

**LIQUIDITY RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF SACCOS
A STUDY OF SELECTED SAVINGS AND CREDIT COOPERATIVE
SOCIETIES IN KAMPALA**

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**A DISSERTATION SUBMITTED TO THE KYAMBOGO UNIVERSITY GRADUATE
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DECLARATION

I **NEKESA HOPE**, declare to the best of my knowledge that this research report titled “Liquidity risk management and financial performance of SACCOs” is my original work except where cited and has never been submitted to any institution for any award.

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APPROVAL

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DEDICATION

This research report is dedicated to my family for their financial supported throughout my academics.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK:	Central Bank of Kenya
MFI:	Micro-finance institutions
ROA:	Return on Assets
ROE:	Return on Equity
ROI:	Return on Investment
SACCOs:	Saving and Credit Cooperatives

ABSTRACT

Effective and efficient liquidity risk management is essential in boosting the financial performance of SACCOs globally. The purpose of the study was to examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala. The study objectively; examined the relationship between capital adequacy and financial performance of SACCOs in Kampala, established the relationship between financial gap ratio and financial performance of SACCOs in Kampala, established the relationship between cash generation and financial performance of SACCOs in Kampala, and established the effect of credit policy on financial performance of SACCOs in Kampala. The study employed a correlation research design incorporating both quantitative and qualitative approaches. The study used a sample size of 157 SACCOs in the divisions of Kampala. The study used both probability and non-probability sampling methods in selecting respondents which acted as units of inquiry. The findings revealed a statistically significant relationship between capital adequacy and financial performance of SACCOs in Kampala ($r=0.211$, $P<0.05$). The findings show that financial gap ratio had a positive and significant relationship with financial performance of SACCOs in Kampala ($r=0.396$, $P\text{-value}<0.05$). The study found that there was a moderate positive and significant relationship between cash generation and financial performance of SACCOs in Kampala ($r=0.6$, $P\text{-value}<0.01$). The findings indicated that credit policy had a positive and significant effect on the financial performance of SACCOs in Kampala ($B=.772$, $P\text{ value}<0.05$). In conclusion, the study proved that effective capital adequacy, financial gap ratio, cash generation, and credit policy play a crucial role in enhancing financial performance of SACCOs in Kampala. In recommendation, there is need by SACCOs in Kampala to ensure that there is enough funds available to support their continued operation. The SACCOs should continue charging small interest rates on borrowed funds to increase on the proportion of borrowers and also reduce on loan defaulters. Lastly, there should be continued regular cash budgeting in SACCOs since it eliminates liquidity issues and enhances financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Financial performance is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial performance, combined with the uncertainty of the business environment often leads Business Enterprises into serious problems (Lakew & Rao, 2014). Financial performance looks at the long-term, short-term decisions and techniques which have the same objective of enabling an organization growth by ensuring that return on capital exceeds cost of capital, without making high financial risks (Esokomi & Mutua, 2018).

Financial performance of SACCOs enables decision-makers to judge the outcome of business plans and activities in objective monetary terms. It therefore facilitates measurement of an organization general financial health over a certain timeframe (Kariuki, 2014). The financial performance of SACCOs may be measured through; Return on Assets (ROA), Return on Investment (ROI) and Return on Equity (ROE). Therefore, if SACCOs manage well the risks related with liquidity, it would significantly improve on financial performance (Kinyua, 2013).

Effective and efficient liquidity risk management is essential in boosting the financial performance of SACCOs globally. It is the ability of a bank to fund increases in assets and meet obligations as they arise without incurring unnecessary losses (Esokomi & Mutua, 2018). Liquidity risk management is amongst the four fundamental decision areas of financial management that needs careful handling and planning for a SACCO to be successful and profitable. The core relevancy of liquidity risk management is that it is strongly associated with the financial performance of SACCOs (Lyndon & Bingilar, 2016). Thus, this study attempted to

examine the relationship between liquidity risk management and financial performance of SACCOs in Uganda taking a case study of Kampala.

1.2 Background to the study

The study background is represented in four perceptions, reflecting the historical, theoretical, conceptual, and contextual perspectives as presented below;

1.2.1 Historical background

Historically, SACCOs have existed through effective and efficient financial performance in order to maximize the wealth of shareholders through generation of adequate profits to cover for the expenses and future investment projects. In order to effectively and efficiently enhance their financial performance, SACCOs globally are now paying greater emphasis on proper management of their liquidity levels and positions. Being in a highly competitive financial sector, SACCOs are striving to enhance their financial performance through liquidity risk management (Mulinge, 2016).

In developed countries, SACCOs that have tried to have their financial performance goals achieved have considered adopting effective liquidity risk management practices (Keben & Maina, 2018). The liquidity risk management has been gradually considered among the major risks that can potentially interfere with the financial performance of SACCOs after the 2008 financial crisis (Osoro & Muturi, 2015). In Europe, the difference in monetary transmission in SACCOs has been affected negatively by the adverse turn in the economy since 2008, which has led to increased financial uncertainty of SACCOs (Ivo, 2014).

In Africa, effective and efficient financial performance of SACCOs is an essential measure to management as it is an outcome which has been achieved by SACCOs related to its authority and

responsibility, not against the law, and conforming to the morale and ethic. High financial performance among SACCOs in Africa reflect management effectiveness and efficiency in making use of organization's resources. In Ghana, SACCOs are mandated to preserve an amount ranging between 10% of savings deposits and 20% in liquid accounts as well as reduce the proportion of liquidity which is idle closely to zero so that they comply with the world council of credit unions as a mechanism of managing risks of liquidity with a purpose of boosting the financial performance of SACCOs (Osoro & Muturi, 2015).

In Kenya, good financial performance of SACCOs is a critical aspect as it shows continuous growth in the financial sector and economic growth in the country (Okumu & Oyugi, 2016). In order to ensure that effective financial performance of SACCOs is realized in the republic of Kenya, SACCOs are requested to preserve 15% of its savings deposit and short-term liabilities in liquid assets as a requirement of liquidity risk management practice. Similarly, SACCOs in Kenya improve on its financial performance SACCOs by not getting external borrowings in excess of 25% of its total assets unless the limit is waived by the authority (Osoro & Muturi, 2015).

In Uganda, SACCOs remain the most essential players in providing of money related services and have broader outreach than some other financial sectors. There are 10,800 SACCOs with a participation of 6 million members in the country. Among the available SACCOs, Wazalendo was the first formal savings cooperative society in Uganda at Wazalendo in 1908. By 1954, there were over 500 SACCOs in central province patronizing over 170,000 members with a turnover of two hundred and eighty thousand shillings; the most successful being Makueni Settlement SACCO which paid a dividend of 7% on member's savings (Biwott, 2014). However, SACCOs in Uganda don't have access to the lender of last resort like commercial banks have the Central

Bank. This makes them prone to poor financial performance due to rise in liquidity management risks which may cause adverse repercussion.

A significant proportion of SACCOs in Uganda has failed to improve on its financial performance due to lack of sufficient liquidity and poor liquidity risk management practices which has consequently led to loss of member's confidence. The poor financial performance of SACCOs in the country may also be attributed to poor investment decisions, poor risk management and illiquidity among SACCOs (Muheebwa, 2018). Thus, there was need for the current study to examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala.

1.2.2 Theoretical background

The study was guided by liquidity risk theory which was developed by in 2007 by Acerbi and Scandolo. The theory states that financial institutions should define and identify the liquidity risk to which it is exposed for all legal entities, branches and its subsidiaries in the jurisdictions in which it is active such that there is positive financial performance (Akhtar, 2011). The theory argues that financial institutions should consider interactions between exposures to market liquidity risk and funding liquidity risk in order for financial performance to be realized. The theory iterates that deposits taking financial institutions are exposed to more funding liquidity risk which is more volatile compared to retail deposits. Under stress condition, financial institution members may demand more compensation for risk, shorter maturities period, or decline to extend financing (Akhtar, 2011).

According to liquidity risk theory, deposit taking SACCOs should recognize and consider the strong interactions between liquidity risk and the other types of risk to which it is exposed

(Guglielmo, 2010). Various types of financial and operating risks, which include interest rate, operational, credit, legal and reputational risks may influence SACCO's liquidity position. The liquidity risk can arise from weaknesses or failures in the management of other types of risks. Deposit taking SACCOs need to identify situations that can influence on public perceptions of its soundness (Akhtar, 2011). The theory addresses liquidity risk management practices as the key determinants of financial performance of a Deposit taking SACCO. It acknowledges that SACCOs need to identify better ways to invest their resources with the view of how easy it can be to convert them into cash whenever there is a financial need. The theory contends that a SACCO that puts its money in hard to convert resources is likely to face liquidity risk issues in case of need (Keben & Maina, 2018). In light with the current study, it is assumed from the theory of liquidity risk that all the SACCOs in Kampala have put all the necessary measures to ensure that there is effective liquidity risk management with a purpose of enhancing financial performance. The researcher believes that liquidity risk measures such capital adequacy, credit policy, and financial gap ratio among others are in place to boost the financial performance of SACCOs in Kampala.

1.2.3 Conceptual background

“Financial performance” refers to the degree to which a financial institution or company financial health over a period of time is measured. Financial performance is also a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses (Ijaz & Naqvi, 2016). Financial performance reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders wealth and

profitability (Ijaz & Naqvi, 2016). This study looked at the financial performance of SACCOs in terms of return on equity, return on assets, solvency, market growth, return on investment, and profit margin among others.

Liquidity risk refers to the risk of a financial institution being unable either to meet their obligations to depositors or to fund increases in assets as they fall due without incurring unacceptable costs or losses (Kumar & Yadav, 2013). The liquidity risk happens when the depositors collectively decide to withdraw more funds than the bank immediately has on hand, or when the borrowers fail to meet their financial obligation to the banks. Liquidity risk emerges in two cases, primarily, it arises symmetrically to the borrowers in their relationship with the banks, for instance when the banks decide to terminate the loans but the borrowers cannot afford it. Furthermore, it arises in the context of the banks' relationships with their depositors, for instance, where the depositors decide to redeem their deposits but the banks cannot afford it. In practice, if a financial institution fails to balance gaps, liquidity risk might occur, followed by some undesirable consequences such as insolvency risk, government bailout risk, and reputation risk (Kumar & Yadav, 2013).

“Liquidity risk Management” is defined as the ability of financial institutions to enhance a balance between avoiding the problem of retaining excess liquid assets and at the same time ensuring that the financial institution does not run out of liquid assets to honor its financial commitments as they fall due (Dassie, 2018). The capability to retain assets that are easily transferrable is very much instrumental in enhancing stability in a financial system. Lack of adequate liquidity may result into failure of financial institutions to meet their obligations when the need arise which would render the entire financial system unstable (Dassie, 2018). The current study defined liquidity risk management as the capability of SACCOs in Uganda to avoid

fall into liquidity risks by ensuring that there is; Capital adequacy, financial gap ratio, credit policy, and cash generation.

1.2.4 Contextual background

The SACCOs in Kampala are experiencing financial performance problems emerging from a number of factors. The ineffective financial performance of SACCOs in Kampala is usually due to ineffective management of liquidity, failure to recover the expected amount from the collateral security left by clients who fail to pay back and risk loans (Nalumu, 2011). Good liquidity risk management remains a fundamental aspect upon which most SACCOs depend while providing money related services to its clients as well as blistering financial performance in Kampala. SACCOs in Kampala constitute financial institutions that provide comparative services like banks and the greater part of them were shaped long time back before most commercial banks, yet their financial performance in relation with liquidity risk management is quite wanting compared to other financial institutions in the same sector (Gathurithu, 2011). Factors like poor liquidity risk management practices, poor financial management as well as capital levels challenge most of the SACCOs as they struggle to serve their member's financial needs towards improving financial performance (Osoro & Muturi, 2015).

Many SACCOs in Kampala district are prone to the liquidity shortage which makes them difficult to meet the financial obligations of their clients because they don't have access to the lender of last resort for instance commercial banks have the Central Bank. In addition, the failure of SACCOs to boost its financial performance in Kampala is due to lack of sufficient liquidity and low liquidity risk management which consequently result into poor creditworthiness and loss of member's confidence. This poor financial performance may also be as a result of poor investment decisions, poor risk management and illiquidity among SACCOs (Muheebwa, 2018).

Thus, it is against this background that this study will examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala.

1.3 Problem statement

Effective financial performance ensures that SACCO's financial strategy is implemented. Good financial performance can be determined through effective liquidity risk management among SACCOs (Ochieng, 2018). Similarly, effective liquidity risk management helps to ensure SACCO's ability to meet its financial obligations as they fall due and reduces the probability of an adverse situation developing. Prudent liquidity risk management as part of the overall risk management enhances effective financial performance of SACCOs (Kumar & Yadav, 2013). The government of Uganda has put several regulations in place to ensure that there is effective liquidity risk management and financial performance of SACCOs, for instance the cooperative societies ACT, 2019 postulates that SACCOs should lend to its clients not exceeding a predetermined proportion of the SACCO's total assets. The ACT also points out that the maximum amount any client may borrow from a SACCO should not exceed 10 percent or 25 percent of the institutional Capital (The Cooperative Societies ACT, 2019).

Despite the remarkable efforts by the government of Uganda, SACCOs in Kampala have been unsuccessful in achieving effective and efficient financial performance (Ssekiziyivu, Mwesigwa, Joseph, & Nkote, 2017). The SACCOs have registered a reduction in profitability/financial performance due to inadequate liquidity management techniques like ineffective credit policies in the SACCO (Kangume, 2019). This has consequently led to a reduction in a significant number of SACCO members (Kangume, 2019). Meanwhile, past researchers in Uganda have concentrated more of their studies on banks while leaving out SACCOs. Therefore, the current

study sought to examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala.

1.4 Objectives of the study

The study was guided by the following objectives which were categorized into general objective which was the purpose of the study and the specific objectives of the study and are given below;

1.4.1 Purpose of the study

The purpose of the study was to examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala.

1.4.2 Objectives of the study

The study was guided by four specific objectives as indicated below.

- i. To examine the relationship between capital adequacy and financial performance of SACCOs in Kampala.
- ii. To establish the relationship between financial gap ratio and financial performance of SACCOs in Kampala.
- iii. To establish the relationship between cash generation and financial performance of SACCOs in Kampala.
- iv. To establish the effect of credit policy on financial performance of SACCOs in Kampala

1.4.3 Hypotheses

The study was guided by the following alternative hypotheses;

Ha1: There is a significant relationship between capital adequacy and financial performance of SACCOs in Kampala.

Ha2: There is a significant relationship between financial gap ratio and financial performance of SACCOs in Kampala.

Ha3: There is a significant relationship between cash generation and financial performance of SACCOs in Kampala.

Ha4: There is a significant effect of credit policy on financial performance of SACCOs in Kampala

1.5 Scope of the study

1.5.1 Geographical scope

The study was carried out among the selected SACCOs in the divisions of Kampala to examine the relationship between liquidity risk management and financial performance. The study considered SACCOs in Kampala because they are operating majorly on large scale and some are experiencing hardship in liquidity risk management (Jaramogi, 2019). Thus, this was imperative for the current study to get sufficient literature and evidence that underpinned the liquidity risk management practices and financial performance of SACCOs in the divisions of Kampala.

1.5.2 Content scope

Generally, the study examined the relationship between liquidity risk management and financial performance of SACCOs in Kampala. Specifically, the study examined the relationship between capital adequacy and financial performance of SACCOs, established the relationship between financial gap ratio and financial performance of SACCOs, established the relationship between cash generation and financial performance of SACCOs, and examined the relationship between credit policy and financial performance of SACCOs. The researcher focused on this content scope because it provided enough evidence in regards to liquidity risk management and financial performance of SACCOs in Kampala.

1.5.3 Time scope

The study considered a period of 6 years that is from 2016 to 2020. The researcher considered this period because it is when amendments in the cooperative societies ACT were made that gives provision for SACCOs to operate effectively and efficiently in spheres of liquidity risk management and financial performance. Therefore, the researcher gathered a lot of literature in this period to present evidence in light with liquidity risk management and financial performance of SACCOs in Kampala.

1.6 Significance of the study

The results of the research may be expected to expand on the empirical review of liquidity - profitability tradeoff. The critical goals for business organizations are to increase profitability and shareholders' wealth. Financial specialists hold a view that focusing too much attention on profit-making could result to a weakened liquidity status of the business in question. The research may offer imperative information on factors of liquidity and how liquidity risk influences the financial performance of SACCOs and how to mitigate the risks.

The results of the study may also act as a basis for finance managers in SACCOs, insurance companies and other sectors to make investment decisions that would satisfy stakeholders' interests with regard to liquidity and financial performance.

The inferences of the study may also be useful to the students of finance in terms of empirical review as well as to those who wish to carry out further research on variables investigated, of not only SACCOs but also other organizations.

The study findings may be of great significance to SACCO's management as they need to benchmark, plan and put in place appropriate banking practices that not only facilitate

augmented financial performance but also satisfied public. The researcher hopes that the findings of the study offer great significance to commercial banks, not only in Uganda but globally.

The study findings may enable the government of the ministry of finance in the formulation of laws, policies and guidelines that should be followed by SACCOs in relation to liquidity risk management as this would enable them improve their financial performance.

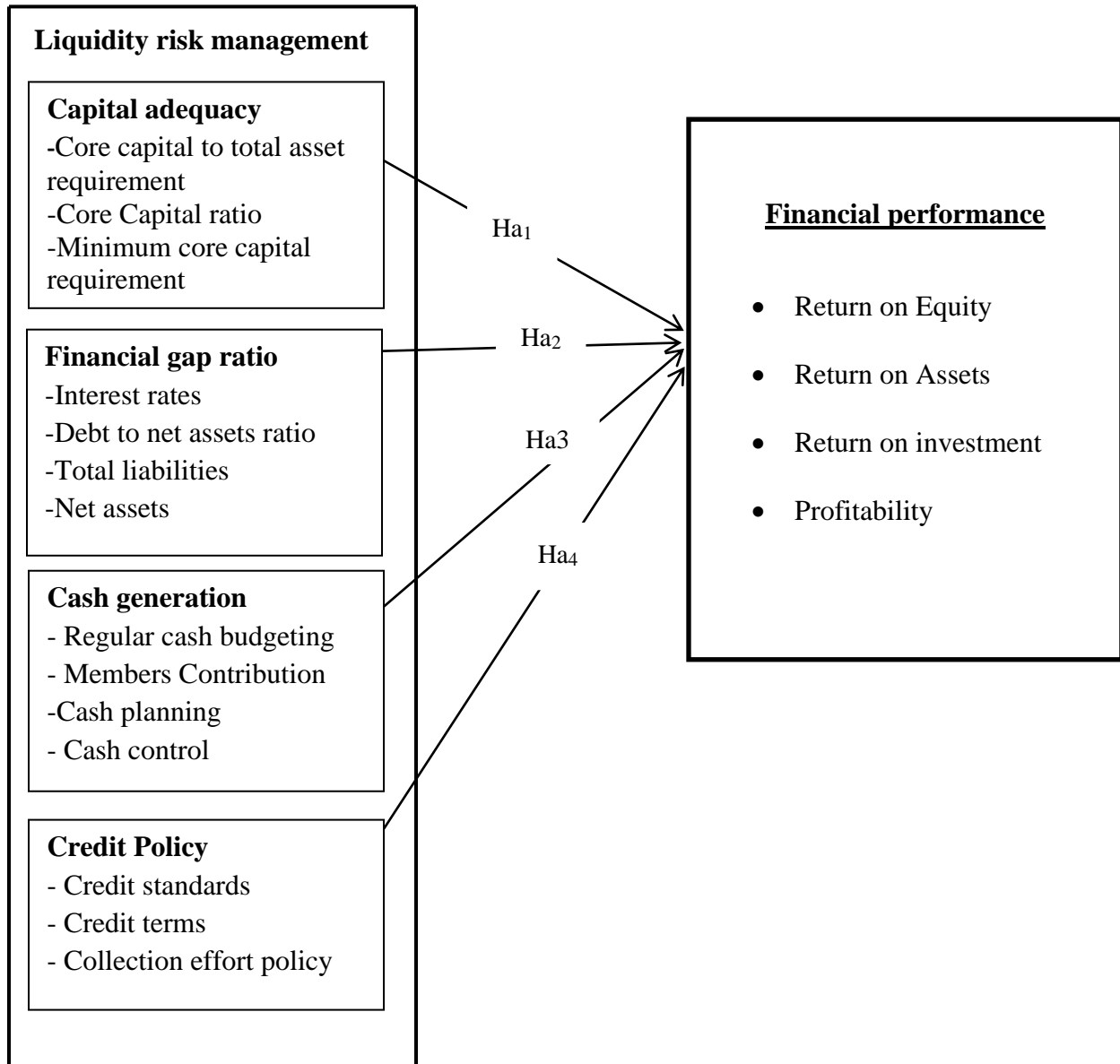
The study may also enable the researcher to be awarded a master's degree in business administration of Kyambogo University. In addition, the study may also enable Kyambogo University to make publications in line with liquidity risk management and financial performance of SACCOs.

1.7 Conceptual framework

The conceptual framework presents the association between liquidity risk management and financial performance.

Independent Variable

Dependent Variable



Source: Adopted from Kagunda (2018)

Figure 1. 1: Conceptual Framework

The above conceptual framework presents the relationship between liquidity risk management and financial performance that the study will investigate. The liquidity risk management of SACCOs was measured in terms of capital adequacy, financial gap ratio, cash generation, and credit policy while financial performance was measured in form of Return on Equity, return on Assets, Solvency, Return on investment, and profit margin.

The conceptual framework shows that liquidity risk management has a direct relationship with financial performance of SACCOs. For instance, when there is adequate capital, good financial gap, effective cash generation, and effective credit policies, there may be improved financial performance of SACCOs and vice versa.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the relevant literature reviewed for the study. Specifically, it contains the theoretical review, a review of literature on specific objectives, empirical studies, and literature gap.

2.2 Theoretical Review

This section enlightens on different theories that underpin the relationship between liquidity risk management and financial performance of SACCOs.

2.2.1 Liquidity risk theory

The liquidity risk theory was developed in 2007 by Acerbi and Scandolo. The theory states that a financial institutions should define and identify the liquidity risk to which it is exposed for all legal entities, branches and its subsidiaries in the jurisdictions in which it is active such that there is positive financial performance (Akhtar, 2011).

The theory contends that financial institutions should consider interactions between exposures to market liquidity risk and funding liquidity risk in order for financial performance to be realized. The theory iterates that deposits taking financial institutions are exposed to more funding liquidity risk which is more volatile compared to retail deposits. Under stress condition, financial institution members may demand more compensation for risk, shorter maturities period, or decline to extend financing (Akhtar, 2011).

Guglielmo (2010) posts that in light with liquidity risk theory, deposit taking SACCOs should recognize and consider the strong interactions between liquidity risk and the other types of risk to which it is exposed with a view of enhancing financial performance. Various types of financial and operating risks, which include interest rate, operational, credit, legal and reputational risks may influence SACCO's liquidity position. The liquidity risk can arise from weaknesses or failures in the management of other types of risks. Deposit taking SACCOs need to identify situations that can influence on public perceptions of its soundness (Akhtar, 2011).

According to Keben and Maina (2018) the theory addresses liquidity risk management practices as the key determinants of financial performance of a Deposit taking SACCO. It acknowledges that SACCOs need to identify better ways to invest their resources with the view of how easy it can be to convert them into cash whenever there is a financial need. The theory contends that a SACCO that puts its money in hard to convert resources is likely to face liquidity risk issues in case of need (Keben & Maina, 2018).

The theory of liquidity risk was applicable to the current study since it provides a foundation of conceptualized relationship between liquidity risk management and financial performance of SACCOs. However, the theory does not provide a direct relationship between the liquidity risk management dimensions and components of financial performance which were conceptualized in the current study, thus the need for the current study.

2.2.2 Anticipated Income Theory

The Anticipated income theory was developed by Prochanow in 1944 on the basis of the practice of extending term loans by the US commercial banks. The theory states that irrespective of the nature and feature of a borrower's business, the bank plans the liquidation of the term-loan from

the expected income of the borrower. A term-loan is for a period exceeding one year and extending to a period less than five years (Elsharif, 2016).

The Anticipated income theory posts that in order to manage liquidity risks and improve financial performance very well, SACCOs should estimate liquidity and meet it if scheduled payments made by creditors are based on the income that they make as a means of improving financial performance (Woodford, 2011). The theory emphasizes on relating loan repayment to income rather than relying heavily on collaterals that were made by SACCOs during the loan application to avoid interference with the financial performance and availability of liquidity (Woodford, 2011).

Crowe (2009) opines that the theory on anticipated income entails the ideas and equates intrinsic soundness of term loans with appropriate repayment schedules adapted to the anticipated income or cash flow of the borrower. As a result, the credit demands of business are well accommodated under this system of banking policy, and the use of loan commitments is freely pursued which consequently expounds the financial performance of SACCOs (Crowe, 2009). The theory also argues that SACCOs should look at scheduled loan payments from their customers in terms of the income that they make as opposed to the collaterals they put when applying for the loans and overdrafts since this enhances availability of adequate liquidity and expands on the financial performance of SACCOs (Mulinge, 2016).

Therefore, this theory is was applicable to the current study as it explains how the management of cash flow or liquidity is associated with the financial performance of SACCOs. This is due to the fact that the scheduled loan payments of customers act as cash flows of SACCOs which when adequately managed would result into improved financial performance of these SACCOs.

2.3 Conceptual review

This section reviews concepts on liquidity risk management and financial performance.

2.3.1 Financial Performance

Financial performance refers to the degree to which a financial institution or company financial health over a period of time is measured. Financial performance is also a financial action used in order to generate higher sales, profitability and worth of a business entity for its shareholders through managing its current and non-current assets, financing, equity, revenues and expenses (Ijaz & Naqvi, 2016).

Financial performance reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time. It indicates that how well an entity is utilizing its resources to maximize the shareholders' wealth and profitability (Ijaz & Naqvi, 2016). Financial performance is also a general measure of financial health of SACCOs over a given period of time. For SACCOs to sustain business operations and obtain funds for expansion and growth it must earn sufficient profits (Kinyua, 2013).

As a significant tool in planning, financial performance can be used to determine how well a SACCO can use its assets to generate revenues. Financial performance determines how well a Sacco is generating value for its member's deposits and share capital. Financial performance of SACCO's can be determined using various financial mixes such as ROA, ROE, earnings per share and profit after tax (Mwania, 2017). The current study broadly looked at financial performance of SACCOs in terms of ROE, ROA, solvency, market growth, return on investment, level of operating expenses, and profit margin.

2.3.2 Liquidity risk management

Liquidity risk Management refers to the ability of financial institutions to enhance a balance between avoiding the problem of retaining excess liquid assets and at the same time ensuring that the financial institution does not run out of liquid assets to honor its financial commitments as they fall due (Dassie, 2018). The capability to retain assets that are easily transferrable is very much instrumental in enhancing stability in a financial system. Lack of adequate liquidity may result into failure of financial institutions to meet their obligations when the need arise which would render the entire financial system unstable (Dassie, 2018).

The concept of liquidity risk management has received serious attention all over the world particularly with the current financial situations and the state of the world economy. The concern of financial institutions including Saving and Credit Cooperatives (SACCOs) all over the world is to devise a strategy of managing their risks associated with liquidity in order to meet their obligations as they fall due and increase profitability and shareholder's wealth (Mwashi & Miroga, 2018).

Sound liquidity risk management is among the top priorities of a financial institution's assets as well as liabilities management. In relation with SACCOs' liquidity or the ability to fund increases in assets and meet obligations as they come due, it is critical to the ongoing viability of the SACCOs. Meanwhile, since there is a close association between liquidity and solvency, sound liquidity risk management decreases on the likelihood of SACCOs becoming insolvent, thus reducing the chances of bankruptcies as well as disruptive runs (Omino, 2014). Liquidity risk management is an important aspect of financial management as well as key determinant of financial performance of SACCOs. The main purpose of liquidity risk management is to

maintain an optimal balance between current assets and current liabilities between each of the working capital components in SACCOs (Loutskina, 2011).

According to Campello, Giambona, Graham and Harvey (2011) liquidity risk management is crucial in all financial institutions such as Banks, Micro-finance institutions (MFIs) and SACCOs to ensure that customer withdrawals are met, compensate for fluctuations within the balance sheet, as well as provide funds for financial growth. Effective liquidity risk management necessitates SACCOs to plan as well as estimate for liquidity demands over various periods and to consider how funding requirements may evolve under various scenarios, including adverse conditions. SACCOs are required to preserve adequate levels of cash, liquid assets, and prospective borrowing lines to meet expected and contingent liquidity demands (Campello et al., 2011). Liquidity risk management is an important component for the safe and sound financial performance of SACCOs. Sound liquidity risk management involves carefully managing assets and liabilities, both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows since this will enhance good financial management (Campello et al., 2011).

2.4 Literature Review on the Study Objectives

This section reviews literature in relation with the specific objectives of the study.

2.4.1 Capital Adequacy and Financial Performance

Capital adequacy is defined as a quantum of fund, which a financial institution should have a plan to maintain in order to conduct its business in a prudent manner (Amahalu, Abiahu, Okika, & Obi, 2016). Bank's capital therefore depends on a number of factors such as the bank's size, the level of risk involved in its operations, the market forces, the lending policy, its management

capabilities, its portfolio (assets and cash). In addition, capital adequacy is observed as a percentage ratio of a bank's primary capital to its loan and investments used as a measure of its financial strength and stability (Amahalu et al., 2016).

Capital adequacy as a concept has been in existence prior to the era of capital regulation in the banking industry and there exist several literatures on the determination of capital adequacy ratio (CAR) as well as its determinants. The concept appeared in the middle of the 1970's because of the expansion of lending activities in banks without any parallel increase in its capital, since capital ratio was measured by total capital divided by total assets (Abba, Zachariah, & Inyang, 2013). SACCOs need adequate capital since it is a significant indicator of safety and stability for depository institutions because they view capital as a guard or cushion for absorbing losses. The purpose of Capital adequacy is to facilitate financial stability and as a result, the role of an individual institution in and internationally is financial stability since it increases the level of risks in the activities of banks because of the system is the central issue (Abba et al., 2013).

Adequate capital ought to be available as it supports the continued functioning of the bank; in terms of offering its mandated services to the public. Capital acts as a cushion during undesirable financial conditions (Dang, 2011). The capital of a bank creates liquidity for the bank as deposits are delicate and vulnerable to bank runs. In spite of capital being an imperative source of liquidity, it has limitations as it creates low demand for liability, which encompasses the cheapest sources to adequate capital to sustain bank operations. Capital adequacy ratio (CAR) is adopted to evaluate the level of capital available in a bank (Dang, 2011).

Capital adequacy provides a cover against losses not covered by current bank earnings and to protect depositors and other creditors against loss in the event of liquidation (Tesfai, 2015).

Functionally, adequate capital was regarded as the amount of capital that can effectively discharge the primary capital function of preventing bank failure by absorbing losses (Tesfai, 2015). Malimi (2017) studied risk in banking and found that increase in adequate capital tend to lower banking risks and hence improve the asset quality and bank growth. He argued that capital adequacy serves as a tool to control excessive risk taking by banks and to prevent them from being insolvent through recapitalization. In addition, Malimi (2017) found that enough available capital supported the continued operation of SACCOs and other banking institutions such as commercial banks.

According to Murkomen (2016) core capital to total assets ratio is used to determine the leverage level of a financial institution. A declining trend in this ratio may predict future capital adequacy problems and upsurge in risk exposure. The increased regulations on capital requirements compels banks to change how they operate internally in terms of strong corporate governance, risk assessment methods, credit evaluation procedures, employment of more qualified staffs, and enhanced internal control procedures. Financial institutions with huge capital are able to undertake profitable ventures, expand operations and undertake calculated risks. However, banks with little capital will invest large amounts of money in government securities which are less risky instead of lending. Thus, capital adequacy is considered to have a positive relationship with efficiency (Murkomen, 2016). The scholar further contended that adequate capital in SACCOs protects depositors and other creditors against losses (Murkomen, 2016).

Murkomen (2016) supported the rationale for increasing capital adequacy requirements in that financial institutions with adequate capital requirements or guidelines ensure that there is enough capital to meet the demands from the borrower hence leading to enhanced efficiency in financial institutions like SACCOs. However, capital requirement ratios may affect productivity of

financial institutions in many ways. The first case is through bank lending, for example, Kopecky and VanHoose (2006) argued that capital requirement ratios affect the quantity and the quality of the loans made. They argued that when regulatory capital requirement ratios is introduced to a financial institutions for the first time, there will be a reduction in the bank's loan book. Nevertheless, the quality of the loan book may either increase or deteriorate.

According to Mugwang (2014) Central Bank of Kenya (CBK) increased the minimum capital requirement, aimed at strengthening institutional structures and improving resilience of the banking industry in respect to the international standards. Mugwang (2014) argued that every bank was expected to maintain a minimum core capital of at least KES 1 billion (USD 12 million) by 2012 with a purpose of maintaining adequate capital. This justifies the need for the current study in Kampala. The study by Mugwang (2014) in Kenya also established that there was growth in capital compared with the assets of the SACCOs.

According to Hakenes and Schnabel (2010) tighter capital requirements increase the risk of individual loans and may also increase financial institution's probability of default because they relax the competition for loans and thus destabilizing the banking sector. The scholars contended in their study that SACCOs maintained a minimum sufficient capital with a purpose of meeting the demand of its customers (Hakenes & Schnabel, 2010). Thus, this justified the need for the study in the divisions of Kampala.

Naceur and Kandil (2006) studied the impact of capital requirement on the profitability of commercial banks in Egypt. The study focused on capital requirement regulations set by the Central Bank of Egypt and the Basle committee. The study found that high capital requirement increased the cost of intermediation. On the other hand, the capital requirements increased the

banks' size leading to increased bank activity and therefore improved performance. The study concluded that capital requirement regulation improved performance. Thus need for the study in the divisions of Kampala.

Saona (2010) investigated the relationship between the capital structure of financial institutions in the United States and performance. It established that there existed a negative relationship between the capital ratio and the profitability for the banking industry. Similarly, Berger, Bouwman, Kick, & Schaeck (2012) found that core capital ratio helps small financial institutions to increase their probability of survival and market share at all times (during banking crises, market crises, and normal times).

A study by Barus, Muturi, Kibati, and Koima (2017) in Kenya found that; core capital to total asset requirement improved the financial performance of the SACCO, institutional capital to total asset requirement improved the financial performance of the SACCO, the minimum core capital requirement of Kshs. 10 million improved the financial performance of the Sacco and the core capital to total deposits requirement also improved the financial performance of the SACCO in Kenya (Barus et al., 2017). This justifies the need for the current study among SACCOs in Uganda.

A core capital for deposit taking SACCOs improves on the efficiency and effectiveness of how SACCOs conduct their deposit taking business. The improved effectiveness will result into better productivity thus improved financial performance which is a key measure of productivity in monetary terms (Saidi, 2016). The current study will also find out whether core capital for SACCOs in Kampala has improved on their efficiency and effectiveness. Kahuthu, Muturi and Kiweu (2015) studied the effect of core capital and membership growth on performance of

Deposit Taking SACCOs and revealed that capital requirements and membership growth positively affected financial performance. Thus, this justified the need for the current study.

2.4.2 Financial Gap ratio and Financial Performance of SACCOs

Financing gap ratio refers to the ratio of a financial institution's rate sensitive assets to liabilities. The rate sensitive means that the assets and liabilities rise or fall significantly when interest rates change. In other words, financial gap ratio is the measurement of a financial institution's short-term investments against short-term expenditure (Market Business News, 2020).

A study conducted by Kariuki and Ngahu (2016) on the effect of interest rates on loan performance of Microfinance Institutions in Naivasha Sub-County, Kenya found a strong relationship between loan repayment and the interest rates charged by SACCOs. The study further revealed that the interest rates charged on the borrowed loan lead to loan defaulting which in turn leads to loan non-performance thus poor financial performance in SACCOs. Customers also default in loan repayment because short term loans attract higher interest rates as compared to long term loans (Kariuki and Ngahu, 2016). However, the current study found out that interest rates charged on the borrowed loans by SACCOs in Kampala have reduced on loan defaulting which has improved on the financial performance.

Mwangi (2014) studied the influence of lending rates on financial performance of MFIs in Kenya. It was reported that the relationship between lending rates and financial performance of MFIs was strong and positive. However, due to high interest rates charged by MFIs hindered the poor from accessing credit which resulted in poor financial performance of MFIs due to low uptake of loans. On the other hand, Mwangi (2014) found out that SACCOs had a lower debt

compared to the value of its assets which fueled the growth in financial performance of SACCOs. This justified the need for the current study in Kampala.

A study by Bryan (2015) found that debt ratios can be used to describe the financial health of financial institutions, businesses, and governments. He found out that debt ratio for a given financial institution reveals whether or not a financial institution has loans and, if so, how its credit financing compares to its assets. From a pure risk perspective, Bryan (2015) found that debt equity ratio of less than 0.4 are considered better debt ratios since the interest on a debt must be paid regardless of business profitability while higher debt equity ratio of more than 0.6 makes it more difficult to borrow money since lenders often have debt ratio limits and do not extend further credit to firms that are over-leveraged. Bryan (2015) also found out that SACCOs with small liabilities helped to improve on their financial performance. Thus, need for the study in the divisions of Kampala.

Bodie, Alex and Alan (2004) opine that interest coverage ratio measures how many times over a financial institution could pay its current interest payment with its available earnings. In addition, Interest Coverage ratio measures the margin of safety a financial institution has for paying interest during a given period, which a financial institution needs in order to survive future financial hardship should it arise. Secord (2015) argues that the lower a financial institution's interest coverage ratio is, the more its debt expenses burden the institution and this may result into further borrowing or utilise its cash which is much better used to invest in capital assets or held as reserves for emergencies. Thus, need for the current study.

The study by Njagi, Simiyu, & Murithi (2017) on the relationship between loan interest rate and ROE, found a negative relationship. Interest rate charged on a loan was found to have a

significant effect ROE of SACCOs in Maara Sub-County at 5% level of significance. The findings noted that an increase in interest rate, leads to a decrease in ROE implying that as interest rate increases, SACCOs financial performance is affected as it becomes more expensive to operate under borrowed money as more interest is paid to service the debt. This is because firm's debts will have higher costs because they must pay more interest which lowers down their working capital leading to higher costs associated with lack of enough liquidity.

According to Omino (2014) liability side liquidity risk arises when financial institutions liability holders seek cash in their financial claims immediately. If financial institutions have less cash than their liability holders wish to withdraw, it has to liquidate their assets to cover the difference. Asset side liquidity risk arises when a given security or asset cannot be traded quickly enough or at wanted price in the market to prevent a loss or make the required profit. Omino (2014) argues that when the assets of financial institutions such as SACCOs can easily be converted into cash, it enables to meet the demand for cash from the creditors. Most of the assets can be turned into cash eventually, but if some assets have to be liquidated immediately, there is a chance that this might be done either at very high cost or at much lower price than financial institution would be able to get in some near future (Omino, 2014). The scholar also noted that improved asset growth plays a significant role towards improved financial performance of SACCOs (Omino, 2014).

According to Ombaba (2013) asset quality refers to the general risks related to many assets owned by an organization. It is usually used by financial institutions to evaluate the number of assets at risks and the amount of funds to set aside in case they incur loss. Loans and advances are usual financial institutions' assets that need a stern assessment of asset quality. Ombaba

(2013) further asserted that non-performing assets affects operating success which also affects revenue, liquidity and creditworthiness of financial institutions. Similarly, Khalid (2013) asserted that an increase in the quality of loan improves the profits on bank loans and reduces the costs of failure. Thus, determined the need for the current study.

According to Kagunda (2018) enough loan provision, application of strong loan assessment processes and successive recovery techniques can be used to manage the loan assets and reestablish the best equilibrium in liquidity. Assets quality is a powerful determining factor of SACCOs' performance since it affects the interest revenue and also decreases the expense of managing non-performing loans. The SACCOs must preserve cash that can be deducted to make sure that they have the capability to handle losses as a result of defaulted loans. The greater the non-performing loans ratio to the gross/net assets the lesser the asset quality and hence it implies that trade-off between assets quality and performance is anticipated to be adverse (Kagunda, 2018). This justified the need for the current study.

2.4.3 Cash Generation and Financial Performance of SACCOs

According to Njeru, Njeru, Member, and Tirimba (2015) cash generation involves planning and controlling cash flows within the financial institutions and cash balances held at a point in time to foster effective liquidity management and improve on the financial performance. Efficient cash generation mechanism involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little. Efficient cash generation mechanism improves on the profitability of financial institutions and market value furthers the significance of efficient cash generation practices in improving financial performance (Njeru et al., 2015).

When the cash inflows or deposits in a SACCO are higher than the withdraws or cash outflow there is a net positive cash position whereas when the cash withdraws from a SACCO are higher than the cash deposits, then the cash position is negative (Owino, 2011). Therefore, when the cash flow is positive, the SACCO has a healthy financial position and can be said to be financially stable since it will be able to meet its cash requirements easily (Ombado, 2010). However, a negative cash flow position leads to instability with the SACCO not being able to meet its obligations and core responsibility of issuing loans to members in good time (Ombado, 2010).

A study by Kotut (2003) established that regular cash budgeting within SACCOs is helpful during the process of planning for shortage and surplus of cash and has a positive and significant effect on the financial performance. The current study found out that regular cash budgeting has improved on the financial performance of SACCOs in Kampala.

In a study by Njeru et al. (2015) it was revealed that the monthly members' contribution was low and this raised a great concern on credit availability to the borrowers since members' contribution provides direct cash in the SACCO. The study suggested that management needed to find ways to encourage regular contribution of the members since it would affect the financial performance of the SACCO. Njeru et al. (2015) also contended that proper cash budgets enhanced competitiveness of SACCOs.

In a study by Kakaire (2019) cash planning was revealed to help SACCOs to maintain an optimal cash balance and this helped to boost financial performance. It can minimize the positive items and maximize the negative items that affect the cash cycle. Besides that, cash planning also helps in spotting potential cash flow gaps. In particular, cash planning serves as a reference tool for

seeking funds from bankers, and in enhancing effectiveness. Proper cash planning can prevent a SACCO from bankruptcy, and therefore, profitability and sustainability of the SACCO are ensured (Kakaire, 2019). Thus, justified the need for the current study in Kampala.

Njeru et al. (2015) investigated the effect of cash generation on financial performance of deposit taking SACCOs in Mount Kenya region. They concluded that cash generation is critical as a liquidity management tool in deposit taking SACCO's. Hence, they concluded that cash generation policy should be put in place to attain optimal financial performance of deposit taking SACCOs. This justified the need for the study in Kampala to ascertain whether there is cash generation policy in place to improve on financial performance of SACCOs.

The loans given out by SACCO are financed by shares, deposits and external borrowing. Adequate protection of loans must be given to all assets against losses as a safeguard to deposits. Adequate provisioning should be considered as a primary source of loans protection (Rehema, 2013). Poor asset quality leads to high levels of non-performing loans leading to liquidity shortages. In addition, it will lead to inflated asset values and overstated earnings. Since member deposits aren't protected severe liquidity shortage is bound to occur because of lack of enough funds to meet the daily withdrawal demand. Practices like adequate loan provisioning, implementation of sound loan appraisal procedures, and effective recovery mechanisms can be employed to manage the loan asset and restore an optimal balance in liquidity (Rehema, 2013). This justified the need for the current study in Kampala.

According to Mwangi (2018) for SACCOs to effectively generate cash and manage demand for loans, they should be able to mobilize members deposit to be higher than the demand for credit. This reduces on the huge appetite of SACCOs to borrow externally to fund the borrowing needs

of the members. When demand for credit exceeds the supply (through) savings, SACCOs tend to borrow externally, in order to bridge this gap. The current study ascertained that for SACCOs in Kampala to generate cash and manage demand for loans, they should be able to mobilize members deposit to be higher than the demand for credit (Mwangi, 2018).

Loan repayment is the obligation of members to ensure that SACCOs have adequate cash to meet new Members loan obligation. The researchers noted that there are huge credit risks encountered among different SACCOs, thus there should be need of SACCO management to ensure there are improved policy on credit policy and this will reduce liquidity risk and improve financial performance of the SACCOs (Duncan, Njeru, Member, & Tirimba, 2015). On the other hand, Duncan et al. (2015) also noted that appropriate cash control in SACCOs reduced on the liabilities thus increasing on the financial performance. Thus, need for the current study in the divisions of Kampala.

A study by Olando, Mbewa, and Jagongo (2012) found out that returns on loan investment had a positive significant relationship with growth of SACCOs' wealth. The researchers revealed that this was attributable to the fact that loans are the core investment for SACCOs. Similarly, the authors found out that cash generation through liquid investments showed a strong positive significant relationship with growth of SACCOs' wealth. This was attributed to the fact that liquid investments could be converted into cash easily to meet short-term obligations, thus this finances liquidity gaps hence enhancing stability of SACCOs (Olando et al., 2012). This justified the need for the current study.

2.4.5 Credit Policy and Financial Performance of SACCOs

Credit policy is fundamental in the management of accounts receivables of SACCOs. The major rationale of the policy is to ensure consistency in operation and adherence to uniform sound practices of SACCOs. Policies should be the same for all and are general rules designed to guide each decision, simplifying and listening to each decision-making process (Maiti, 2015). A good credit policy involves effective initiation, analysis, credit monitoring and evaluation. The credit policy of SACCOs influences asset quality, management quality, earnings and liquidity of SACCOs either positively or negatively depending on how well the policies are made and implemented (Maiti, 2015).

The credit policy gives a framework that acts as guideline when dispensing credit decisions which are some aspects and arrangements that an institution can set. This framework is fundamental principles and procedures for getting money back from clients, bearing in mind that not all borrowers will pay back since some of them will default since some customers pay while others don't pay back their loans (Moti, 2012).

Wanja (2013) argues that effective credit policy is a requirement for any SACCO in achieving high financial performance. The achievement of high profitability of SACCOs greatly depend on the effectiveness of their credit policies as they generate most of their income from interest earned on loan disbursed to individuals and small and medium enterprises (Wanja, 2013). Thus, the current study ascertained that for the financial performance of SACCOs in Kampala to be increased, there would be effective credit policy as a requirement.

Ochieng (2013) advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so that the regulated credit unions can make

profits. This is a criterion used to decide the type of client to whom loans should be extended to, to reduce chances of loan loss. Credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral, and security capital (Ochieng, 2013). The current study established that credit standards set by SACCOs in Kampala are based on capacity, condition, collateral, and security capital of the loan applicant.

According to Maiti (2015) a Credit term refers to contractual stipulation under which a financial institution grants credit to its clients. These credit terms give the credit period and the credit limit to the customers. The SACCOs should make credit terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing institutions risk. Credit terms usually indicate the credit period, interest rate, method of calculating interest and frequency of loan installments (Maiti, 2015). This study will investigate whether credit terms given by Kampala SACCOs to its customers are attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts.

Credit collection policy is required by SACCOs since some customers do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debt losses and increases financial performance of SACCOs through increased profitability (Dawkin, 2010). This study assessed that credit collection policy of SACCOs in Kampala are directed at accelerating recovery from slow payers and reduce on bad debts losses.

According to Atekit (2016) credit standards, credit terms policy and the collection effort policy were used in deposit taking SACCOs in Moroto to manage loans/debts. The results indicated that the credit policies significantly increase return on assets of SACCOs resulting into increased

profitability. The study concluded that there existed a significant strong and positive relationship between credit Standards and ROA which led to significant increase in financial performance, improve return on assets and that application of credit terms policy significantly increased ROA of SACCOs hence decreasing loan to assets ratio that led to increase in financial performance (Atekit, 2016). This justified the need for the current study in Uganda.

2.4.6 Financial Performance of SACCOs

This section specifically reviews literature related to return on equity, return on assets, solvency, return on investment, and profit margin.

According to Esokomi and Mutua (2018) return on Equity which is a financial ratio refers to how much profit a company earned compared to the total amount of shareholder equity invested. Khrawish (2011) explains that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. ROE represents the rate of return earned on the funds invested by its stockholders. ROE shows how effectively a financial institution management is using shareholders' funds hence the better the ROE the more effective the management in utilizing the shareholders' funds thus improved financial performance of a financial institution. It therefore facilitates measurement of an organization general financial health over a certain timeframe (Khrawish, 2011).

According to Wanjiku (2018) return on assets shows how much a financial institution has been able to derive from its assets. It is measured by net income to total assets ratio. It is generally used as a measure of a financial institution's performance with a measure of over 5% being considered a good performance (Wanjiku, 2018). A study by Wanjohi (2013) as cited in Mulinge (2016) examined the risk management practices of the commercial banks and linking them with

the banks' financial performance. The banks' financial performance was analyzed using Return on Assets (ROA) for years (2008-2012). The findings revealed that many banks in Kenya experienced good financial performance as noted by high Return on Assets (ROA) due to financial risk management practices (Mulinge, 2016).

Return on investment is used by SACCOs to ascertain the best investment plans. It is used by investors and shareholders while making investment decisions. Return on Investment ratio for a SACCO shows how much profit a SACCO is making against the investments made by the shareholders. A SACCO with a higher Return on Investment ratio is more profitable option as compared to a SACCO with a lower Return on Investment ratio (Bhunja, 2011).

According to Kyule (2015) solvency refers to the ability of a financial institution to meet its short, middle and long-term financial obligations. It is the ability of a financial institution to meet its obligations in the event of cessation of activity or liquidation. A SACCO is considered as solvent if the existing assets exceed or equal total liabilities. However, if total assets are lower than current liabilities, the SACCO faces an insolvency risk and cannot pay its debts (Kyule, 2015). Solvency is usually measured by ratios. There are three main ratios used to measure solvency: the solvency ratio, the net worth ratio, and the leverage ratio. The solvency ratio divides total liabilities by total assets and determines the amount of debt per dollar of assets. The net worth ratio, which is the ratio of total equity to total asset uses the owner's equity in the business to indicate future solvency owned and the leverage ratio compares debts to equity (Khidmat & Rehman, 2014).

Profitability is the primary goal of any financial institution including SACCOs. A SACCO that is not profitable cannot survive in the long run. Profitability is the most important indicator of

success of SACCOs. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in SACCOs (Obara, 2013). Profitability is most imperative Part to the SACCO's aggregate shareholders. Profits help SACCOs in turbulent times against unfavorable conditions, for example, misfortunes on credits, or misfortunes caused by unforeseen changes in loan fees (Gitogo & Karanja, 2013).

2.4.7 Empirical literature

This section reviews empirical studies which are in light with the specific objectives of the study. A study by Odunga, Nyangweso, Carter and Mwarumba (2013) investigated the effect of capital adequacy on the financial performance of commercial banks in Kenya. The study found that capital adequacy had no significant impact on bank performance. The study recommended that banks shift their concentration from increasing capital levels to credit risk management (Odunga et al., 2013). However, the above study targeted commercial banks yet the current study will be based on SACCOs in Kampala. In addition, the above scholars were investigating the effect of capital adequacy on the financial performance of commercial banks yet the current study examined the relationship between capital adequacy and financial performance of SACCOs in Kampala using correlation analysis.

Njoroge (2016) studied the effect of firm characteristics on the financial performance of SACCOs based on profitability level. The scholar employed 36 SACCOs registered with the Ministry of Cooperatives in Murang'a County that were operational between 2011 and 2015. The results established a positive relationship between financial performance and capital adequacy. Thus, this determines the need for the current study to examine whether capital adequacy has a positive significant association with financial performance of SACCOs in Kampala.

Kagunda (2018) assessed the relationship between financial gap ratio and financial performance of SACCOs in Kenya. The findings indicated a weak relationship between financial gap ratio and financial performance but the relationship was statistically significant. This justified the need for the study to ascertain whether there was a statistically significant association between financial gap ratio and financial performance of SACCOs in Kampala.

Odhiambo (2013) studied the relationship between cash generation and financial performance of deposit taking savings and credit co-operative societies licensed by SACCO societies regulatory authority in Nairobi county. The study found out that cash generation had a statistically significant relationship with the financial performance of deposit taking savings and credit co-operative societies licensed by SACCO. The findings indicated that efficient cash inflows or generation leads to better financial performance of SACCOs. However, the above scholar did not show empirically whether the relationship between cash generation and financial performance of SACCOs was significant or not, thus this study closed this methodological gap.

A study by Ajiambo (2013) examined the effect of credit policy on financial performance of SACCOs in Nairobi County in Kenya. The study used regression analysis and found out that there was a positive and significant effect of credit policy on financial performance (Net profit). Thus, the current study also examined that credit policy of SACCOs in Kampala has a positive and significant effect on the financial performance when regression analysis was employed.

2.5 Literature Gap

Generally, the above literature reviewed presents studies that were carried out in other countries other than Uganda. Majority of the literature reviewed in light with liquidity risk management and financial performance of SACCOs were from Kenya thus creating a geographical gap. In

addition, some studies on liquidity risk management and financial performance were conducted in commercial banks other than SACCOs thus creating a contextual gap. Therefore, to close the above gaps, the current study focused only on SACCOs in Uganda particularly in Kampala and assessed how liquidity risk management is associated with financial performance using empirical tests.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter covers the methods that were used in data collection. It covers the research design, study population, sample size determination, sampling technique, data collection methods and tools, validity and reliability of the instruments, procedure for data collection, data analysis, ethical considerations, and study limitations.

3.2 Research design

The study employed a cross sectional descriptive research design which incorporated both quantitative and qualitative approaches. This design was chosen because the study is conducted at one point in time as well as it helps to present results using inferential statistics (Setia, 2016). This type of research design was used in order to save time and to investigate the study problem.

3.3 Study Population

The study population involves a total of all the individuals who have certain characteristics and are of interest to a researcher (Banerjee & Chaudhury, 2010). Uganda has over 1,292 SACCOs which are operating throughout the country and Kampala in particular has 258 SACCOs which are operating in the five divisions (World Council of Credit Unions' annual Statistical Report, 2018). In this regard, the study targeted 258 SACCOs which were operating in the 5 divisions of Kampala district (World Council of Credit Unions' annual Statistical Report, 2018). Within each SACCO, the study targeted individuals like SACCO manager, credit officer, accountant, and customer care personnel and these were the units of inquiry for the study.

3.4 Sample size determination and sampling procedure/technique

The section gives an overview on the procedure for sample size determination as well as the technique employed to obtain the sample and the entire process followed.

3.4.1 Sample size determination

For purposes of this study, the sample size was derived using Sloven's formula. According to Tejada and Punzalan (2012) the Sloven's formula is highly recommended when establishing a sample size for a finite population size. The Sloven's formula employed for determining the sample size for the study is given below;

$$n = \frac{N}{1 + Ne^2}$$

Where; n- is the sample size for the study, N- is the population size, and e is the permissible error at 0.05.

$$n = \frac{258}{1 + 258(0.05)^2}$$

$$n = 157 \text{ SACCOs}$$

3.4.2 Sampling Procedure and Technique

The study used both probability and non-probability sampling methods due to the complexity of the sampling units. The first step involved dividing Kampala district into 5 clusters called divisions. The second stage involved randomly selecting a sample of 157 SACCOs from a population of 258 SACCOs in the divisions of Kampala. The third stage involved randomly selecting SACCO staffs and key informant officials were purposively selected from each selected SACCO. The SACCO staffs included SACCO accountants, credit officers, tellers, and customer care personnel while key informant officials included the SACCO managers. The

SACCO staffs were selected for structured interviews while key informant officials (SACCO managers) were selected for open ended interviews.

The table below presents the sampling distribution, sample size, and population in the study;

Table 3. 1: Sampling distribution

Divisions in Kampala District	Target Population (SACCOS as Unit of analysis)	Sample (SACCOS as unit of analysis)	Category of unit of inquiry	Number selected	Sampling technique
Kampala Central Division	91	55	SACCO Staff	55	Simple random sampling
			KI	2	Purposive sampling
Kawempe Division	43	26	SACCO Staff	26	Simple random sampling
			KI	2	Purposive sampling
Makindye Division	56	34	SACCO Staff	34	Simple random sampling
			KI	2	Purposive sampling
Rubaga Division	29	18	SACCO Staff	18	Simple random sampling
			KI	2	Purposive sampling
Nakawa Division	39	24	SACCO Staff	24	Simple random sampling
			KI	2	Purposive sampling
Total	258	157		167	

Source: World Council of Credit Unions' annual Statistical Report (2018) & Uganda Cooperative Savngs and Credit union (2020)

3.5 Data Collection Methods

The study was guided by questionnaire survey method, interview method, and document review method

3.5.1 Questionnaire survey method

The questionnaire survey method is important in providing information which is uniform and assures the comparability of data (Mathiyazhagan & Nandan, 2010). This method necessitates fewer interviewing skills compared to other methods since the data collection tools used involve questions which are structured or closed ended. In light with the current study, this method was appropriate in collecting data from a big number of respondents since it takes less time and less interviewing skills. This method was relevant when collecting data from the SACCO staff.

3.5.2 Interview method

Interview method is an appropriate method especially where there is a need to gather in-depth information on people's opinions, thoughts, experiences, and feelings. This method is suitable where the study topic under investigation is associated with the issues that need complex questioning and considerable probing (Easwaramoorthy & Zarinpoush, 2006). This method was relevant to this study in collecting more in-depth information from key informants (SACCO managers) that was related to liquidity risk management and financial performance of SACCOs in Kampala.

3.5.3 Document review method

Document review method involves collecting data from secondary data sources like documents, journals, reports, and unpublished research reports in order to get a broader picture of the study subject. The reviewed documents might be internal to an organization (like organizational

records and documents) or may be external (like internet publications, articles and research) (Bagnoli & Clark, 2010). This method was suitable in providing information available from SACCO documents which relates to the study subject. The researcher used this method to review SACCO documents such as financial performance reports and SACCO policy manuals among others. The researcher undertook an in-depth analysis of these documents and made efforts to obtain relevant information for the study. These documents were obtained by visiting SACCOs and internet to be in position to gather required information.

3.6 Data collection instruments

This study employed a structured questionnaire, interview guide, and document review checklist as explained in the subsequent sections below;

3.6.1 Structured Questionnaire

A self-administered structured questionnaire was the principal tool of the study. A questionnaire contains closed-ended categories of questions intended to collect quantitative data from respondents. The questionnaire that was generated by the researcher was based on the study objectives and the dimensions of the independent and dependent variables. The structured questionnaire is deemed appropriate for large samples as information can be conveniently obtained hence increasing validity, offering respondents a choice from a given set of alternatives and allows for change of responses where necessary (Kulshreshtha, 2013). The questionnaire was designed to gather information from SACCO staff members. The questionnaire contained information related to demographic features of respondents, statements on the dimensions of the independent and dependent variable. The statements on the variables in the questionnaire were measured on a 5-point likert scale ranging from 1 to 5 where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

3.6.2 Interview guide

According to Corbin and Strauss (2008) interview guide is used in in-depth interviews where the respondents have to answer open-ended questions to give their opinions, thoughts, experiences, and feelings about the study subject. The questions that were entailed in the interview guide were open ended in order to gather qualitative information for the study. The researcher interacted with the managers of SACCOs (key informant officials) face to face and asked them relevant questions related to the study subjects. The interview guide was used purposely because it provides for a systematic flow of information due to the order of questions and it also helps in covering information that would be left out in the questionnaire.

3.6.3 Documentary review Checklist

Wandera (2017) contends that a document review checklist is suitable when gathering more in-depth qualitative information which might not be possibly collected using a structured questionnaire and an interview guide. The documents that were included in the document review checklist include; SACCO financial performance reports, Annual sector performance reports, and SACCO policies. These documents were analyzed critically to determine their validity as well as authenticity and later valuable information was obtained relative to the subject under investigation.

3.7 Validity and Reliability

This section presents an overview on the validity and reliability of the research instruments used in the study.

3.7.1 Validity

The validity of the instrument was considered in this study since it enabled the researcher to ascertain the extent to which research instruments measured what they are intended to measure (Oso & Onen, 2008). This approach measured the degree to which the test items represented the domain or universe of the trait or property being measured. In order to establish the content validity of a measuring instrument, the researcher identified the overall content to be represented. Items were then randomly chosen from this content that accurately represented the information in all areas. By using this method, the researcher obtained a group of items which was a representative of the content of the trait or property that was measured. The content validity index method was used determine the validity of the instruments as shown below;

$$CVI = \frac{n}{N} \frac{35}{40} = 0.875 \quad \text{Where CVI} = \text{content validity,}$$

n = number of items indicated relevant and N = total no. of items in the questionnaires

3.7.2 Reliability

The reliability of the instruments was considered because it looks at the degree to which an instrument measures the same ways each time it is used under the same condition with the same subjects (Sekaran, 2013). The researcher carried out a pilot study to pre-test the data collection instruments and later the data was analysed to test for reliability. Cronbach alpha coefficient as recommended by Amin (2005) was used to test the reliability of the research instrument. The items in the research instrument were deemed reliable if the Cronbach alpha coefficient was 0.7 and above. If the researcher gets below 0.7, the questionnaires would be redesigned so as to make the alpha reliability coefficient 0.7 and above.

Formula for reliability is given below;

$$\alpha = \frac{k}{k - 1} \times \left(1 - \frac{\sum SD^2 I}{SD^2 t} \right)$$

Where α = alpha reliability co efficiency, K=Number of items included in the questionnaire, $\sum SD^2 I$ = sum of variance of individual items, and $SD^2 t$ = variance of all items in the instrument.

The results in table 3.2 show that Cronbach's Alpha coefficient was 0.861 which is above the recommended threshold of 0.7, thus an indication that the instrument was reliable for the study.

The reliability results are more detailed in Table 3.2.

Table 3. 2: Reliability results for the study variables

Cronbach's Alpha	N of Items
.861	35

3.8 Procedure for data collection

The researcher obtained an introduction letter from Kyambogo University which was presented to the management of SACCOs that the researcher was a student pursuing a Master’s degree in Business Administration carrying out a research study entitled “*Liquidity risk management and financial performance*”. After presenting the introduction letter and given a go ahead, the researcher was in position to conduct both structured and semi-structured interviews with the respondents.

3.9 Data Analysis and presentation

Data analysis is a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making (Herrman, 2009). Both qualitative and quantitative data was analyzed as shown below;

3.9.1 Qualitative data analysis

Qualitative data analysis involved both thematic and content analysis and was based on how the findings related to the research questions. Content analysis was used to edit qualitative data and reorganizes it into meaningful shorter sentences. Thematic analysis was used to organize data into themes and codes were identified (Sekaran, 2003). After data collection, information of same category was assembled together and their similarity with the quantitative data created. Qualitative data was interpreted by composing explanations or descriptions from the information. The qualitative data was illustrated and substantiated by quotation or descriptions

3.9.2 Quantitative data analysis

Quantitative data from structured questionnaires was coded and entered in SPSS version 21 for statistical analysis. The quantitative analysis involved descriptive statistics and inferential analysis. Descriptive statistics/analysis entailed frequency tables and determination of measures of central tendency mainly means and standard deviations on the variable dimensions. Spearman's rank correlation was used to determine the relationship between the study variables in order to provide answers to the study hypotheses. Spearman's rank correlation is used where the variables don't meet the assumption of normality and when the nature of the targeted measurement variable is nominal or ordinal measurements (Pallant, 2015). The researcher used a simple linear regression model to examine the effect of one variable on the other at the level of significance of 0.05.

3.10 Ethical Considerations

The researcher first sought consent of the respondents. This was done by designing a consent form for respondents. Respondents also participated in the study on their own accord after being informed on the purpose of the study. While conducting the study, the researcher ensured high

level of confidentiality while collecting the data and after. The researcher also observed the environment and all intellectual property.

3.11 Limitations of the Study

The COVID-19 measures which are in place to deter the spread of the pandemic would affect the response rate from the field since some respondents would refuse to take part in the study because of fear to contract the virus. However, the researcher observed the Standard Operating Procedures (SOPs) put in place by Ministry of Health when collecting data. This involved wearing face mask, social distancing, and frequent sanitizing of hands while in the premises of the SACCOs.

The researcher also faced high transportation costs when collecting data since SACCOs were not situated in one place. However, this was minimized by the researcher by acquiring a single Boda Boda that would take her at the different locations at a reduced and bargained price.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the findings obtained from the study conducted on the relationship between liquidity risk management and financial performance of SACCOs in Kampala. The first section of the chapter presents the response rate, followed by demographics, organizational characteristics, descriptive results of the variables, and lastly the inferential statistics.

4.1 Response rate

The study was intended to target 157 SACCOs and only 116 SACCOs were reached during the investigation and this transformed into a total response rate of 73.9%.

4.2 Demographic characteristics of respondents

The study demographics covered include gender, marital status, age, level of education, period worked with the SACCO, and position in the organization. The findings on the demographics are summarized in Table 4.1;

Table 4.1: Findings on Demographic Characteristics of respondents

Demographic Characteristics		
Gender	Frequency	Percentage
Male	55	47.4
Female	61	52.6
Total	116	100.0
Marital status	Frequency	Percentage
Married	53	45.7
Single	63	54.3
Total	116	100.0
Age bracket	Frequency	Percentage
20-30 years	48	41.4
31-40 years	58	50.0
41-50 years	10	8.6
Total	116	100.0
Level of education	Frequency	Percentage
Certificate	6	5.2
Diploma	51	44.0
Bachelor's degree	59	50.9
Total	116	100.0
Period worked with the SACCO	Frequency	Percentage
Less than 1 year	14	12.1
Between 1 and 3 years	71	61.2

Between 4 and 7 years	29	25.0
8 years and above	2	1.7
Total	116	100.0
Position of respondents in the organization	Frequency	Percentage
SACCO accountant	29	25.0
Credit/Loan officer	50	43.1
Teller	13	11.2
Customer care personnel	24	20.7
Total	116	100.0

Source: Primary data (2020)

Table 4.1 presents the findings on the demographic characteristics of respondents which included gender, marital status, age, level of education, period worked with the SACCO, and position of respondents in the SACCO. In terms of gender, the study findings show that majority of the respondents were females with a percentage of 52.6% while the minority were males with a percentage of 47.4%. The implication of the findings is that there is effective financial performance of SACCOs in the divisions of Kampala since females are believed to more effective in liquidity risk management as shown the highest proportion in the study.

In relation to age of respondents, it was revealed from the survey that majority of the respondents were aged between 31 and 40 years (50%), those aged between 20 and 30 years followed (41.4%), and the smallest proportion of the respondents (8.6%) was aged between 41 and 50 years. This is an indication that mature and experienced staff are employed in most of the

SACCOs in Kampala and these are believed to be effective in managing the liquidity risks of SACCOs which may be the basis for improved financial performance.

In terms of education distribution in the study, it was found out that most of the respondents had acquired a bachelor's degree (50.9%), those with a diploma followed (44%), and the minority of the respondents had certificate (5.2%). The implication of the findings is that the staffs in most of the SACCOs in Kampala are well equipped with liquidity risk management tactics since they possess good education level and this could be the reason for significant improvement in financial performance of SACCOs.

Regarding the period worked with the SACCO, the study established that majority of the study respondents (61.2%) had worked for a period between 1 and 3 years, followed by those who had worked between 4 and 7 years who constituted a percentage of 25%, and the least percentage of respondents (1.7%) had worked for 8 years and above. This implies that most of the SACCO staffs in the divisions of Kampala have worked for reasonable period which grants them sufficient experience in liquidity risk management which may significantly improve on the financial performance of SACCOs.

The respondents were also told to indicate their positions in their respective SACCOs and responses are shown in Table 4.1. It is evident that most of the respondents were credit/loan officers (43.1%), followed by SACCO accountants that constituted 25%, while the lowest proportion of respondents were customer care personnel. This implies that there is increased access to loans since more credit officers are employed which could be the reason for increased financial performance.

4.3 Findings on organizational characteristics

The organization characteristics covered the period the SACCO has been in existence and the number members in each SACCO. The findings are summarized in Table 4.2.

Table 4.2: Findings on organizational characteristics

Organizational characteristics		
Years of existence of the SACCO	Frequency	Percentage
Less than one year	1	.9
1-3 years	9	7.8
4 - 6 years	30	25.9
7 - 9years	25	21.6
10 years and above	51	44.0
Total	116	100.0
Number of members in each SACCO	Frequency	Percentage
Less than 1000 members	89	76.7
1000-1999 members	16	13.8
2000 to 2999 members	1	.9
3000-3999 members	4	3.4
4000 members and above	6	5.2
Total	116	100.0

Source: Primary data (2020)

Table 4.2 presents the organizational characteristics on years of existence of SACCOs and number of members in each SACCO. In relation to years of existence of SACCOs, most of the

SACCOs had been in existence for 10 years (44%), followed by 25.9% which had been in existence for a period between 4 and 6 years, and the minimum proportion had been in existence for less than one year. This shows that most of the SACCOs in the divisions of Kampala have been in existence for a longer period of time and this was effective for the researcher to obtain reliable information in regards to the study variables.

In terms of the number of members in each SACCO, the study revealed that most of the SACCOs (76.7%) had members less than 1000, followed by SACCOs (13.8%) with members between 1000 and 1999 and the lowest SACCO (0.9%) had members between 2000 and 2999. The findings indicate that most of the SACCOs in the divisions of Kampala have few members.

4.4 Descriptive findings on the study variables

This section covers the descriptive statistics on the study variables as highlighted in different subsections below.

4.4.1 Descriptive statistics on the level of capital adequacy of SACCOs in Kampala

The researcher presents the respondents' level of understanding of capital adequacy as a liquidity risk management measure of SACCOs in Kampala. The findings are presented in percentages, means, and standard deviations. The mean results above 3 show high understanding level of respondents on capital adequacy of SACCOs while that less than or equal to 3 shows low understanding level of respondents on capital adequacy of SACCOs in Kampala.

Table 4.3: Findings on the descriptive statistics on the level of capital adequacy of SACCOs in Kampala

Statements	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD
There is enough capital available to support the continued operation of this SACCO		20.7	23.3	47.4	8.6	3.44	.921
The available enough capital in this SACCO protects depositors and other creditors against losses	0.9	7.8	15.5	57.8	18.1	3.84	.840
There are effective requirements or guidelines available for maintaining enough capital in this SACCO		2.6	11.2	51.7	34.5	4.18	.729
There is growth in capital compared with the assets of this SACCO		0.9	4.3	59.5	35.3	4.29	.590
The SACCO maintains a minimum sufficient capital with a purpose of meeting the demand of its customers			2.6	62.1	35.3	4.33	.524

Source: Primary data (2020)

The findings in table 4.3 show the level of capital adequacy of SACCOs in Kampala as perceived by respondents in the study. In terms of capital availability, the majority of respondents (47.4%) agreed that SACCOs have enough capital available to support its continued operation (\bar{X} =3.44, SD=.921). The implication is the borrowers are in position to access enough credit since SACCOs have enough capital available and this may fuel growth in financial performance as

more borrowers have access to available credit. The bigger percentage (57.8%) of respondents were in agreement that the available enough capital in their SACCOs protect depositors and other creditors against losses ($\bar{X}=3.84$, $SD=.840$). This shows that available enough capital by SACCOs enables depositors to access their funds at any time and this may also help SACCOs to escape losses.

The findings revealed that there are effective requirements/guidelines available for maintaining enough capital in SACCOs in Kampala as shown by high level agreement by the respondents in the study ($\bar{X}=4.18$, $SD=0.729$). The implication is that there are stringent measures in place in most of the SACCOs in Kampala to ensure that enough funds are available to meet the demand from the borrowers and could be justification for their improved financial performance. In comparison between growth in capital and assets of the SACCOs, the majority of the respondents (59.5%) agreed that there is growth in capital compared with the assets of the SACCOs in Kampala ($\bar{X}=4.29$, $SD=0.590$). This implies that SACCOs in Kampala maintain enough funds available to meet the demands from their clients compared with investment into assets and this may fuel growth in financial performance.

In terms of maintaining minimum sufficient capital, the findings show that most of the respondents were in agreement (62.1%) that SACCOs maintain a minimum sufficient capital with a purpose of meeting the demand of its customers ($\bar{X}=4.33$, $SD=0.524$). This means that most of the SACCOs in Kampala do not run out of funds to provide to their clients since a minimum proportion of capital is maintained as a must and this may fuel growth in financial performance of SACCOs.

4.4.2 Descriptive statistics on the level of financial gap ratio of SACCOs in Kampala

The study presents the level of perception of respondents on financial gap ratio of SACCOs in Kampala as the second measure of liquidity risk management. The findings are presented in percentages, means, and standard deviations. The mean results above 3 show high understanding level of respondents on financial gap ratio of SACCOs while that less than or equal to 3 shows low understanding level of respondents on financial gap ratio of SACCOs in Kampala.

Table 4.4: Descriptive statistics on the level of financial gap ratio of SACCOs in Kampala

Statements	SD	D	NS	A	SA	Mean	SD
	(%)	(%)	(%)	(%)	(%)		
The interest rates charged on borrowed loans reduce on loan defaulting	0.9	7.8	12.1	49.1	30.2	4.00	0.904
There is a lower debt compared to the value of the assets of this SACCO		0.9	8.6	44.8	45.7	4.35	0.676
The liabilities of this SACCO are small and this has helped to improve on its financial performance			8.6	55.2	36.2	4.28	0.613
There is improved growth of assets of this SACCO which has greatly improved on its financial performance		2.6	7.8	50.9	38.8	4.26	0.712
The assets of this SACCO can easily be converted into cash if there is demand for cash from the creditors	1.7	0.9	8.6	45.7	43.1	4.28	0.798

Source: Primary data (2020)

Table 4.4 presents the descriptive statistics on the perceptions of respondents on financial gap ratio of SACCOs in Kampala. Concerning interest rates charged, most of the respondents (49.1%) agreed that interest rates charged by SACCOs on borrowed loans reduce on loan defaulting by its members ($\bar{X}=4.00$, $SD=0.904$). The implication is that the interest rates charged by SACCOs on borrowed loans are favorable and this could be the reason for reducing defaulters and enhancing financial performance.

The study revealed that most of the SACCOs in the divisions of Kampala have lower debt compared to the value of their assets as shown by a high-level mean and small standard deviation ($\bar{X}=4.35$, $SD=0.676$). This shows that the debts of the SACCOs are lower than the value of their assets and this could be the justification for the growth in financial performance of SACCOs in Kampala. In terms of liabilities, the majority of the respondents agreed that the liabilities of SACCOs in the divisions of Kampala are very small and this may imply that there is high level financial performance ($\bar{X}=4.28$, $SD=0.613$).

In terms of asset growth, the highest proportion of respondents were in agreement that there is improved growth of assets of SACCOs in the divisions of Kampala which has greatly improved on its financial performance ($\bar{X}=4.26$, $SD=0.712$). The bigger percentage of respondents (45.7%) agreed that the assets of the SACCOs can easily be converted into cash if there is demand for cash from the creditors ($\bar{X}=4.28$, $SD=0.798$). The implication is that there are always available funds to meet the demand from SACCO members since the SACCO assets can be easily converted into cash.

4.4.3 Descriptive statistics on the level of Cash generation of SACCOs in Kampala

The researcher sought to find out the perception level of respondents on Cash generation of SACCOs in Kampala. The findings are presented in percentages, means, and standard deviations. The mean results above 3 show high perception level of respondents on Cash generation of SACCOs while the mean results less than or equal to 3 show low perception level of respondents on cash generation of SACCOs in Kampala.

Table 4.5: Descriptive statistics on the level of Cash generation of SACCOs in Kampala

Statements	SD (%)	D (%)	NS (%)	A (%)	SA (%)	Mean	SD
This Sacco conducts regular cash budgeting to eliminate liquidity issues		5.2	4.3	52.6	37.9	4.23	0.762
The proper cash budgets of this SACCO has enhanced competitiveness	0.9	1.7	8.6	37.9	50.9	4.36	0.785
The growth in members' contributions has enhanced credit availability to be issued to the borrowers		0.9	3.4	44.8	50.9	4.46	0.610
There is effective cash planning in this SACCO		1.7	9.5	37.1	51.7	4.39	0.732
There is appropriate cash control in this SACCO has reduced on liabilities thus increasing on the financial performance			6.0	45.7	48.3	4.42	0.606

Source: Primary data (2020)

Table 4.5 highlights the descriptive statistics on the respondents' perception on cash generation of SACCOs in Kampala. In the first step, the study assessed whether SACCOs conduct regular cash budgeting to eliminate liquidity issues. The majority of the respondents (52.6%) agreed that they conduct regular cash budgeting to eliminate liquidity issues as indicated by a high-level mean and small standard deviation ($\bar{X}=4.23$, $SD=0.762$). The study revealed that most of the study participants strongly supported that the proper cash budgets of the SACCOs in the divisions of Kampala have enhanced competitiveness ($\bar{X}=4.36$, $SD=0.785$). The implication is inconsistencies related to cash budgeting in the SACCOs of Kampala are eliminated and this ensures that there is enough liquidity available to meet customer demands which could be the basis for improved financial performance.

Concerning the growth in members' contributions, the findings revealed that the highest proportion of respondents (50.9%) strongly agreed that the growth in members' contributions has enhanced credit availability to be issued to the borrowers ($\bar{X}=4.46$, $SD=0.610$). This shows that most of the SACCOs in the divisions of Kampala have enough cash to give out to the borrowers since members save a lot which is an indication for improved financial performance. In terms of cash planning, most of the respondents strongly supported that there is effective cash planning in most of the SACCOs in Kampala ($\bar{X}=4.39$, $SD=0.732$). This implies that the available cash cannot just be invested in other assets without having estimated the credit demand from the SACCO members due to effective cash planning which could be the reason for improved financial performance of SACCOs in the divisions of Kampala.

In relation to cash control, the study found out that the appropriate cash control in most of the SACCOs has reduced on liabilities thus increasing on the financial performance since majority of the respondents were in strong agreement with the statement ($\bar{X}=4.42$, $SD=0.606$).

4.4.4 Descriptive statistics on the level of Credit policy of SACCOs in Kampala

The study sought to establish the respondents' views on Credit policy of SACCOs in Kampala. The results are presented using percentages, means, and standard deviations. The mean results above 3 show high perception level of respondents on credit policy of SACCOs while the mean results less than or equal to 3 show low perception level of respondents on credit policy of SACCOs in Kampala.

Table 4.6: Descriptive statistics on the level of credit policy of SACCOs in Kampala

Statements	SD	D	NS	A	SA	Mean	SD
	(%)	(%)	(%)	(%)	(%)		
The credit policy of this SACCO ensures consistency in operation and adherence to uniform sound practices			8.6	57.8	33.6	4.25	0.603
Effective credit policy of this SACCO is a requirement for achieving high financial performance		1.7	6.9	39.7	51.7	4.41	0.699
Credit standards set by this SACCO are based on capacity, condition, collateral, and security capital of the loan applicant			6.0	48.3	45.7	4.40	0.603
Credit terms given by this SACCO are more attractive to act as incentive to clients without incurring unnecessary high levels of bad debts		0.9	8.6	42.2	48.3	4.38	0.681
Credit collection policy of this SACCO is directed at accelerating recovery from slow payers and reduce on bad debts losses		1.7	6.0	48.3	44.0	4.34	0.674

Source: Primary data (2020)

Table 4.6 highlights the respondents' opinions on the level of credit policy of SACCOs in Kampala. The study investigation revealed that the majority of the respondents agreed (57.8%)

that credit policy of the SACCOs in Kampala ensures consistency in operation and adherence to uniform sound practices ($\bar{X}=4.25$, $SD=0.603$). In terms of effectiveness, the study found out that most of the SACCOs have effective credit policy which is a requirement for achieving high financial performance ($\bar{X}=4.41$, $SD=0.699$).

The study found out that a bigger percentage of respondents supported that credit standards set by SACCOs in Kampala divisions are based on capacity, condition, collateral, and security capital of the loan applicant ($\bar{X}=4.40$, $SD=0.603$). The implication of the findings is that there is stringent credit standards that ensures that borrowers are in position pay back the loans given to them thus an indication of high level financial performance of SACCOs.

In relation to credit terms, the majority of the respondents strongly supported the argument that credit terms given by SACCOs are more attractive to act as incentive to clients without incurring unnecessary high levels of bad debts ($\bar{X}=4.38$, $SD=0.681$). The findings imply that there is growth in the proportion of borrowers since there are attractive credit terms to borrowers and this could be the justification for the growth in financial performance of SACCOs. In line with credit collection policy, most of the respondents (48.3%) agreed that credit collection policy of SACCOs in the divisions of Kampala is directed at accelerating recovery from slow payers and reduce on bad debts losses ($\bar{X}=4.34$, $SD=0.674$). This implies that debtors usually pay back their loans in time due to effective credit collection policy of SACCOs and this could be the reason why the financial performance of SACCOs has grown.

4.5 Inferential statistics on the relationship between the study variables

This part involves testing the hypothesis whether there is a statistically significant relationship between the study variables. The relationship was tested using spearman's rank correlation at 5% and 1% level as detailed in table 4.7.

Table 4.7: Spearman's rank correlation results between the study variables

		Capital adequacy	Financial gap ratio	Cash generation	Credit policy	Financial performance
Capital adequacy	Correlation	1.000	.446**	.307**	.196*	.214*
	Coefficient					
	Sig. (2- tailed)	.	.000	.001	.035	.021
	N	116	116	116	116	116
Financial gap ratio	Correlation	.446**	1.000	.579**	.352**	.403**
	Coefficient					
	Sig. (2- tailed)	.000	.	.000	.000	.000
	N	116	116	116	116	116
Cash generation	Correlation	.307**	.579**	1.000	.627**	.610**
	Coefficient					
	Sig. (2- tailed)	.001	.000	.	.000	.000
	N	116	116	116	116	116
Credit policy	Correlation	.196*	.352**	.627**	1.000	.615**
	Coefficient					
	Sig. (2- tailed)	.035	.000	.000	.	.000
	N	116	116	116	116	116
Financial performance	Correlation	.214*	.403**	.610**	.615**	1.000
	Coefficient					
	Sig. (2- tailed)	.021	.000	.000	.000	.
	N	116	116	116	116	116

** . Correlation is significant at the 0.01 level (2-tailed).

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

Source: Primary data (2020)

The study found a weak but a statistically significant relationship between capital adequacy and financial performance of SACCOs in Kampala ($r=0.214$, $P<0.05$). The implication is that as capital adequacy is effectively enhanced, there would be a slight improvement in the financial of SACCOs in Kampala.

The findings indicate that financial gap ratio had a positive weak but significant relationship with financial performance of SACCOs in Kampala ($r=0.403$, $P\text{-value}<0.01$). The findings imply that an improvement in financial gap ratio slightly improves on the financial performance of SACCOs in Kampala. The study found that there was a moderate positive and significant relationship between cash generation and financial performance of SACCOs in Kampala ($r=0.610$, $P\text{-value}<0.01$). The implication is that an improvement in cash generation also moderately increase on the financial performance of SACCOs in Kampala.

The correlation results revealed a positive moderate and significant relationship between credit policy and financial performance of SACCOs in Kampala at 0.01 level of significance ($r=0.615$). The implication of the findings is that an effective credit policy results into an improvement in financial performance.

4.6 Regression analysis of the study findings

The regression analysis was performed to determine the effect of liquidity risk management dimensions on financial performance of SACCOs in Kampala. The findings are presented using a multiple linear regression model as shown in the Table 4.8.

Table 4.8: Multiple Regression model findings

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.731 ^a	.534	.518	.37119		
a. Predictors: (Constant), Credit policy, Capital adequacy, Financial gap ratio, Cash generation						
ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.549	4	4.387	31.842	.000 ^b
	Residual	15.294	111	.138		
	Total	32.842	115			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Credit policy, Capital adequacy, Financial gap ratio, Cash generation						
Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.435	.420		1.036	.002
	Capital adequacy	.001	.079	.001	.018	.006
	Financial gap ratio	.053	.094	.049	.560	.005
	Cash generation	.354	.097	.363	3.666	.000
	Credit policy	.492	.097	.418	5.047	.000
a. Dependent Variable: Financial performance						

Source: Primary data (2020)

The regression analysis in Table 4.8 was performed to determine the effect of Capital adequacy, financial gap ratio, Cash generation, and credit policy on financial performance of SACCOs in

Kampala. The study found out that Capital adequacy had a positive and significant effect on financial performance of SACCOs in Kampala ($\beta=0.001$ P-value<0.05). The study findings reveal that if capital adequacy increases by one unit, there would be an increase in the financial performance by 0.001. The results imply that as SACCOs improves on their capita, there may be a significant improvement in financial performance.

The multiple regression findings indicate that financial gap ratio had a significant positive effect on financial performance of SACCOs in Kampala ($\beta=0.053$, P-value<0.05). The regression findings show that an improvement in financial gap ratio by one unit leads to an improvement in financial performance by 0.053. The findings may imply that an effective financial gap ratio may improve on financial performance of SACCOs in Kampala.

In terms of cash generation and financial performance, it was found out that cash generation had a significant positive effect on financial performance of SACCOs in Kampala ($\beta=0.354$, P-value<0.05). The model findings reveal that an additional increase in cash generation results into an increase financial performance by 0.354. The results may imply that as SACCOs generate more cash, it increases the likelihood of financial performance.

Finally, the study established that credit policy had a positive and significant effect on the financial performance of SACCOs in Kampala ($\beta=.492$, P value<0.05). The model coefficients show that an increase in credit policy by one-unit results into growth in financial performance by 0.772. The results may imply that effective credit policy increases on financial performance of SACCOs in Kampala. From the interviews conducted by the key informant officials, it was evident that the credit policy has helped in loan recovery.

The ANOVA results ($F=31.842$, $P\text{-value}<0.05$) indicate that the model fits perfectly Credit policy, Capital adequacy, Financial gap ratio, Cash generation and financial performance. This implies that the independent variables statistically and significantly predict financial performance of SACCOs in Kampala. The Adjusted R Square results (0.518) reveal that Credit policy, Capital adequacy, Financial gap ratio, and Cash generation explain 51.8% of the changes/variations in financial performance of SACCOs in Kampal. The implication of the findings is that effective Credit policy, Capital adequacy, Financial gap ratio, and Cash generation strongly improves on the financial performance.

CHAPTER FIVE

SUMMARY FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter covers the summary of findings, discussions, conclusions, and the study recommendations. It further presents the areas for further research which other researchers may put into consideration.

5.2 Summary of findings

The summary of findings is presented in light with the findings on the specific objectives of the study.

5.2.1 Capital Adequacy and Financial Performance of SACCOs in Kampala

The first objective of the study was to examine the relationship between capital adequacy and financial performance of SACCOs in Kampala. The findings revealed that capital adequacy had a weak positive and significant relationship with financial performance of SACCOs in Kampala. Based on the results, the null hypothesis was rejected and the alternative hypothesis which stated that “capital adequacy has a significant relationship with financial performance of SACCOs in Kampala” was supported. The implication of the findings is that effective capital adequacy slightly improves on the financial performance of SACCOs in Kampala.

5.2.2 Financial Gap Ratio and Financial Performance of SACCOs in Kampala

The second objective was to establish the relationship between financial gap ratio and financial performance of SACCOs in Kampala. The study found a positive weak and significant relationship between financial gap ratio and financial performance of SACCOs in Kampala. The findings conformed with the alternative hypothesis which led to the rejection of the null

hypothesis. The findings indicate that growth in financial gap ratio slightly improves on the financial performance of SACCOs in Kampala.

5.2.3 Cash Generation and Financial Performance of SACCOs in Kampala

The third objective of the study was to examine association between cash generation and financial performance of SACCOs in Kampala. In this regard, the study found a positive weak and significant relationship between cash generation and financial performance of SACCOs in Kampala. This justified for the rejection of the null hypothesis in support of the alternative which stated that “cash generation has a significant relationship with financial performance of SACCOs in Kampala”. The implication of the findings is that effective cash generation slightly improves on the financial performance of SACCOs in Kampala.

5.2.4 Credit Policy and Financial Performance of SACCOs in Kampala

The last objective of the study was to examine the effect of credit policy on the financial performance of SACCOs in Kampala. The findings from the regression analysis showed that credit policy had a positive and significant effect on the financial performance of SACCOs in Kampala. This gave reason for the rejection of the null hypothesis in conformity with the alternative hypothesis which stated that “credit policy has a significant effect on the financial performance of SACCOs in Kampala”. The implication is that effective credit policy positively improves on the financial performance of SACCOs in Kampala.

5.3 Discussion of findings

The discussion in this section is conducted in light with study objectives and descriptive statistics on the study variables.

5.3.1 Capital Adequacy and Financial Performance of SACCOs in Kampala

The study found a positive and significant relationship between capital adequacy and financial performance of SACCOs in Kampala. The findings are supported by that of Njoroge (2016) who found out a positive relationship between financial performance and capital adequacy in 36 SACCOs in Murang'a County. The study found that there is enough capital available to support the continued operation of SACCOs in Kampala. The results are in line with Malimi (2017) who found that enough available capital supported the continued operation of SACCOs and other banking institutions such as commercial banks.

The study established that the available enough capital in SACCOs in the divisions of Kampala protects depositors and other creditors against losses. The findings are in agreement with Murkomen (2016) who contended that adequate capital in SACCOs protects depositors and other creditors against losses. In terms of requirements or guidelines available, the results indicated that there are effective requirements or guidelines available for maintaining enough capital in SACCOs of Kampala. This is also in conformity with Murkomen (2016) who argued that adequate capital requirements or guidelines ensure that there is enough capital to meet the demands from the borrower hence leading to enhanced efficiency in financial institutions like SACCOs.

The results show that there is growth in capital compared with the assets of the SACCOs in the divisions of Kampala. The findings concur with the study of Mugwang (2014) in Kenya which established that there was growth in capital compared with the assets of the SACCOs. The study also revealed that the SACCOs in the divisions of Kampala maintain a minimum sufficient capital with a purpose of meeting the demand of its customers. The findings are supported by Hakenes and Schnabel (2010) who contended in their study that SACCOs maintained a minimum sufficient capital with a purpose of meeting the demand of its customers.

From the interviews, it was established that capital adequacy has enhanced financial performance by lending the member share capital contribution to the SACCO members. Respondent 01 argued that *“Capital adequacy has boosted the financial performance by lending the member share capital contribution to the SACCO members hence increasing capital for the SACCO.”*

5.3.2 Financial Gap Ratio and Financial Performance of SACCOs

The study found that financial Gap ratio had a positive and significant relationship with the financial performance of SACCOs in Kampala. The findings are also in line with Kagunda (2018) who found out in his study that financial gap ratio had a weak and significant relationship with financial performance of SACCOs. The study found out that the interest rates charged on borrowed loans reduce on loan defaulting in SACCOs in the divisions of Kampala. However, the findings are not in agreement with Kariuki and Ngahu (2016) who established that the interest rates charged on the borrowed loan led to loan defaulting which in turn led to loan non-performance thus poor financial performance in SACCOs.

The study found out that there is a lower debt compared to the value of the assets of SACCOs in the divisions of Kampala. The findings are also in agreement with Mwangi (2014) who found out that SACCOs had a lower debt compared to the value of its assets which fueled the growth in financial performance of SACCOs. In terms of liabilities, the study revealed that liabilities of SACCOs in Kampala are small and have helped to improve on their financial performance. The findings conform to Bryan (2015) who found out that SACCOs with small liabilities helped to improve on their financial performance.

The results show that there has been improved growth of assets of SACCOs in Kampala which has greatly improved on its financial performance. The findings concur with Omino (2014) who

argued that improved asset growth plays a significant role towards improved financial performance of SACCOs. The findings also revealed that the assets of SACCOs in the divisions of Kampala can easily be converted into cash if there is demand for cash from the creditors. The findings are in line with Omino (2014) who argued that when the assets of financial institutions such as SACCOs can easily be converted into cash, it enables to meet the demand for cash from the creditors.

5.3.3 Cash Generation and Financial Performance of SACCOs

The results from the study showed that Cash Generation had a positive and significant relationship with Financial Performance of SACCOs in the divisions of Kampala. The findings are supported by Odhiambo (2013) who found out that cash generation had a statistically significant relationship with the financial performance of deposit taking savings and credit co-operative societies licensed by SACCO in Nairobi county. The results indicate that SACCOs in the divisions of Kampala conduct regular cash budgeting to eliminate liquidity issues. The findings are also in agreement with Kotut (2003) who established that regular cash budgeting within SACCOs is helpful during the process of planning for shortage and surplus of cash and has a positive and significant effect on the financial performance.

The results from the study show that proper cash budgets have enhanced competitiveness of SACCOs in the divisions of Kampala. The findings are in agreement with Njeru et al. (2015) who contended that proper cash budgets enhanced competitiveness of SACCOs. The study findings revealed that the growth in members' contributions of SACCOs has enhanced credit availability to be issued to the borrowers. However, the findings are not supported by Njeru et al. (2015) who revealed that the monthly members' contribution was low and this raised a great concern on credit availability to the borrowers.

It was revealed that there is effective cash planning in the SACCOs in the divisions of Kampala which has played a critical role towards financial performance. The findings concur with Kakaire (2019) who agitated that cash planning was revealed to help SACCOs to maintain an optimal cash balance and this helped to boost financial performance. The study also found out that there is appropriate cash control in SACCOs of Kampala division which has reduced on the liabilities thus increasing on the financial performance. The findings are supported by Duncan et al. (2015) who noted that appropriate cash control in SACCOs reduced on the liabilities thus increasing on the financial performance.

5.3.4 Credit Policy and Financial Performance of SACCOs

The study found a positive and significant effect of credit policy on financial performance of SACCOs in Kampala. This implies that effective credit policy increases on the financial performance of SACCOs in the divisions of Kampala. The findings are in agreement with Ajiambo (2013) who found out a positive and significant effect of credit policy on financial performance of SACCOs in Nairobi County in Kenya. The study found out that the credit policy of the SACCOs in Kampala ensures consistency in operation and adherence to uniform sound practices. The findings are supported by Maiti (2015) who established in his study that credit policy ensures consistency in operation and adherence to uniform sound practices of SACCOs.

Respondent 06 commented that *“The credit policy has ensured sound loan recovery up above 90% and to some SACCOS they are not sure. The credit policy has also made loan appraisal easy for our clients.”*

It was established from the study that effective credit policy of SACCOs in Kampala is a requirement for achieving high financial performance. The findings are supported by Wanja (2013) who argued that effective credit policy is a requirement for any SACCO in achieving high

financial performance. The results indicate that credit standards set by SACCOs in Kampala are based on capacity, condition, collateral, and security capital of the loan applicant. The findings are in agreement with Ochieng (2013).

In terms of credit terms, the findings revealed that credit terms given by SACCOs in Kampala are more attractive to act as incentive to clients without incurring unnecessary high levels of bad debts. The findings are in line with Maiti (2015) who contended that credit terms should be more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing institutions risk. In relation to credit collection policy, the study revealed that credit collection policy of SACCOs in Kampala is directed at accelerating recovery from slow payers and reduce on bad debts losses. This is supported by Dawkin (2010) who acknowledged that the credit collection policy are directed at accelerating recovery from slow payers and decreases bad debt losses and increases financial performance of SACCOs through increased profitability.

5.4. Conclusions

In conclusion, firstly, the study findings prove that effective capital adequacy is instrumental towards improving financial performance of SACCOs in Kampala. For example, available enough capital and effective requirements or guidelines available for maintaining enough capital among others play a remarkable role towards growth in financial performance of SACCOs. Secondly, the findings prove that effective financial gap ratio is so important in boosting the financial performance of SACCOs in the divisions of Kampala through charging small interest rate on borrowed loans and by ensuring that liabilities of the SACCO are small among others. Thirdly, effective cash generation is crucial in enhancing financial performance of SACCOs in Kampala through regular cash budgeting, growth in members' contributions, and effective cash

planning among others. Lastly, effective credit policy also plays an instrumental role in ensuring that there is improved financial performance of SACCOs in Kampala through ensuring consistency in operation and adherence to uniform sound practices among others.

5.5 Recommendations

The recommendations are presented in light with the study objectives as shown below.

5.5.1 Capital Adequacy and Financial Performance of SACCOs in Kampala

There is need by SACCOs in Kampala to ensure that there is enough funds available to support their continued operation. For instance, SACCOs should ensure that funds are available to meet the demands from the borrowers and this can be done by limiting their investment in assets that cannot easily be converted into cash.

The guidelines available for maintaining enough capital should continue to be strengthened in the SACCOs in Kampala as they are instrumental in enhancing financial performance.

The study recommends that SACCOs should maintain enough minimum funds/capital to enable meet the growing demand for loans from the members.

5.5.2 Financial Gap Ratio and Financial Performance of SACCOs in Kampala

The SACCOs should continue charging small interest rates on borrowed funds to increase on the proportion of borrowers and also reduce on loan defaulters.

The SACCOs should ensure that they have small debts compared to the value of their assets since this would continue enhancing financial performance.

5.5.3 Cash Generation and Financial Performance of SACCOs in Kampala

There should be continued regular cash budgeting in SACCOs since it eliminates liquidity issues and enhances financial performance.

The SACCOs should continue sensitizing their members to save more since this would create enough funds available to meet the demand of the borrowers.

5.5.4 Credit Policy and Financial Performance of SACCOs in Kampala

The study recommends that the credit standards set by SACCOs in Kampala should continue to be based on capacity, condition, collateral, and security capital of the loan applicants since it's a crucial requirement improving financial performance.

It is suggested that SACCOs in Kampala should continue having credit terms which are attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts.

In terms of credit collection policy, the study suggests that there should be more efforts towards accelerating recovery from slow payers and reduce on bad debts losses since plays a crucial role in enhancing financial performance.

5.6 Areas for further study

It was instrumental for the study to examine the relationship between liquidity risk management and financial performance of SACCOs in Kampala. However, there are more SACCOs outside the divisions if Kampala which also need to be studied and examine whether they have a significant association between liquidity risk management and financial performance. Thus, this

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APPENDICES

APPENDIX I: QUESTIONNAIRE FOR RESPONDENTS

Dear Respondent,

I am **Nekesa Hope (Reg no. NO.18/U/GMBA/19372/PD)** pursuing a Master's Degree in Business administration at Kyambogo University. I am carrying out a research study entitled; **“Relationship between Liquidity risk management and financial performance in SACCOS in Kampala”**. You have been humbly selected as one of the respondents for the study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes. Please respond to the alternatives by either ticking or where necessary make a brief statement.

SECTION A: DEMOGRAPHIC CHARACTERISTICS		
1. What is your Sex?	Male	<input type="checkbox"/>
	Female	<input type="checkbox"/>
2. Marital status	Married	<input type="checkbox"/>
	Single	<input type="checkbox"/>
3. What is your age?	20-30 years	<input type="checkbox"/>
	31-40 years	<input type="checkbox"/>
	41 -50 years	<input type="checkbox"/>
	51 and above years	<input type="checkbox"/>
4. What is your highest level of education?	Certificate	<input type="checkbox"/>
	Diploma	<input type="checkbox"/>
	Bachelor's degree	<input type="checkbox"/>
	Master's degree	<input type="checkbox"/>

	Others Specify _____
5. How long have you worked with this SACCO?	Less than 1 year <input type="checkbox"/> Between 1 and 3 years <input type="checkbox"/> Between 4 and 7 years <input type="checkbox"/> 8 years and above <input type="checkbox"/>
6. What is your position in this organization?	SACCO accountant <input type="checkbox"/> Credit/Loan officer <input type="checkbox"/> Teller <input type="checkbox"/> Customer care personnel <input type="checkbox"/> Others (specify) _____
ORGANIZATIONAL CHARACTERISTICS	
7. Name of the SACCO?	_____
8. How long has this SACCO been in existence?	_____
9. How many SACCO members does this organization have?	_____

SECTION B: Capital Adequacy of SACCOs in Kampala

Instructions:

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Statements	RANKINGS				
		1	2	3	4	5
1.	There is enough capital available to support the continued operation of this SACCO					
2.	The available enough capital in this SACCO protects depositors and other creditors against losses					
3.	There are effective requirements or guidelines available for maintaining enough capital in this SACCO					
4.	There is growth in capital compared with the assets of this SACCO					
5.	This SACCO maintains a minimum sufficient capital with a purpose of meeting the demand of its customers					

SECTION C. Financial gap ratio of SACCOs in Kampala

Instructions:

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Statements	RANKINGS				
		1	2	3	4	5
	The interest rates charged on borrowed loans reduce on loan defaulting					
	There is a lower debt compared to the value of the assets of this SACCO					
	The liabilities of this SACCO are small and this has helped to improve on its financial performance					
	There is improved growth of assets of this SACCO which has greatly improved on its financial performance					
	The assets of this SACCO can easily be converted into cash if there is demand for cash from the creditors					

SECTION D. Cash generation of SACCOs in Kampala

Instructions:

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Statements	RANKINGS				
		1	2	3	4	5
	This Sacco conducts regular cash budgeting to eliminate liquidity issues					
	The proper cash budgets of this SACCO has enhanced competitiveness					
	The growth in members' contributions has enhanced credit availability to be issued to the borrowers					
	There is effective cash planning in this SACCO					
	The appropriate cash control in this SACCO has reduced on liabilities thus increasing on the financial performance					

SECTION E. Credit policy of SACCOs in Kampala

Instructions:

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Statements	RANKINGS				
		1	2	3	4	5
	The credit policy of this SACCO ensures consistency in operation and adherence to uniform sound practices					
	Effective credit policy of this SACCO is a requirement for achieving high financial performance					
	Credit standards set by this SACCO are based on capacity, condition, collateral, and security capital of the loan applicant					
	Credit terms given by this SACCO are more attractive to act as incentive to clients without incurring unnecessary high levels of bad debts					
	Credit collection policy of this SACCO is directed at accelerating recovery from slow payers and reduce on bad debts losses					

SECTION F. Financial performance of SACCOs in Kampala

Instructions:

Use a Likert scale of 1-5 to rate the following alternatives where; 1- Strongly disagree [SD], 2- Disagree [D], 3- Not Sure [NS] 4 – Agree [A] 5- Strongly agree [SA].

S/N	Statements	RANKINGS				
		1	2	3	4	5
	There is increased return on equity of this SACCO					
	There is growth in returns on assets of this SACCO					
	There is a higher return on investment of this SACCO					
	The existing assets of this SACCO exceed its liabilities					
	The profitability level of this SACCO has grown tremendously					
	There is increased customer growth of this SACCO					

****** THE END ******

APPENDIX II: INTERVIEW GUIDE

Dear Respondent,

I am **Nekesa Hope** Reg No. **18/U/GMBA/19372/PD** pursuing a Master's Degree in Business administration at Kyambogo University. I am carrying out a research study entitled; **“Relationship between Liquidity risk management and financial performance in SACCOS in Kampala”**. You have been selected as a key resource personnel to take part in this study and the information you will give will be treated with utmost confidentiality and used purely for academic purposes.

Questions

1. How long have you worked with this SACCO?
2. Do you have any liquidity risk management practice in place? If yes, what are they?
3. How have you ensured that there is adequate capital in this SACCO for smooth running of its activities?
4. How has capital adequacy influenced financial performance of this SACCO?
5. How do you rate the interest rates charged on your borrowers?
6. To what extent is the debt to asset ratio of this SACCO?
7. What is the relationship between debt to asset ratio and financial performance of this SACCO?
8. What have you done to ensure that there is sufficient availability of cash in this SACCO?
9. Do you have any credit policy in place?
10. If yes, to what extent has this policy influenced the financial performance of this SACCO?
11. What recommendation would you give to the concerned stakeholders in regards to liquidity risk management and financial performance of this SACCO?

*****THE END*****