management of non-performing loans in Saccos. Most Saccos employ this system to minimize risk of non-performing loans , the study will use the following attributes to measure the guarantee system. The researcher will seek to find how well formulated policies regarding Guarantee, poor record keeping for guarantors and recovery procedures from the guarantors

The below table highlights measurements of each variable indentified in this study.

3.1 Type Of Variable Measurement And Data Collection Method

Variable	Type	Data	Measure
Loan restructuring practice	Independent	Questionnaire	Likert Scale index
Loan Guarantee practices	Independent	Questionnaire	Likert Scale index
Credit Monitoring Practices	Independent	Questionnaire	Likert Scale index
Loan recovery agency	Independent	Questionnaire	Likert scale index
Size	Moderating	Secondary	Change in total asset held

3.9.3 Multicollinearity

According Kothari (2014), defines multicollinearity occurs when there is correlations between two or more variable, this occurs when variable can be used to predict the other. This creates information and results in regression model indentified in this study. Multicollinearity is more important if it is indentified in the model and it is tested by examining the tolerance and variance inflation factor diagnostic factor.

3.9.4 Normality Test on Dependent Variable

According to Bryman & Bell (2015), normality test is used to determine whether a sample data is drawn from a normally distributed population, in this case consideration on the dependent variable of this study. Statistical tests, such as the Student's t-test and the one-way and two-way ANOVA require a normally test.. Normality test is just the conjecture of the underlying random variable of interest distributed normally. Some of the methods used to check for normality is by carrying out a Q-Q test. According to Kothari (2014), a Q-Q test is a plot of scores of a standard distribution against corresponding percentiles of the observed data.

3.9.5 Heteroscedasticity

According to Kothari, (2014) defines Heteroscedacity is a statistical test used in statistics, especially in the context of linear regression, to describe the case where the variance of errors are not the same for all observations, while often one of the basic assumption in modelling is that the variances are homogeneous and that the errors of the model are identically distributed.

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Appendix I: Questionnaire

Effect of Non-performing loan Management Practices On Loan Recovery Performance Of Savings And Credit Cooperatives In Kenya.

This Questionnaire is meant to collect data among the SACCOs in Nairobi County. .Any information provided in this Questionnaire will be used for purposes of research only and will not be divulged or availed to unauthorized persons Please take a few minutes to complete this questionnaire Please answer the questions correctly and as accurate as possible Tick the correct answer in the boxes provided against the questions where provided. Write brief answers where explanation is required. You need not write your name on the questionnaire. Please answer the questions as accurately as possible.

SECTION A: BACKGROUND INFORMATION 1.

1. Name of your Sacco and when it was started? __________

2. Please indicate the number of employees your SACCO Society had in the year stated in the table below

Category	**2013**	**2014**	**2015**	**2016**	**2017**
Head Credit section					
Loan Officers					
Other Staff					

3. Type (classification) of SACCO Society. Please tick the appropriate box. Tick only one

Urban... ☐

Rural .... ☐

SECTION B: DEMOGRAPHIC DATA

No.	**Questions**	**Answer categories**	**Tick**
1.	Gender	1. Male 2. Female	
2	Work experience with the organization	1. Less than 1 year 2. 1-2 years 3. 2-5 years 4. 5-10 years 5. Over 10 years	

SECTION C: MANAGEMENT PRACTICES EMPLOYED ON LOAN RECOVERY PERFORMANCE
Kindly indicate your level of agreement with the following statements
Using the scale 1-5 as shown below, please tick the extent of contribution of the following Loan restructuring of loan delinquency on loan recovery performance .

1	2	3	4	5
Sharply Disagree	Disagree	Neutral	Agree	Strongly Agree

1 Loan Restructuring Practice	**1**	**2**	**3**	**4**	**5**
(i) We normally Restructure the terms for loan repayment					
(ii) We have in place well documented and comprehensive formulated loan restructuring process					
(iii) The Sacco considers the rate of restricting the loan repayment					
(iv)To what extent does loan restructuring contribute to loan recovery performance					

Kindly indicate your level of agreement with the following statements
Using the scale 1-5 as shown below, please tick the extent of contribution of the following Loan Guarantee system of loan delinquency on loan recovery performance.

1	2	3	4	5
Sharply Disagree	Disagree	Neutral	Agree	Strongly Agree

2Loan Guarantee Practice	**1**	**2**	**3**	**4**	**5**
(i) The Sacco has poor keeping leading to lose of data of the Guarantors					
(ii)We have a you have a strong Guarantee system					
(iii) There is a robust appraisal system for Guarantors					
(iv) We have employed a system to make recoveries of loans from the guarantors					
(v)We adhere to internal controls in place					

Kindly indicate your level of agreement with the following statements
Using the scale 1-5 as shown below, please tick the extent of contribution of the following Credit scoring of loan delinquency on loan recovery performance .

1	2	3	4	5
Sharply Disagree	Disagree	Neutral	Agree	Strongly Agree

3 Credit Monitoring Practices	**1**	**2**	**3**	**4**	**5**
(i) We consistently and continuously review borrowers file.					
(ii) We strict collection deadlines from debt holders					
(iii) Promt notification of the loanee in event of late payments					
(v)We have effective penalties in case a default by the loanee.					

Using the scale 1-5 as shown below, please tick the extent of contribution of the following loan recovery procedure of loan delinquency on loan recovery performance .

1	2	3	4	5
Sharply Disagree	Disagree	Neutral	Agree	Strongly Agree

4.Loan Recovery Agency Practices	**1**	**2**	**3**	**4**	**5**
(i)We have elaborate loan recovery procedure in place					
(ii) We have uncommitted debt collectors					
(iii) There are Long repossessing period by the recovery department in this Sacoo					
(iv) There is a possibility of having officers in the Sacco who are Corrupt.					

THANK YOU FOR YOUR TIME

Appendix II: SCHEDULE OF RESEARCH ACTIVITY

	November 2017	**January 2017**	**February 2018**	**March 2018**	**November 2018**	**December 2018**
Coming up with a Researchable Topic						
Writing Chapter One						
Writing Chapter Two and Three						
Finalizing on the Research Proposal						
Research Proposal Compilation and Presentation						
Data Collection and analysis						
Presentation of final research project						

Appendix III: RESEARCH BUDGET

No.	ITEM	COST (Ksh)
1.	Transport Expenses	50,000/=
2.	Typing Expenses	20,000/=
3.	Printing, Photocopy and Binding Charges	50,000/=
4.	Library and Internet Expenses	30,000/=
5.	Research Assistant	60,000/=
	Sub Total	54,000/=
6.	Contingencies (10 % of Sub-Total)	15,400/=
	TOTAL COST	**229, 400 /=**

Appendix IV: List of Licensed SACCOs by SACCO Society Regulatory Authority as at 31st December 2017

NO.	NAME OF SOCIETY	POSTAL ADDRESS
11.	BANDARI SACCO SOCIETY LTD	P.O.BOX 95011 – 80104, MOMBASA.
12.	BARAKA SACCO SOCIETY LTD	P.O.BOX 1548 – 10101, KARATINA.
13.	BARATON UNIVERSITY SACCO SOCIETY LTD	P.O BOX 2500 – 30100, ELDORET.
14.	BIASHARA SACCO SOCIETY LTD	P.O.BOX 1895 – 10100, NYERI.
15.	BIASHARA TOSHA SACCO SOCIETY LTD	P.O BOX 189 – 60101, MANYATTA.
16.	BI-HIGH SACCO SOCIETY LTD	P.O.BOX 90 – 60500, MARSABIT.
17.	BINGWA SACCO SOCIETY LTD	P.O.BOX 434 – 10300, KERUGOYA.
18.	BORESHA SACCO SOCIETY LTD	P.O.BOX 80 – 20103, ELDAMA RAVINE.
19.	CAPITAL SACCO SOCIETY LTD	P.O BOX 1479 – 60200, MERU.
20.	CENTENARY SACCO SOCIETY LTD	P.O.BOX 1207 – 60200, MERU.
21.	CHAI SACCO SOCIETY LTD	P.O.BOX 278 – 00200, NAIROBI.
22.	CHUNA SACCO SOCIETY LTD	P.O.BOX 30197 – 00100, NAIROBI.
23.	COMOCO SACCO SOCIETY LTD	P.O. BOX 30135 – 00100, NAIROBI
24.	COSMOPOLITAN SACCO SOCIETY LTD	P.O.BOX 1931 – 20100, NAKURU.
25.	COUNTY SACCO SOCIETY LTD	P.O.BOX 21 – 60103, RUNYENJES.
26.	DAIMA SACCO SOCIETY LTD	P.O.BOX 2032 – 60100, EMBU.
27.	DHABITI SACCO SOCIETY LTD	P.O.BOX 353 – 60600, MAUA.
28.	DIMKES SACCO SOCIETY LTD	P.O.BOX 886 – 00900, KIAMBU.
29.	DUMISHA SACCO SOCIETY LTD	P.O BOX 84 – 20600, MARARAL.
30.	ECO-PILLAR SACCO SOCIETY LTD	P.O. BOX 48 – 30600, KAPENGURIA
31.	EGERTON SACCO SOCIETY LTD	P.O.BOX 178 – 20115, EGERTON.
32.	ELGON TEACHERS SACCO SOCIETY LTD	P.O BOX 27 – 50203, KAPSOKWONY.
33.	ELIMU SACCO SOCIETY LTD	P.O BOX 10073 – 00100, NAIROBI.
34.	ENEA SACCO SOCIETY LTD	P.O.BOX 1836 – 10101, KARATINA.
35.	FARIDI SACCO SOCIETY LTD	P.O. BOX 448 – 50400, BUSIA.
36.	FARIJI SACCO SOCIETY LTD	P.O.BOX 589 – 00216, GITHUNGURI.
37.	FORTUNE SACCO SOCIETY LTD	P.O.BOX 559 – 10300, KERUGOYA.
38.	FUNDILIMA SACCO SOCIETY LTD	P.O.BOX 62000 – 00200, NAIROBI.

NO.	NAME OF SOCIETY	POSTAL ADDRESS
39.	GITHUNGURI DAIRY & COMMUNITY SACCO SOCIETY LTD	P.O.BOX 896 – 00206, GUTHUNGURI.
40.	GOOD HOPE SACCO SOCIETY LTD	P.O.BOX 158 – 20500, NAROK.
41.	GOODWAY SACCO SOCIETY LTD	P.O BOX 626 – 10300, KERUGOYA.
42.	GUSII MWALIMU SACCO SOCIETY LTD	P.O.BOX 1335 – 40200, KISII.
43.	HARAMBEE SACCO SOCIETY LTD	P.O.BOX 47815 – 00100, NAIROBI.
44.	HAZINA SACCO SOCIETY LTD	P.O.BOX 59877 – 00200, NAIROBI.
45.	IG SACCO SOCIETY LTD	P.O.BOX 1150 – 50100, KAKAMEGA.
46.	ILKISONKO SACCO SOCIETY LTD	P.O BOX 91 – 00209, LOITOKITOK.
47.	IMARIKA SACCO SOCIETY LTD	P.O.BOX 712 – 80108, KILIFI.
48.	IMARISHA SACCO SOCIETY LTD	P.O.BOX 682 – 20200, KERICHO.
49.	IMENTI SACCO SOCIETY LTD	P.O.BOX 3192 – 60200, MERU.
50.	JACARANDA SACCO SOCIETY LTD	P.O. BOX 1767 – 00232, RUIRU.
51.	JAMII SACCO SOCIETY LTD	P.O.BOX 57929 – 00200, NAIROBI.
52.	JOINAS SACCO SOCIETY LTD	P.O.BOX 669 – 00219, KARURI.
53.	KAIMOSI SACCO SOCIETY LTD	P.O BOX 153 – 50305, SIRWA.
54.	KATHERA RURAL SACCO SOCIETY LTD	P.O BOX 251 – 60202, NKUBU.
55.	KENPIPE SACCO SOCIETY LTD	P.O.BOX 314 – 00507, NAIROBI.
56.	KENVERSITY SACCO SOCIETY LTD	P.O.BOX 10263 – 00100, NAIROBI.
57.	KENYA ACHIEVAS SACCO SOCIETY LTD	P.O. BOX 3080 – 40200, KISII.
58.	KENYA BANKERS SACCO SOCIETY LTD	P.O.BOX 73236 – 00200, NAIROBI.
59.	KENYA HIGHLANDS SACCO SOCIETY LTD	P.O.BOX 2085 – 20200, KERICHO.
60.	KENYA POLICE SACCO SOCIETY LTD	P.O.BOX 51042 – 00200, NAIROBI.
61.	KIMBILIO DAIMA SACCO SOCIETY LTD	P.O. BOX 81 – 20225, KIMULOT.
62.	KINGDOM SACCO SOCIETY LTD	P.O.BOX 8017 – 00300, NAIROBI.
63.	KIPSIGIS EDIS SACCO SOCIETY LTD	P.O BOX 228 – 20400, BOMET.
64.	KITE SACCO SOCIETY LTD	P.O.BOX 2073 – 40100, KISUMU.

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NO.	NAME OF SOCIETY	POSTAL ADDRESS
66.	KMFRI SACCO SOCIETY LTD	P.O.BOX 80862 – 80100, MOMBASA.
67.	KOLENGE TEA SACCO SOCIETY LTD	P.O BOX 291 – 30301, NANDI HILLS.
68.	KORU SACCO SOCIETY LTD	P.O. BOX PRIVATE BAG, KORU.
69.	K – PILLAR SACCO SOCIETY LTD	P.O.BOX 83 – 20403, MOGOGOSIEK.
70.	K – UNITY SACCO SOCIETY LTD	P.O.BOX 268 – 00900, KIAMBU.
71.	KWETU SACCO SOCIETY LTD	P.O BOX 818 – 90100, MACHAKOS.
72.	LAINISHA SACCO SOCIETY LTD	P.O. BOX 272 –10303, WANG'URU.
73.	LENGO SACCO SOCIETY LTD	P.O.BOX 1005 – 80200, MALINDI.
74.	MAFANIKIO SACCO SOCIETY LTD	P.O BOX 86515 – 80100, MOMBASA.
75.	MAGADI SACCO SOCIETY LTD	P.O.BOX 13 – 00205, MAGADI.
76.	MAGEREZA SACCO SOCIETY LTD	P.O.BOX 53131 – 00200, NAIROBI.
77.	MAISHA BORA SACCO SOCIETY LTD	P.O.BOX 72713 – 00200, NAIROBI.
78.	MENTOR SACCO SOCIETY LTD	P.O.BOX 789 – 10200, MURANG'A.
79.	METROPOLITAN NATIONAL SACCO SOCIETY LTD	P.O.BOX 5684 – 00100, NAIROBI.
80.	MMH SACCO SOCIETY LTD	P.O.BOX 469 – 60600, MAUA.
81.	MOMBASA PORT SACCO SOCIETY LTD	P.O.BOX 95372 – 80104, MOMBASA.
82.	MUDETE TEA GROWERS SACCO SOCIETY LTD	P.O.BOX 221 – 50104, KAKAMEGA.
83.	MUKI SACCO SOCIETY LTD	P.O BOX 398 – 20318, NORTH KINANGOP.
84.	MWALIMU NATIONAL SACCO SOCIETY LTD	P.O.BOX 62641 – 00200, NAIROBI.
85.	MWIETHERI SACCO SOCIETY LTD	P.O. BOX 2445 – 60100, EMBU.
86.	MWINGI MWALIMU SACCO SOCIETY LTD	P.O BOX 489 – 90400, MWINGI.
87.	MWITO SACCO SOCIETY LTD	P.O.BOX 56763 – 00200, NAIROBI.
88.	NACICO SACCO SOCIETY LTD	P.O.BOX 34525 – 00100, NAIROBI.
89.	NAFAKA SACCO SOCIETY LTD	P.O.BOX 30586 – 00100, NAIROBI.
90.	NANDI FARMERS SACCO SOCIETY LTD	P.O BOX 333 – 30301, NANDI HILLS.

145.	UNI-COUNTY SACCO SOCIETY LTD	P.O BOX 10132 - 20100, NAKURU.
146.	UNITED NATIONS SACCO SOCIETY LTD	P.O.BOX 30552 - 00100, NAIROBI.

NO.	NAME OF SOCIETY	POSTAL ADDRESS
147.	UNISON SACCO SOCIETY LTD	P.O BOX 414 - 10400, NANYUKI.
148.	UNIVERSAL TRADERS SACCO SOCIETY LTD	P.O.BOX 2119 - 90100, MACHAKOS.
149.	VIHIGA COUNTY FARMERS SACCO SOCIETY LTD	P.O BOX 309 - 50317, CHAVAKALI.
150.	VIKTAS SACCO SOCIETY LTD	P.O BOX 2183 - 20300, NYAHURURU.
151.	VISION POINT SACCO SOCIETY LTD	P.O.BOX 42 - 40502, NYANSIONGO.
152.	VISION AFRICA SACCO SOCIETY LTD	P.O BOX 18263 - 20100, NAKURU.
153.	WAKENYA PAMOJA SACCO SOCIETY LTD	P.O.BOX 829 - 40200, KISII.
154.	WAKULIMA COMMERCIAL SACCO SOCIETY LTD	P.O.BOX 232 - 10103, MUKURWENI.
155.	WANA - ANGA SACCO SOCIETY LTD	P.O.BOX 34680 - 00100, NAIROBI.
156.	WANANCHI SACCO SOCIETY LTD	P.O.BOX 910 - 10106, OTHAYA.
157.	WANANDEGE SACCO SOCIETY LTD	P.O.BOX 19074 - 00501, NAIROBI.
158.	WASHA SACCO SOCIETY LTD	P.O.BOX 83256 - 80100, MOMBASA.
159.	WAUMINI SACCO SOCIETY LTD	P.O.BOX 66121 - 00800, NAIROBI.
160.	WEVARSITY SACCO SOCIETY LTD	P.O BOX 873 - 50100, KAKAMEGA.
161.	WINAS SACCO SOCIETY LTD	P.O.BOX 696 - 60100, EMBU.
162.	YETU SACCO SOCIETY LTD	P.O.BOX 511 - 60202, NKUBU.

Eric Maina Gatimu. "Effect of Non-Performing Loan Management Practices on Loan Recovery Performance of Deposit Taking Savings and Credit Cooperatives in Kenya." IOSR Journal Of Humanities And Social Science (IOSR-JHSS). vol. 23 no. 11, 2018, pp. 01-27.