

**EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON THE PERFORMANCE
OF SACCOS IN KENYA-A CASE OF KIAMBU COUNTY SACCOS**

PHILIP MUTINDA KAVITA

REG NO:BCOM/2014/58791

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE
AWARD OF BACHELORS' DEGREE IN FINANCE IN THE SCHOOL OF BUSINESS
OF MOUNT KENYA UNIVERSITY.**

MAY, 2016

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

A cooperative is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to pool the scarce resources, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007). Cooperatives are good vehicles for assisting the people improve their socio-economic situation. They are institutions that derive their strength and validity from member solidarity cooperation and concern for each other. Basically Savings and credit cooperative has three operational aspects namely; the savings, the credit and channeling external funds to members.

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, 2002). They provide savings, credit and insurance services to a large portion of the population. However, they are faced with various issues such as the capital adequacy levels in the SACCO system, the role of rating agencies in financial regulation and the fair-value assessment of SACCO assets are the most debated ones. In response to these crises, significant reformations have been carried out in the SACCO regulatory system. However, several issues such as lack of risk sensitive measures of the creditworthiness and weak incentives for SACCOs to strengthen risk management system emerge as shortcomings (Porvali, 2013).

Donald et al. (2006) defines Credit risk simply as the potential that a bank borrower or counterpart will fail to meet its obligations in accordance with agreed terms. Credit risk or default