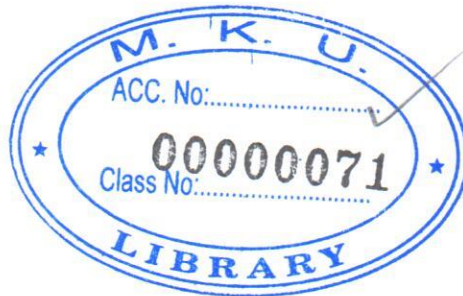


CREDIT RISK MANAGEMENT PRACTICES A RECIPE FOR GOOD FINANCIAL
PERFORMANCE A CASE OF SACCOS IN MOMBASA REGION

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ABSTRACT

SACCOs are financial institutions formed by persons with a common bond or interest. SACCOs are in the business of safeguarding savings for their Members besides providing loans and offering investment financial services. Credit creation is the main income generating activity for the SACCOs. However, 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 going concern of SACCO's business. This study aims to analyze the relationship between credit risk management practices and financial performance in the SACCOs in Mombasa region. In achieving this objective, the study assessed the current credit risk management practices of the SACCOs and links them with the SACCOs' financial performance. The study used both the primary (survey questionnaires) and secondary data (annual reports). The study aimed to contribute to bettering credit risk management practices through recommending strategies to strengthen the risk management practices of SACCOs hence increasing their overall competitiveness in the financial sector. By assessing their current credit risk management practices and linking them with financial performance, Descriptive research design was used with a target population of 50 active SACCO's based in Mombasa region. A sample size of 5 SACCOs was selected using random sampling technique. The questionnaire was formulated with close-ended questions based on the objectives of the study. Both the questionnaire and the data collection sheet was administered to the SACCO Credit Managers finance officers and customers (members) through drop and pick method. SPSS (Statistical Package for Social Sciences) program was utilized for data entry and analysis. Data was presented through tables, charts and graphs. Descriptive, correlation and regression techniques were used in the analysis. In efforts to assess the credit risk management practices in the SACCOs by using the descriptive tests, the study used the 5-Likert scale approach in the questionnaire. The higher the scale indicates that the respondent strongly agrees to such practices adopted by their SACCOs. Return on Assets (ROA) was used to measure efficiency and SACCOs' ability to earn rent from its total operations whereas Return on Equity (ROE) was used to reflect effectiveness of management in using shareholders' investment. The findings revealed that credit risk management practices have a significant impact on the performance of SACCOs. Even though, on average the SACCOs in the study have better credit risk management practices, there is still enough room for SACCOs to improve their credit risk management system. The introduction of an effective credit risk management culture in SACCOs will ensure their competitiveness and survival.