INFLUENCE OF CREDIT RISK MONITORING ON THE GROWTH OF SHAREHOLDERS' WEALTH IN DEPOSIT-TAKING SACCOS IN NAIROBI CITY COUNTY

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ABSTRACT

This study sought to investigate the influence of credit risk monitoring practices on the growth of shareholders' wealth amongst licensed SACCOs in Nairobi City County. The research applied a descriptive survey. The study targeted a population of 42 licensed DT-SACCOs in Nairobi City County. Target respondents included 168 employees of the DT-SACCOs in the positions of general managers, investment managers, risk managers, and credit managers making financial decisions. The sample for the study was 118 respondents arrived at through a stratified random sampling method upon application of the Taro Yamane formula. The study used primary data to collect relevant information. The study used descriptive analysis and inferential analysis to ascertain the influence between study variables. Results from the study were presented on tables which were interpreted narratively. Results of the study revealed that; credit risk monitoring had a positive and significant influence on the growth of shareholders' wealth in DT-SACCOs. The study recommended for the DT-SACCOs carry out monitoring for the identification of mistakes and errors as well as monitoring to identify hazardous practices facing the DT-SACCOs.

Keywords: Credit Risk Monitoring, Shareholders' Wealth, Deposit-Taking SACCOs

INTRODUCTION

The core function of all SACCOs is to provide credit facilities and this makes the management of credit an important aspect of facilitating effective administration and management of SACCO loans for the equitable distribution of funds and liquidity planning. To achieve this, prudent and accepted leading practices for the management of risks, particularly credit risk must be stated in the policies and procedures of SACCOs, by-laws, strategic plans, and regulatory Acts (Olando et al., 2013). Credit risk on the other hand is the likelihood that a borrower is unwilling or unable to pay interest and /or repayment of the principal loan as per the terms specified in the loan agreement, resulting in financial loss for the lender.

Credit risk management, like general risk management, requires identification, assessment, measurement, monitoring, reporting, and controlling with clear plans on how to address them (Supervision, 2011). For SACCOs, credit risk management begins with the formation of rigorous lending standards and an effective framework for the management of the risk. Standards, policies, guidelines, and limits in risk concentration are structured for the management of credit risk through the department/committee for supervision of risk management (Manganelli & Engle, 2001 as cited by Sandström, 2016). Credit risk can be

managed at the portfolio or transaction levels and financial institutions are progressively gauging and managing credit-related risks on a portfolio basis instead of on a loan-by-loan. SACCOs have adopted customer screening, monitoring, collateral requirements, and credit rationing for potential and existing customers in the management of credit risk. These credit risk management practices are important for the success of SACCOs since they determine the profitability, liquidity, and solvency of the SACCOs (Supervision, 2011). Therefore, SACCOs are keen on managing credit-related risks in various environments and business cycles that are capable of alleviating major losses and crises that may adversely affect the long-term operability of the organizations. The existence of effective practices for the management of credit risk is an increasingly important management practice for the achievement of the economic goals established by SACCOs in addition to fostering its growth (Supervision, 2011).

SACCOs also use credit derivatives to transmit risk effectively as they also preserve customer relationships. Productivity indicators and portfolio quality ratios were adapted (Kimari, 2013). All the above initiatives have resulted in the vast acceleration of progress in the management of credit risk within the context of portfolios. The implementation of economic liberalization initiatives within Kenya's lending industry has given rise to a myriad of challenges for SACCOs, especially increased competition since they are limited in investing funds collected as customers' deposits (SACCO Act, 2008; SASRA, 2020). Credit management practices thus contribute to the sustainability and financial viability of SACCOs given that the issuance of loans is their major activity. SACCOs operate to maximize benefits to members by providing loans and paying a return on their investments.

SACCOs strive to enhance its performance by adopting credit risk management practices that safeguard their funds and result in greater earnings for the shareholders. The derivation of the best credit risk management is what academicians and practitioners have always tried to achieve. Best credit risk practices are not easier to determine through observation and therefore require analysis to determine their relevance in achieving better performance (Musimbi, 2015). However, poor credit risk management among SACCOs has led to the loss of lent funds which has significantly led to declining performance, for instance, SASRA (2020) indicated that the overall performance of DT-SACCOs has declined over the past five years. The Non-performing loans have increased beyond the recommended threshold of 5% by SASRA in the past five years. (Kahuthu, 2016). The non-performing loans stood at 6.30% in 2018, 2019 at 6.14%, and 9.12% in the year 2020 (Kenya Financial Sector Stability Report, 2020), indicating an alarming increase. This paper sought to answer the question: what is the influence of Credit Risk Monitoring on the growth of shareholders' wealth among licensed DT-SACCOs in Nairobi City county?

LITERATURE AND HYPOTHESIS

Toroitich and Omwaga (2019) studied how credit management affects the performance of Kisumu-based SACCO's loan portfolios. The study assessed how the variables of credit management such as risk identification, risk monitoring, risk analysis, risk control, and credit approval affect the performance of Kisumu-based SACCO's loan portfolios. A descriptive research design was adopted, and a sample size of 56 credit managers in the SACCOs was chosen using purposive sampling. Data analysis was undertaken using descriptive statistics that generated tables, charts means as well as standard deviation. The study found that the effect of credit risk identification, monitoring, analysis, and approval was positive and significant on the performance of loan portfolios for the SACCOs reviewed. Thus, the study concluded that organizations should focus more on the management of credit risk if they seek to improve the performance of their loan portfolios.

Buro (2019) looked at the relationship between loan portfolio performance of SACCOs regulated by SASRA and operating in Garissa County. Credit risk management variables that were assessed in this study were risk identification, monitoring, analysis, and control. The study concluded that the SACCOs had implemented a policy for monitoring credit. Moreover, SACCO was found to constantly monitor borrowers' cash flows. Furthermore, the SACCOs were found to have put in place response mechanisms for potential credit risks. Lastly, it was concluded that there existed mitigation strategies for potential losses and a review of the patterns for loan repayments by clients.

Muturi (2016) assessed how credit management practices affect the loan performance of Kenyan deposit-taking micro-finance banks. The study also sought to assess the effect of credit management on loan repayment. The research design adopted was descriptive in nature and primary data analysis was undertaken using means and standard deviation, as well as inferential statistics of linear regression. The results of the model established that credit terms, standards, policy, and collection policy affected the firms' performance. Moreover, proper systems of managing credit were found to be integral for all firms and could thus not be ignored by firms that undertake credit services. Therefore, proper credit management was found to increase the stability and profitability of firms.

Kadzo (2016) studied how credit risk practices affect the financial performance of Kenya commercial banks. The study used a descriptive research strategy to review 42 Kenyan commercial banks. The study found that a positive relationship existed between practices related to the management of credit risk and the financial performance of Kenyan commercial banks. Additionally, the study established that credit risk identification, evaluation, control, and policy manual had a correlation coefficient of 85.8% with financial performance. The t-test and linear results of the study showed a statistically significant relationship between the variables. The study then concluded that credit risk management influences financial performance.

Alshatti (2015) reviewed the credit risk management practices of Jordanian commercial banks. The findings of the study were that commercial banks needed to possess adequate structures for the management of credit risk such as competent and skillful employees in the fields of credit analysis, monitoring, debt recovery, applications for loan accounts as well as sales. The study results also showed that for commercial banks to generate more profits, and increase their income, good structures of risk management needed to be implemented. Commercial banks thus are required to prioritize practices for credit risk management and have credit risk management guidelines, strategies for implementation, and measures to test the adequacy of short-term objectives.

$H0_1$: *Credit Risk Monitoring does not have a significant influence on the Growth of Shareholders' Wealth in Deposit Taking SACCOs in Nairobi City County.*

DATA AND METHODS

The study applied descriptive 42. DT-SACCOs were considered for the study as the population. The target population was 168: General manager (42), Investment Manager (42), Risk Manager (42), and Credit Manager (42). The study sampled 120 respondents. Sampling was determined through the Taro Yamane formula. The Taro Yamane formula is shown as follows: $n= N/1+N (e^2)$.

Where n is the sample size for the study after using the probabilistic formula, n is the entire population of the respondents, and e is the margin of error in the sampling formula. Therefore, the implementation of the formula to arrive at the sample size of 120 was as follows, considering a margin of error of 5%.

n= 168/1+168(0.05*0.05)

n=120

Table 1 shows how the sample was distributed.

Table 1: Sample Distribution

Designation	Population Size	Ratio	Sample Size
General manager	42	0.25	30
Investment Manager	42	0.25	30
Risk Manager	41	0.25	30
Credit Manager	41	0.25	30
Total	**168**		**120**

Data Collection Instruments: The study used both primary and secondary data collection tools. The primary data was collected through questionnaires. A 5- point Likert scale was used (5- strongly agree 4- agreed 3- Neutral 2-disagreed 1- strongly disagreed).

Data Analysis: To establish the combined impact of the elements of credit risk management and the growth of shareholders' wealth in DT-SACCOs, a linear regression analysis was adopted.

$Y = \beta 0 + \beta 2CRM + \varepsilon$**……..,……. equation i**

RESULTS AND DISCUSSIONS

Response Rate

Table 2 revealed that the study was able to collect data from 92 respondents which represented a 76.67% response rate.

Table 2: Response Rate

Category	Frequency	Percentage
Responded	92	76.67%
Unfilled/Unreturned questionnaires	28	23.23
Total	**120**	**100**

Descriptive Statistics for Credit Risk Monitoring Practices

The study sought to establish the practices that are carried out during the monitoring of credit risks. Table 3 revealed that the respondents agreed that they carried out credit risk monitoring to make sure that risk management practices are effective as given through a mean of 4.15; it was agreed by the respondents that credit risk monitoring helped the SACCOs management to discover mistakes at an early as shown through a mean score of 4.09; the respondents were also in agreement through a mean score of 4.22 that the director's report on credit risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly; finally, the respondents agreed that they carried out credit risk monitoring to assess hazardous outcomes and their magnitude estimation.

Table 3: Descriptive Statistics on Credit Risk Monitoring Practices

Credit Risk Monitoring	M	Std. dev
Credit risk monitoring is used to make sure that risk management practices are effective	4.15	0.913
Credit risk monitoring helps the SACCOs management to discover mistakes at an early Stage	4.09	0.873
The director's report on credit risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly	4.22	0.836
We carry out credit risk monitoring to assess hazardous outcomes and magnitude estimation	4.16	0.760
Composite Mean	**4.16**	

Descriptive Statistics of SACCOs Shareholders' Wealth

Table 4 revealed that the respondents agreed that the shareholders received their dividends in good time as given by a mean score of 4.47; the respondents were also in agreement that The amount paid to the shareholders as dividends has increased since 2017 as shown by a mean

score of 4.45; finally, the respondents agreed that The capital base for their SACCO had grown since 2017 as revealed by a mean score of 4.51. Kalui and Omwemba (2015) were of similar opinion while they noted that the development of SACCOs' Wealth is estimated by the estimation of institutional capital and an expansion in institutional capital means the development of abundance. For feasible development to occur, SACCO ought to develop its institutional capital since the main other non-withdrawable capital is share capital.

Table 4: Descriptive Statistics of SACCOs Shareholders' Wealth

Statement on SACCOs shareholders' Wealth	M	Std. dev
Our shareholders receive their dividends in good time	4.47	0.739
The amount paid to the shareholders as dividends has increased since 2017	4.45	0.663
The capital of our SACCO has grown since 2017	4.51	0.680
Composite Mean	**4.47**	

Hypothesis Tests

Results in table 5 show the results of linear regression on the influence of credit risk monitoring on the Growth of Shareholders' Wealth in Deposit Taking SACCOs in Nairobi City County. Table 5 shows an R-square of 0.221 which implied that credit risk monitoring explained 22.1% of the variations in the growth of Shareholders' Wealth in Deposit Taking SACCOs in Nairobi City County. The study also revealed an F-ratio of 26.724 that was associated with a p-value of 0.001, therefore the model was a good fit in predicting the growth of Shareholders' Wealth in Deposit Taking SACCOs in Nairobi City county. The study also revealed a β of 0.557, t=5.170 which was associated with a p-value of 0.001 between Credit Risk Monitoring and Shareholders' Wealth in Deposit Taking SACCOs in Nairobi City County. Muturi (2016) was also in agreement with the study findings that credit management practices had a positive and significant effect on the loan performance of Kenyan deposit-taking micro-finance banks in Kenya.

Table 5: Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.470[a]	.221	.213	.731

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.278	1	14.278	26.724	.000[b]
	Residual	50.222	94	.534		
	Total	**64.500**	**95**			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.048	.456		4.487	.000
	Credit Risk Monitoring	.557	.108	.470	5.170	.000

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Risk Monitoring

CONCLUSIONS AND RECOMMENDATIONS

The study also concluded that credit risk monitoring had a significant influence on the growth of shareholders' wealth in DT-SACCOs. The study recommended for the credit risk managers, and branch managers of DT-SACCOs enhance their credit risk monitoring practices by ensuring that they are more effective, to carry out monitoring for identification of mistakes and errors as well as monitoring to identify hazardous practices affecting the DT-SACCOs because monitoring practices significantly increased the DT-SACCOs shareholders' wealth.

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