CREDIT MANAGEMENT AND PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN NTUNGAMO DISTRICT

BY

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DECLARATION

I, Ahabwe John, declare that this research report is my original work and has never been submitted to any other university for the award of Master's Degree in Business Administration.

Signature .....

JOHN AHABWE

Date 23/12/2014

APPROVAL

This dissertation has been under my supervision as a principle supervisor and is ready for submission to examiners of Kyambogo University

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This dissertation has been under my supervision as a second supervisor and is ready for submission to examiners of Kyambogo University

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Date: 23/12/2014

DEDICATION

To my family, notably Archie, Terry and Leticia my children, and my wife Jessica for being supportive to the end of this course.

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ABSTRACT

The study was centred on Credit Management and Performance of selected Savings and Credit Cooperative Societies in Ntugamo District. The study identified that many SACCOs have a problem with the management of credit and this has a direct bearing on the performance of an organization. The study was guided by three specific objectives that is: to establish the relationship between credit terms and the performance of selected SACCOs, to determine the relationship between credit period and the performance of SACCOs and to examine the relationship between credit limit and the performance of SACCOs.

The study employed a cross-sectional survey design to enable the researcher to collect data on selected SACCOs in Ntungamo District only once during the data collection period. The study used questionnaires, interviews, and the sample size was 151.

The findings of the study indicate that there is a very strong positive relationship between credit terms and performance of selected SACCOs in Ntungamo District. It was highlighted that there is a moderately positive relationship between credit period and performance of selected SACCOs in Ntungamo District. Thus, there is a strong positive relationship between credit limits and performance of SACCOs.

It can therefore be concluded that effective management of credit has a direct bearing on the performance of SACCOs in Ntungamo District.

On the basis of the study findings, it is recommended that the management of SACCOs should review the credit terms, credit period and credit limits in line with the environmental changes such as economic, legal, political and social aspects to stimulate the performance of their SACCOs.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The focus of this research was to assess the relationship between credit management and the performance of Savings and Credit Co-operatives (SACCOs). This chapter discusses the background to the study, statement of the problem, general objective of the study, specific objectives of the study, research hypotheses, scope of the study, justification of the study, significance of the study and operational definition of key terms.

1.1 Background to the Study

Savings and Credit Co-operatives first appeared in Germany in the 1870's. The idea moved to North America in 1900 with European immigration (Srinivasan, 2009). Canada, the United States, Australia and Ireland have the most established movements and in these countries, SACCOs are much larger than commercial banks. There are 28 countries in Africa that have established credit Unions (Scope, 2005). Globally there are almost 100 million individual members in 60 + countries around the world. Savings and Cooperatives League of South Africa (SACCOL) is a member of the World Council of Credit Unions (Woolcock, 2002). Through this relationship, Savings and Credit Co-operatives League of South Africa (SACCOL) enjoys a reciprocal relationship with member countries throughout Africa and rest of the world.

SACCOL was formed in 1993. It evolved from the Cape Credit Union League (CCUL), which was formed in 1981(Nissanke & Aryeetey, 2004). At this time various Catholic Church Parishes decided to form Credit Unions and CCUL was formed to help them to coordinate their activities and standardize their operations. At this time though the Credit

Unions were formed as social organizations and did not operate their co-operatives as businesses (Stiglitz and Weiss, 2007).

This brought about a whole lot of problems because the Credit Unions did not pay good interest on savings but rather gave out loans very cheaply, which compelled the members not to be so much interested in saving with the SACCOs, but in only getting the loans.

Without savings and shares, the SACCOs were unable to grow. However, because members were enjoying the cheap loans, they did not want to change the way they operated. Without growth, it was inevitable for the SACCOs in Uganda to stagnate (Anderson, 2002).

A second problem that existed in 1980's was that people were scared to take up leadership positions as there was a state of emergency in Uganda during this period. This resulted in the ministers of the parishes to taking a leadership position in the SACCO (Lawrence & Charles, 1995). If the minister was transferred to another parish, it would depend whether the incoming minister had knowledge about a SACCO and whether he was interested in continuing its activities.

The provision of safe and reliable saving opportunities is of central importance for both the poor and the microfinance institutions (Distler, 2011). In Uganda, savings and credit cooperatives (SACCOs) as financial intermediaries, channeling savings into loans, provide saving opportunities for the poor, especially in the rural areas (Distler& Schmidt, 2011). SACCOs fulfill a very important outreach function for expanding access to financial products and services in rural communities of Uganda. Ntungamo District is one of those districts that have encouraged the development of SACCOs for its people to benefit from many advantages they provide.

SACCOs are member-based institutions, that intermediate savings into loans (Karuma, 2011). SACCOs are usually rather small, independent financial institutions (Ssewankambo, 2007; Distler & Schmidt, 2011). The business model of most SACCOs is to collect share capital and savings from their members and to intermediate them into loans. This enables the rural and poor population to subscribe, deposit savings as well as to take loans.

Well run financial institutions - backed by proper regulation and effective oversight - can provide convenient, secure, and reliable savings opportunities (Distler& Schmidt, 2012). To tap the savings potential of the poor, formal financial institutions such as SACCOs must find ways to combine simple and easy to access financial products with proper liquidity management. Accessibility is crucial; especially people in rural areas lack places within range to deposit or withdraw money.

However, SACCOs in Uganda may fail to achieve their intended objective of providing credit and saving opportunities due to poor credit management and performance (Bwambale & Masaba, 2013). Matovu and Okumu (2006) observed that the performance of SACCOs have generally been characterized by high delinquency rates. According to Distler and Schmidt (2011), a German Development Institute (DIE) survey established that the quality of the SACCOs' loan portfolio, a main indicator for the capability of lending institutions, is a critical point that threatens the viability of many SACCOs in Uganda. The DIE survey further noted that due to the enormous demand for financial products in rural areas (in particular loan products), the SACCO sector as a whole was growing considerably. However, the growth pattern of many smaller SACCOs was uneven.

In Ntungamo District, most SACCOs are experiencing similar problems with their credit management and performance. For instance, Kabamwe Tukore SACCO and Nyabihoko

SACCO's credit policies have been criticized as biased. According to the District Cooperatives Officer (DCO) for Ntungamo, some members of this SACCO filed a complaint whereby those who had less than 03 shares were dismissed. This SACCO has a big un-recovered portfolio. Simuka SACCO has been characterized with poor credit management in terms of lack of accountability and very poor annual performance. However, it is not known whether poor credit management contributes to poor performance of these SACCOs and this is what the study sought to establish in order to fill the knowledge gap.

1.2 Statement of the Problem

Credit management policies are instituted in financial institutions for timely collection of loan arrears, to improve financial performance, to mitigate fraud and credit risks associated with credit extension which include high default loan rates, high loan recovery costs and to ensure proper management of cash (Nuwagaba, 2012).

In spite of innovations in the financial services sector, there is a problem of high delinquency rates, non performing loans and inadequate loans. It is also not clear whether poor loan product sustainability is also attributed to credit management policies employed by most SACCOs in Uganda which has adversely affected their performance. According to Ahimbisibwe (2012), the current position of SACCOs in Ntungamo indicates a high incidence of credit risk arising from high levels of non-performing loans which negatively affect their profitability. This trend not only threatens the viability and sustainability of the SACCOs but also hinders the achievement of the goals for which SACCOs were intended; to provide credit to the rural unbanked population and bridge the financing gap in the mainstream financial sector. Furthermore, there is a problem with recovery of loans from SACCO members, leading to accumulated loan arrears (Wacha, 2013). This state of affairs if

not investigated may lead SACCOs in Ntungamo into cash shortages as more cash is tied into accounts receivables and low profit levels as a result of huge non-performing loans.

1.3 General Objective

The overall objective of the study was to examine the relationship between credit management and performance of selected SACCOs in Ntungamo District.

1.4 Specific Objectives

The following objectives guided the study:

1. To establish the relationship between credit terms and performance of SACCOs.
2. To determine the relationship between credit period and performance of SACCOs.
3. To examine the relationship between credit limits and performance of SACCOs.

1.5 Research Hypotheses

The study tested the following hypotheses:

1. There is no relationship between credit terms and performance of SACCOs.
2. There is no relationship between credit period and performance of SACCOs.
3. There is no relationship between credit limits and performance of SACCOs.

1.6 Scope of the Study

The study was from Ntungamo District, and SACCOs located in two Counties which form part of Ntungamo District notably; Kajara County and Ruhama County, were sampled. The study focused on Kabamwe Tukore SACCO, Nyabihoko SACCO and Simuka SACCO all located in Kajara County and Nyakyera SACCO in Ruhama County. This is because the performance of these SACCOs has been deteriorating yet they have credit management in place.

Therefore, the study was restricted to credit management and performance where credit management was focused on credit terms, credit period and credit limits while performance was focused on profitability, outreach, loan recovery and sustainability.

The study period/time was between 2006 and 2013. This period was selected because the problem had been more pronounced since 2006 to date.

1.7 Justification of the Study

The continued financial performance of some SACCOs in Uganda compromises government's efforts to eradicate poverty through these cooperative institutions, which it envisaged as a vehicle for promoting rural Micro credit enterprises, which encourages savings and development. Thus, government funds channeled through these institutions are not being effectively utilized, yet these funds can be invested in other development efforts. Thus, this study is important in that it will contribute to efforts in place to make these cooperative institutions viable, sustainable and relevant to the communities they serve.

1.8 Significance of the Study

The study will benefit SACCO's in the sense that it will bring out recommendations on how they can improve their credit management policies to enhance organizational performance.

The results of the study may help the management of SACCOs to run these institutions well for betterment of the stakeholders in the community.

Other researchers may utilize the findings of the study in evaluating areas for further research about Microfinance institutions.

The findings of the study contribute to the existing academic knowledge on MFIs by ascertaining the relationship between credit terms, credit period and credit limits and the performance of SACCOs.

1.9 Definition of key terms

Credit evaluation	It is an assessment of loan applicants to determine whether a particular loan applicant is credit worthy
Credit management	Is the business activity of controlling and processing the trade debts/loans which arise due to the common practice of extending credit to customers (members)
Credit limit	In the process of managing credit, the SACCO puts limits on the amount of loans it can extend to particular members. It is a threshold that the SACCO must not go for a particular member
Credit Period	This is the period that a company extending credit to a customer allows the customer in which to pay for an invoice.
Credit Terms	These are stipulations under which a SACCO offers credit to its customers. SACCOs in a bid to manage book debts/credit customers should try as much as possible to make terms attractive to customers (members)
Organizational Performance	It is the performance of the organization measured as a return on capital employed, return on share capital, profitability and so on.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

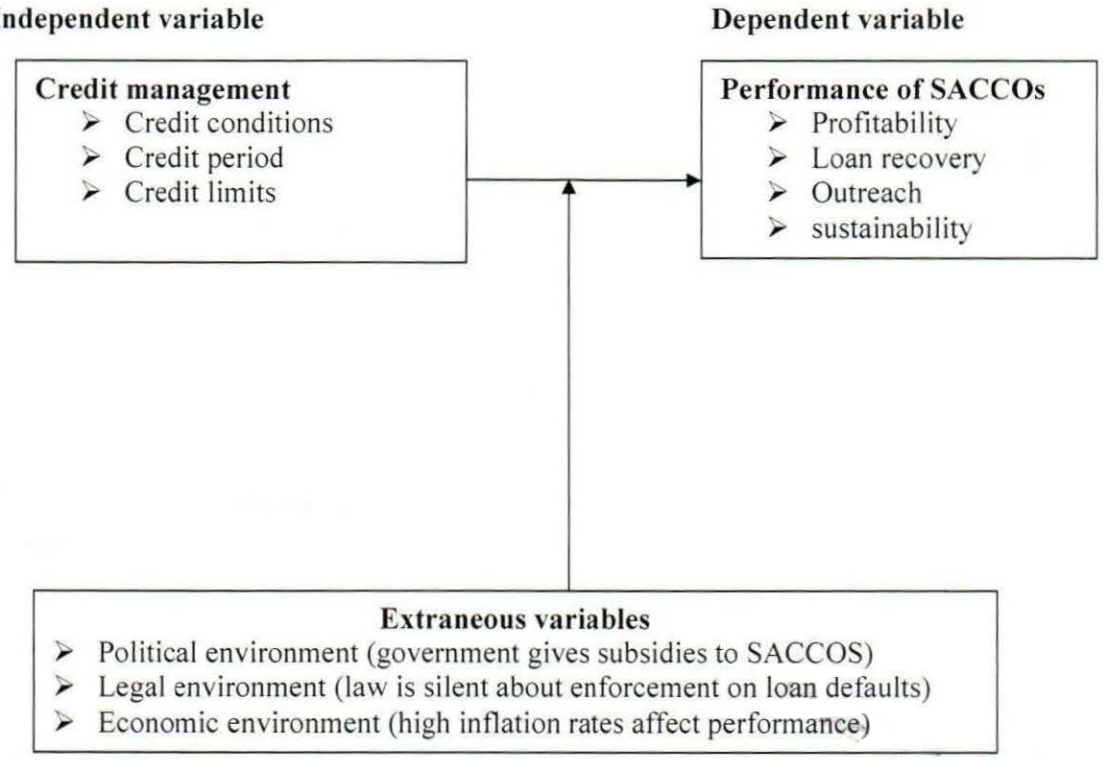
In this chapter, the researcher reviewed the relevant literature. It is divided into five major sections. The first section is the theoretical review. The second section covers the conceptual framework. The third section is the literature on credit terms and performance of financial institutions. The fourth section is the literature on credit period and performance of financial institutions. The fifth section is the literature on credit limits and performance of financial institutions.

2.1 Theoretical Review

The study adopted Systems theory. Ludwig Von Bertalanaffy (1940) developed the Systems theory in the 1940's and based his thinking on an interdisciplinary approach which attempts to fit together different aspects of the organization. His theory specifically dealt with the complex nature in systems, and proposed a framework which one can use to investigate any group of objects that work together to produce some result. Therefore the study employed systems theory to examine the relationship between credit management and performance of SACCOs. The theory indicates the system must function efficiently and any fault in a system can affect the whole functioning of the whole system (Harrison and Sundern, 2000). Examined in comparable terms, this theory explains how a well-functioning system of credit management can enable SACCOs to register high profit levels and high loan recovery.

It should be noted that financial performance of SACCOs in terms of profitability, loan recovery, customer outreach and sustainability is the end in itself and credit management in terms of credit terms, credit evaluation and credit limit is the means to attain the desired performance levels of SACCOs in Uganda.

2.2 Conceptual Framework



Source: The Researcher

Figure 1: The Conceptual framework reflecting how credit management influences the Performance of SACCOs

The conceptual framework conceptualizes credit management as the independent variable in terms of credit terms, credit period and credit limits while performance is the dependent variable measured in terms of profitability, loan recovery outreach and sustainability. The assumption is that good credit terms given to members coupled with proper credit period offered to loan applicants and lenient credit limits can result into improved profitability levels, good loan recovery, outreach and sustainability of loan products in SACCOs. However, the relationship between credit management on performance of SACCOs may not be as described due to the extraneous variables such as the political, economic and legal environments. It is assumed that a conducive political environment, economic and legal environment can enhance effective credit management and thus leads to good performance of

SACCOs while an un-conducive political environment, economic and legal environment can compromise the credit management in place and thus hinders the performance of SACCOs.

2.3 Credit Terms and Performance of Financial Institutions

Credit terms also known as credit terms refer to the stipulations under which a financial institution advances credit to its customers. Anderson (2002) contends that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms or conditions is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. It is in the terms of micro financial institutions (MFIs) that in order for the surplus funds to be invested, credit-issuing procedure must be adhered to, to achieve efficiency in institution's management hence the need for credit terms. However, what the authors did not state is how lenience should credit management policy should be to register the desired financial performance.

Stiglitz and Weiss (2007) assert that credit terms are part of a general exercise to help determine the extent of risk for each borrower (that is, the screening problem). It is designed on the part to ensure that borrowers take action, and facilitate repayment/make repayment likely (incentive problem), or to compel repayment (enforcement problem). However, what the author missed out is to what extent credit terms should determine each borrower's risks to ensure effective repayment as means of enhancing the performance of SACCOs

Credit terms are considered as an important part of microfinance lending program. The loan terms affect the repayment schedule, the revenue to the MFIs, and the financing costs for the client and the ultimate suitability for the use of the loan. The closer an organization matches the loan terms to its clients' needs, the easier it is for the client to carry the loan and more likely that the repayment will be made on time and in full (Ddumba, 2011). However, what

the author did not highlight are loan terms and conditions which customer needs and are in preference with the SACCO to enable it improve its performance.

The level of interest rates has a direct effect on a borrower's ability to repay a loan and thus the performance of the lending organization. Cost of funds plus margin; financial institutions consider their individual expenses and the average cost of funds plus a profit margin. Firms can also charge interest basing on what their competitors are charging. The MFIs maintained a wider interest rate spread than that prevailing in the banking sector (Nissanke & Aryeetey, 2004). Bhuyan, (2006) notes that one of the serious limitations of the traditional MFIs is their high interest rates. Lehmann (2004) while carrying out a comparative study about micro finance effect on performance of businesses between East and West Germany found out that the unfavorable MFIs loan terms of lending yield a lending gap given by higher loan prices(Srinivasan, 2009). However, it should be remembered that the MFIs sustainability comes from poor paying high interest rates that is not out of income, but out of capital that erodes fast in proportion to the interest rate. The borrowers would go bankrupt over a period once the capital runs out.

Thordsen and Nathan (1999) assert that when interest rates are low, people and organizations are willing to borrow because they find it relatively easy to repay their debt. When interest rates are high, people and organizations are reluctant to borrow because repayments on loans cost more. Some borrowers may even find it difficult to meet their existing loan repayments, especially if interest rates increase faster than the rise in a consumer's income. However, what the authors failed to indicate is that if interest rates rise sharply and stay high for a long period, some borrowers will default on their loans.

Ledgerwood (1996) recognizes credit period/or loan term as one of the important variables in the performance of financial institutions. Loan term refers to the period of time during which the entire loan must be repaid. It affects the repayment schedule and the revenue to the financial institutions. He continues to emphasize that the closer an organization matches loan terms to its clients' needs, the easier it is for the clients to "carry" the loan and the more likely that payments will be made on time and in full (Ledgerwood, 1996). To the financial institutions, prepayments have one clear advantage, as the repaid loan is available for revolution. However, what the author failed to put is that prepayments are difficult to monitor and if they are significant, they disrupt the cash flow of financial institutions. In this case, contends that loan terms should be designed to minimize the need for prepayments.

Longer loans generate more interest revenue from a single evaluation and disbursement. On the other hand, they have more chances of falling into arrears and mav lead to greater delinquency costs to the lending financial institutions. Bass (1991) indicates that long credit can have the opposite effects to those intended. It should however, be argued that credit terms or conditions which are too harsh for customers impair the organization's capacity to turn debtors into cash fast enough.

2.4 Credit Period and Performance of SACCOs

Credit period refers to the period of time in which the credit is granted. The length of the credit period is influenced by collateral value, credit risk, the size of the account and market competition (Ross, Westerfield & Jordan, 2008). Debt in a particular class has its own interest rate in accordance with the theory of term structure. Todaro (1992) suggests that interest rates is the amount the borrower must pay to the lender over and above the total borrowed expressed as the percentage of the total amount of the funds borrowed. Anderson (2002) explained the interest rates as a measure of the cost for the borrowing. Though, this

was a case, the author did not indicate is that financial institution interest rates are rewards expected by the lenders (financial institutions) for the period the borrower spends using the borrowed funds. It should be noted that it is the time value of money for the funds granted to borrowers in a specific period.

Woolcock (2002) observed that if the loan period is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. For successful results, the loan terms should match the cash patterns to help the client budget cash flows (Stiglitz& Weiss, 2007). According to Anderson (2002), financial institutions initially focused on standard commercial loans to individuals and experienced a high volume of non-performing loans, but they later improved performance by adjusting the terms of the loans, generally to short-term (4-6 months), and retaining a compulsory up-front savings of 20 percent as a security (Banturaki, 2000). However, what was not indicated by the authors is that the long repayment period depends on the amount of the loans since the banks have to calculate a number of objective and subjective factors of the national economy when forming the terms of credit and lending procedures.

Van Horne and Wachowicz, (2000) explains that credit periods are centred on the person who wants the credit, hence answering the question who should qualify for the credit facilities. They further indicate that credit evaluation is the criteria which the firm must follow while selecting customers for credit extension. What the author did not state is that this is the most important variable in management of book debts and it requires careful examination of customers.

Microfinance Institutions use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000 as cited in Kwagara, 2006).The 5Cs help MFIs to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition. These five components are relevant to all types of lending institutions. The weight assigned to each component will vary depending on the lending methodology (i.e. solidarity group, village banking or individual), the loan size, and whether it is a new or repeat customer. Not everyone who applies for a loan is a good credit risk. Regardless of the lending methodology, loan officers should be expected to make wise credit decisions. Unfortunately, in some MFIs, staff members act more like loan administrators than loan officers do. If all of the paperwork is in order and the applicants have fulfilled whatever savings and meeting requirements there might be, then they automatically receive a loan (Nissanke & Aryeetey, 2004). However, what was left out by the authors is that this often results in poor portfolio quality. Loan officers and their immediate supervisors should consider the 5 Cs when making credit decisions and they should be held accountable for those decisions.

Character: Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers & Forgy, 2005 as cited in Kwagara, 2006). This is the personal impression the client makes on the potential lender. In microfinance, character is the single most important means of screening new applicants. By assessing a client's character, the lender gains important insight into the client's willingness to repay. Although the MFI does not want to put clients in a difficult situation, clients with good character will find a way of repaying their loans even if their businesses fail. The importance of character as the key trait to select new borrowers is heightened by the fact that many microenterprises do not have sufficient records to demonstrate their capacity to repay. Screening for character varies by the

lending methodology (Srinivasan, 2009). In group-lending programs, the group assumes responsibility for selecting members of strong motivation and character because members guarantee each other's loans. With individual lending, besides interviewing neighbors and opinion leaders in the community, loan officers also need to ensure that information provided by the applicant is internally consistent. This is often tested through a three-stage method whereby applicants provide information about themselves and their business in a loan application. Then the loan officer visits the household and/or business to, among other things, verify that the application information is correct. Finally, the loan officer checks other sources regarding the reliability of the information, such as a landlord regarding the size of rent and the length of residence, or a supplier regarding the frequency and size of inventory purchases.

Capacity: To assess an applicant's capacity to repay, loan officers conduct both business and household assessments. One challenge in determining the business' capacity to repay is the fungibility of money: what the client says she will use the loan for and what she actually uses the loan for may be different (Distler& Schmidt, 2011). Because the lines between a micro entrepreneur's business and household activities are often blurred, it is important for the loan officer to understand the flow of funds within and between the two. It is difficult to assess the repayment capacity of a low-income applicant. Estimates of income and expenses may not be reliable, and applicants often do not have supporting financial records (Wacha, 2013). What was not indicated by the authors is that experienced loan officers develop methods of improving the quality of these estimates by determining the basis on which they are made and then testing whether the assumptions are valid.

However, wide variations may still exist between estimated and actual cash flow of a business, even if the applicant is not intentionally misleading the loan officer. To overcome these challenges, some MFIs assess a client's capacity to repay without taking into account

the effect of the loan on the business (Woolcock, 2002). That means that the current net income of the business is a certain multiple of the proposed installment amount; in other words, the applicant estimates that the business is already generating enough revenue to repay the loan. MFIs also use small initial loan sizes and an ongoing process of collecting information to overcome the challenge of assessing the applicant's repayment capacity. Initial loan sizes tend to be smaller than the applicant requests because the loan officer does not have good information to assess repayment capacity. Clients are then asked to maintain basic business information on income and expenses so that loan officers can make credit decisions based on more reliable information and tailor subsequent loans to the cash flow of the business(Ross, Westerfield & Jordan, 2008). With small loan sizes, it is appropriate that the applicant's character is the key screening element. As loan sizes increase, however, what the authors did not state is that there needs to be a shift from "soft" information like character to harder information such as capacity. To make good credit decisions, therefore, it is important that loan officers collect information over time that will allow them to understand of the capacity of their clients' businesses.

Capital: Besides assessing the cash flow of the business to determine if it has the capacity to repay a loan, many MFIs collect information on the assets and liabilities of the business to construct a simple balance sheet (Stiglitz and Weiss, 2007). This allows the loan officer to determine if the business is solvent and how much capital the client has already invested in the business. With the smallest loans, this component is probably the least important, but its significance increases as loan sizes increase. In some cases, loan sizes are linked to the equity in the business (Srinivasan, 2009). What was not stated is that some MFIs also conduct an asset inventory to reduce credit risk. Although they may not say so explicitly, loan officers convey the message that, if the client does not repay, the institution might seize these assets. This is known as implicit collateral.

Collateral: One reason for the development of the microfinance industry is that traditional banks do not serve persons who cannot offer traditional collateral. Many micro lending methodologies use peer groups, restrictive product terms and compulsory savings as collateral substitutes (Nissanke & Aryeetey, 2004). Subsequent lending innovations provide microloans with non-traditional collateral, such as household assets and cosigners. Pawn lending and asset leasing are other methods of overcoming collateral constraints. Perhaps more important than the type of collateral is how it is used. In microfinance, collateral is primarily employed as an indication of the applicant's commitment. It is rarely used as a secondary repayment source because the outstanding balance is so small that it is not cost-effective to liquidate the collateral, much less legally register it if such a service is available. Only when clients are not acting in good faith do micro lenders take a hard line stance and seize collateral. It should be remembered that MFIs tend to be less concerned about the ratio of the loan size to the value of collateral than how the clients would feel if the collateral was taken from them. As the loan size increases, however, this soft approach to collateral needs to change so those larger loans are indeed backed by appropriate security.

Condition: The fifth component, conditions, is often the hardest for loan officers to assess. Many MFIs adopt a microenterprise development approach to microfinance, which means that they are as concerned with improving the business as recovering their loan. As such, the process of assessing the level of competition, the size of the client's market, and potential external threats, can play an important role in helping the client to make smart business decisions and help the loan officer to make good credit decisions. Theuri (2012) argues that since loan officers do not usually have the expertise to analyze the conditions of all types of businesses, the primary means of controlling the credit risk posed by business conditions is to require that applicants be in business for a certain number of months (usually 6 to 12 months) before they are eligible for a loan. This requirement means that applicants will have sufficient

experience to answer questions about market conditions (Nissanke & Aryeetey, 2004). The existing business requirement also makes it easier to assess repayment capacity and business capital needs.

The factors that influence a client can be categorized into personal, cultural, social and economic factors (Ouma, 1996 as cited in Kwagara, 2006). The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment. MFI's consider this factor by observing and learning about the individual. In most cases it is not considered on first application of credit by an applicant but from the second time. Under social factors, lifestyle is the way a person lives. This includes patterns of social relations (membership groups), consumption and entertainment. A lifestyle typically also reflects an individual's attitudes, values or worldview. Reference groups in most cases have indirect influence on a person's credibility. MFI's try to identify the reference groups of their target as they influence a client's credibility (Srinivasan, 2009). Personal factors include age, life cycle stage, occupation, income or economic situation, personality and self concept. However, what the author left out is that under life cycle stage for example older families with mature children are not likely to default since it's easier to attach collateral on their assets since they are settled unlike the unsettled young couples.

The MFI's will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. Austin and Bradbury (1995) define cash flow as the cash a borrower has to pay his debt. Cash flow helps the MFI's to determine if the borrower has the ability to repay the debt. The author did not highlight that the analysis of cash flow can be very technical. It may include more than simply comparing income and expenses. MFI's determines cash flow by examining existing cash flow statements (if available) and reasonable projections for the future (ratios).

Bhatt and Tang (2001) posit that lenders review the borrower's business plan and financial statements, they have a checklist of items to look at one of the being the number of financial ratios that the financial statements reveal. These ratios are guidelines to assist lenders determine whether the borrower will be able to service current expenses plus pay for the additional expense of a new loan. Collateral is any asset that customers have to pledge against debt (Kwagara, 2006). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral is in form of hard assets such as real estate and office or manufacturing equipment. What the author did not indicate is that alternatively accounts receivable and inventory can be pledged as collateral. Lenders of short term funds prefer collateral that has duration closely matched to the short term loan.

According to Weston and Eugene (1966 as cited in Kwagara, 2006), Capital is measured by the general financial position of the borrower as indicated by a financial ratio analysis, with special emphasis on tangible net worth of the borrower's business. Thus, capital is the money a borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail. Condition refers to the borrower's sensitivity to external forces such as interest rates, inflation rates, business cycles as well as competitive pressures. The conditions focus on the borrower's vulnerability.

2.5 Credit limits and Performance of Financial Institutions

Trans Union Credit Bureau (2005), reports that there is a general conception that that there is a relationship between credit limits and financial performance. Popular belief holds that larger loans yields better risk profiles. SACCOs give loans in progressive manner starting from smaller amounts to larger ones depending on the loan repayments periods and record. This is an incentive to pay the loan so that one easily gets larger amount of loan. What Trans

Union Credit Bureau (2005) did not highlight is that loan size determination seems to be subjective leading to sub optional decisions of diverting the loaned funds into unproductive activities hence failing to service the loan. This in return has affected their repayment ability which cripples the financial performance of SACCOs.

Rajan (2002) describes how the credit limits and financial performance are related. The financial diaries which looked at the livelihood profile based on the predominant source of monthly income which implies how people make their living proves the most useful for the analysis. It is seen that when the loan size is small, chances of defaulting are very minimum. This is because small size loans are less risky than large size loans. What the author left out is that if there are some economic shifts in the business which are not favorable like increase in exchange rate, interest rates or high inflation, this may force businesses to scale down their operation if in this case the loan size is large, then it becomes hard for the business to meet their debt obligation as they fall due and thus affecting adversely the financial performance of SACCOs.

Kamoga (2003 as cited in Natukunda, 2010) states that some people acquire big loans and they spend that money on activities which do not generate income or if they do spend on income generating activities, they spend it recklessly. For example raw materials and labor are direct costs that are incurred in production of goods and services. Most businesses incur high direct costs of labor as payment for wages and salaries to employees and this will hinder them from profit accumulation which in the end leads to failure in loan repayment(Scope, 2005 as cited in Natukunda, (2010).From the author's point of view it should be remembered that if a large sums of money are acquired compounded with little financial management skill or experience, conservative, social and financial tendencies will lead to loan default because borrowers lack knowledge on how to manage large financial resources

According to Altman, Resti & Sironi (2003), the borrower's surplus is the most important indicator for credit limit to be offered to clients. If clients at the end of accounting period have less surplus then small loans should be given to such clients. On the other hand if clients make reasonable surplus as may be determined by the financial institution, then large loans can be extended to customers. It shows how much of the business surplus after subtracting household expenses is left to service a loan. However, the author did not state is that if the business is not profitable and accumulating any surplus for the client, it will fail to service or pay the loan amount. Furthermore, loan management policies must be put in place in order to minimize loan default by borrowers so as to reduce on financial losses on part of SACCOs.

According to Theuri (2012), credit creation is the main income generating activity for the SACCOs. However, this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. The findings of his study showed that SACCOs heavily relied on particular credit risk techniques which were not adequate to mitigate against loan losses in a dynamic and competitive lending environment. Secondly, failure to revise the credit limits for customers, poor monitoring and control mechanisms in majority of SACCOs has resulted in late detection and determination of non-performing and defaulted loans.

The result of Athanasoglou et al (2005) found that the coefficient of the capital variable measured as the ratio of equity capital to total assets) is positive and highly significant. Credit risk was negatively and significantly related to bank profitability. From the author's point of view this shows that in the Greek banking system managers, attempting to maximize profits,

seem to have adopted a risk-averse strategy, mainly policies that improve screening and monitoring credit risk.

Miller and Noulas (1997) establish a clear negative relationship between credit limit and profitability. This result may be explained by taking into account the fact that the more financial institutions are exposed to high-risk loans, the higher is the accumulation of unpaid loans, implying that these loans losses produced lower returns to financial institutions.

The most common and often the most serious vulnerability in a microfinance institution, is the deterioration in loan portfolio quality that results in loan losses and high delinquency management costs. Also known as default risk, credit risk relates to client failure to meet the terms of a loan contract. One microloan does not pose a significant credit risk because it is such a small percentage of the total portfolio. Since most microloans are unsecured, however, delinquencies can quickly spread from a handful of loans to a significant portion of the portfolio (Nissanke & Aryeetey, 2004). This contagious effect what the author failed to put is exacerbated by the fact that microfinance portfolios often have a high concentration in certain business sectors. Consequently, a large number of clients may be exposed to the same external threat, like a crackdown on street vending or a livestock disease. These factors create volatility in microloan portfolio quality, heightening the importance of controlling credit risk.

Credit risk management can be divided into the preventive steps lenders take before issuing a loan and the use of incentives and disincentives after loan disbursement to extract timely repayment (Nissanke & Aryeetey, 2004). Prior to issuing a loan, a lender reduces credit risk through controls that reduce the potential for delinquency or loss, such as loan product design, rigorous client screening, and client orientation to expectations and procedures. Once a loan is issued, a lender's risk management expands from controls that reduce the potential

for loss to controls that reduce actual losses. As such, delinquency management procedures are key components of credit risk management.

2.6 Conclusion

Despite the view of various authors and writers about the relationship between credit management and the performance of SACCOs, still many SACCOs are performing poorly and thus have a long way to go as there are inefficiency in credit terms, credit period and credit limits. Research was surely needed to collect data that can be used to demonstrate the relationship between credit management and performance of SACCOs.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter examines the study design, study population, methods of data analysis, data collection instruments, sample size and selection, validity and reliability, procedures of data collection, data analysis and measurement variables.

3.2 Study Design

This study adopted cross-sectional survey design. Cross-sectional survey design enabled the researcher to collect data on selected SACCOs in Ntungamo district only once during the data collection period. Both quantitative and qualitative approaches were adopted in the study. This is because the quantitative approach allowed the researcher to solicit information that could be quantified while the qualitative approach allowed the researcher to solicit information that could not be quantified (Mugenda & Mugenda, 1999). Combining numerical and textual information helped the researcher to enrich the interpretation of findings of the study.

3.3 Area of Study

Ntungamo District is bordered to the north, from west to east by Mitooma District, Sheema District and Mbarara District. Isingiro District lies to the east, the Republic of Rwanda to the south, Kabale District to the southwest and Rukungiri District to the northwest. The general coordinates of the district are: 00 53S, 30 16E. The study focused on Kabamwe Tukore SACCO, Nyabihoko SACCO and Simuka SACCO all located in Kajara County and Nyakyera SACCO in Ruhama County.

3.4 Target Population

The population consisted of credit/loans' officers (6), project coordinators (6), accountant/finance officers (6), administration manager (6) and SACCO clients using loans (200). This is because the selected SACCOs have 600 members and thus have 24 staff in credit management (Uganda Co-operative Savings and Credit Union Report, 2012).

3.5 Sample and Sampling Procedures

The study was based on a sample size of 151 that was drawn from a population of 624. The sample size of 151 was sufficient and this is supported by Krejcie and Morgan (1970) who assert that where a total population is 624, a sample size of 151 or more is sufficient as shown in Table 1, below.

Table 1: Sample size and selection

Category	Population	Sample size	Sampling technique
Credit/loans' officers	6	6	Purposive
Project coordinator	6	6	Purposive
Accountant/finance officers	6	6	Purposive
Administration manager	6	6	Purposive
SACCO clients	600	127	Simple random
Total	624	151	

Purposive sampling was used to select the credit/loans' officers, project coordinator, accountant/finance officers and administration manager. This method was used on these categories of respondents given that their entire population was to participate in the study and thus they are the people involved in the management of credit. The simple random method was used to select SACCO clients. The researcher obtained list of 600 clients from the

selected three SACCOs in order to ensure that all respondents in all the three SACCOs got equal chance of being selected. The 200 members from each SACCO were assigned a number ranging from 01 to 200. Each name with its corresponding number was folded and put into a box. The researcher randomly picked 42 out of the 200 to represent each SACCO. Therefore, a total sample size was 127 SACCO clients.

3.6 Research Instruments

Three types of data collection instruments were used in the study. These included questionnaires, interview guides and documentary analysis which are explained in the following subsection.

3.6.1 Questionnaire form

A questionnaire consists of a list of open-ended questions and or close-ended questions to facilitate the collection of primary data (Amin, 2005). Questionnaires can be used for the collection of both quantitative and qualitative data depending on the need of data type. Self-administered questionnaires (SAQs) were used to collect quantitative data from the SACCO clients and SACCO staff. Amin (2005) emphasized that questionnaires have the advantage of the respondents filling them at their convenience and are void of interviewer's bias since she/he is not physically present at the interviewee's place to influence the answers. However questionnaires if not well thought out may confuse respondents as to the nature of information required, discourage them to the extent of discarding them and may even leave out important information required in the study (Mugenda and Mugenda, 2003), yet there is no opportunity to probe or make clarifications.

3.6.2 Interview guide

The researcher also used interview guide to collect necessary data from credit/loans' officers, project coordinator, accountant/finance officers and administration managers. The researcher asked the credit/loans' officers, project coordinator, accountant/finance officers and managers, some questions about the effect of credit management on performance of SACCOsso as to get first hand information. This instrument was used because SACCO staffs are few and easy to use this instrument. Interview guide is a far more personal form of research instruments than questionnaires (Amin, 2005). An interview is a conversation between two or more people where questions are asked by the interviewer to elicit facts or statements from the interviewee. The researcher presented questions to the credit/loans' officers, project coordinator, accountant/finance officers and administration manager and their views were written down by the researcher. Data obtained during the interview was supplemented with that obtained using the questionnaire.

3.6.3 Documentary analysis guide

Important documents containing information related to credit management and the performance of SACCOs were studied and screened according to content. The documents included credit manuals of SACCOs, credit policies and techniques used, financial performance reports, magazines, Newspapers, reports obtained from library, archive and internet.

3.7 Measurement of Variables

The variables are credit management which is independent variable and performance of SACCOs which is a dependent variable. The variables were measured using constructed questionnaire scales, specifically the Likert scale. The study variables were measured using the constructs indicated under them where respondents were asked to Strongly agree scored

as 5, Agree scored as 4, Not sure as 3, Disagree scored as 2 and Strongly disagree scored as 1. The higher score indicated good financial performance and effective credit management in place. This involved first summing respondents who "strongly disagreed" and those who "disagreed" to one category of respondent who were "opposed" to the item and summing respondents who "strongly agreed" and those who "agreed" to one category of respondents who were "concurred" with the item. Thereafter, the percentages of respondents who were opposed to the item, not sure with the item and concurred with the item were compared. From these comparisons, an interpretation of the results was arrived at. These procedures were done for all descriptive results in this study.

3.8 Data Quality Control

3.8.1 Validity

Amin, (2005) says that a research instrument is valid if it actually measures what it is supposed to measure and when the data collected through it accurately represents the respondents' opinion. To ensure validity of research instruments used in this study, questions were discussed with the supervisor for scrutiny, clarity and removal of ambiguity. Corrections were made accordingly before pre-testing the instruments. For the researcher to Consider those items relevant and valid, the ratings from the experts/supervisor were recomputed using content valid index = $\frac{No\ of\ items\ rated\ relevant}{All\ items\ in\ questionnaire}$

The results from index as shown in appendix 2 (page 83) were 0.806 for credit terms and performance, 0.733 for credit period and performance and 0.767 for credit limits and performance and thus considered valid as maintained by Amin (2005).

3.8.2 Reliability

The reliability of the questionnaire instrument was assessed using Cronbach's coefficient alpha. The questionnaires were pre-tested in Nyabihoko SACCO and the reliability results

were computed using the SPSS package. The following formula was used to calculate the Cronbach's coefficient alpha

$$\alpha = \frac{k}{k-1}\left(1 - \frac{\sum SDi^2}{\sum SDt^2}\right)$$

Where α = coefficient alpha

$\sum SDi^2$ = sum of the variance of items

$\sum SDt^2$ = sum of the variance of scale

The results in all items had high reliabilities with alphas above 0.7 as reflected in appendix 2 (page 83) and thus considered highly reliable in eliciting the data that was required for this study (Amin, 2005).

3.9 Data Collection Procedure

Upon approval of the proposal from Kyambogo University, the researcher was given a letter of introduction to SACCOs' Authority. This served to secure permission in order to carry out the study in these organizations. The researcher then presented a letter of consent to the managements of selected SACCOs which allowed the researcher to freely distribute questionnaires. The respondents were given time within which they should return the fully filled questionnaires. Dates were set for the interviews with the key informants. After the questionnaires were filled, the researcher collected them, sorted them and coded them.Furthermore, research Assistant was trained prior to data collection and was supervised during pre-testing and corrected thereafter to ensure that mistakes identified during the pre-testing exercise were not repeated. Before data entry, cleaning and analysis of all field returns were checked for coding errors, completeness and consistency.

3.10 Data Analysis

The data that was collected was edited, coded and cleaned, and then presented using graphs and frequency tables. Univariate analysis was done/ carried out thus providing descriptive statistics such as mean, frequencies and percentages were used to describe and summarize the data for different variables of interest in the study such as credit limit, credit terms, and others. Data analysis was carried out using SPSS, and the analysis was carried out in two phases that is; univariate analysis, and bivariate analysis.

Bivariate analysis was carried out to check the factors that are related/associated with Performance of SACCOs. The relationship that exists between the independent variables (credit terms, credit limits, and credit period), and the dependent (Performance of SACCOs) were tested using the Pearson product moment correlation (Pearson's correlation coefficient) in order to measure the dependence between the dependent and explanatory variables. Pearson's correlation coefficient formula is;

$$\rho_{X,Y} = corr(X,Y) = \frac{\operatorname{cov}(X,Y)}{\sigma_X \sigma_Y} = \frac{E\left[(X-\mu_X)(Y-\mu_Y)\right]}{\sigma_X \sigma_Y}$$

3.11 Limitations of the study

Time constraint; the researcher is employed coupled with other tight private schedules. However, the researcher obtained a leave to accomplish the study. Financial constraint, the researcher is self sponsored without funding yet research is an expensive venture. However, the researcher obtained a loan to finance the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.0 Introduction

This chapter presents, analyzes and interprets the results. It is divided into four sections. The first section is focused on respondents' background. The second section examines results about the relationship between credit terms and performance of SACCOs. The third section focuses on credit period and performance of SACCOs. The fourth section is centered on credit limits and performance of SACCOs.

4.1 Background Characteristics of Respondents

Respondents' background information included their sex, age, level of education and occupation of SACCO clients/members. The findings in this regard are presented as follows:

Table 4.1: Sex of the Respondents

Respondents	Sex	Frequency	Percentage
SACCO staff	Female	10	41.6
	Male	14	58.4
	Total	**24**	**100**
SACCO clients	Female	75	59
	Male	52	41
	Total	**127**	**100**
	Grand Total	**151**	**100**

Source: Field data, 2013

From table 4.1 above, the findings indicate that the majority of the SACCO staff that is, credit loan officers, project coordinators, accountant/finance officers, administration manager

in the selected SACCOs in Ntungamo district (58.4%) were male and 41.6% were female. This implies that male SACCO staff participated more in the study and thus had more interest in how credit management influences the performance of their SACCOs.

Further table 4.1 shows that 59% of the SACCO clients/members in the selected SACCOs in Ntungamo district were female and 41% were male SACCO clients/members. The proportion of females as opposed to male counterparts in the study indicates that the study was not gender balanced. However, the views of both sexes about credit terms, credit period and credit limits and the performance of SACCOs were well presented in the study.

After analyzing the gender distribution of the respondents, the researcher continued to analyze the age distribution of the respondents as shown in the figure below

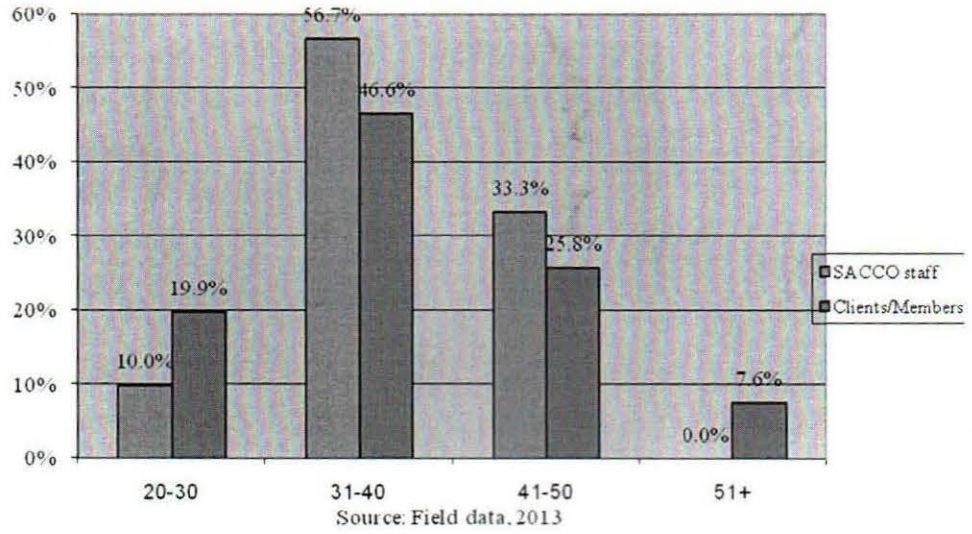


Figure 2: Age distribution of respondents

The results in the figure 2 above shows that 56.7% of the SACCO staff were between 31-40 years, 33.3% were between 41-50 years, 10.0% were between 20-30 years. There were no SACCO staff who had 51 years and above. This indicates that the SACCOs in Ntungamo

district are dominated by people between 31-40 years who are expected to be energetic enough to manage credit and thus stimulate the performance of the SACCOs. On the other hand 46.6% of the SACCO clients/member were between 31-40 years, 25.8% were between 41-50 years, 19.9% were between 20-30 years and the remainder (7.6%) were 51 years and above. The Nyabihoko SACCO report (2013), also shows that the youth have not picked much interest in accessing credit facilities in the SACCOs to uplift their standards of living. Furthermore, people who are 51 years and above have not participated fully in the SACCO activities (Kabamwe Tukore SACCO Report, 2013). It should be noted that over 60% of the Ugandan population consists of young people and if these are not involved in SACCO activities then the standards of living of many people in Ntungamo district will remain low.

From the analysis of the age distribution of the respondents, it was also important to ascertain the respondents' level of education as the next figure indicates:

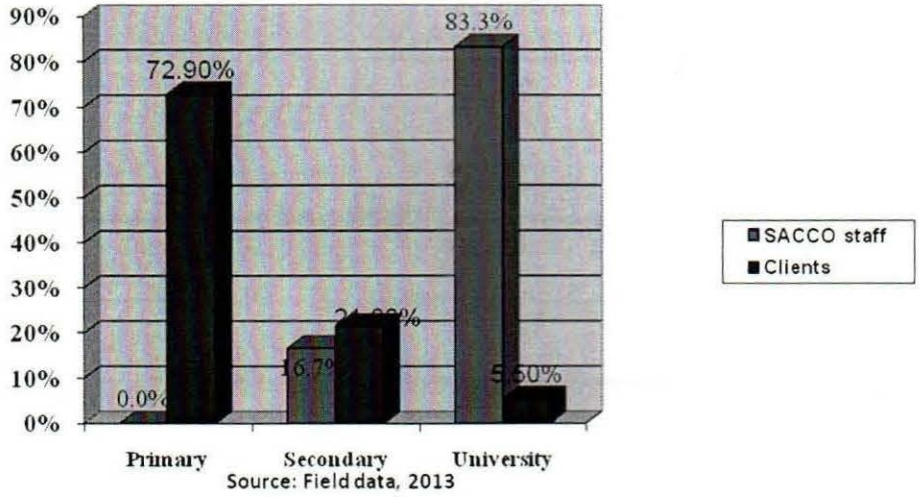


Figure 3: Level of Education of Respondents

As reflected in figure 3 above, 83.3% of the SACCO staff had University level of education, 16.7% had secondary level of education. This shows that the SACCO staff (consisting of credit/loans' officers, project coordinators, accountant/finance officers, administration

manager in the selected SACCOs in Ntungamo district) are educated and are capable of effectively managing credit and understand the relationship between credit management and performance of their SACCOs. On the other hand, 72.9% of the SACCO clients/members were primary dropouts, 21.6% had secondary level of education, and 5.5% had University level of education. This implies that the majority of the SACCO clients/members were not highly educated and According to Kabamwe Tukore SACCO Report (2013), clients lack business management skills and entrepreneurial skills to properly manage the loan products received from the SACCO.

After establishing and analyzing the respondents' level of education, the study sought to establish the occupation of the SACCO members or clients as shown in the table below:

Table 4.2: Occupation of the SACCO clients/members

Occupation	Frequency	Percent
Business person	35	27.6
Farmer	84	66.1
Carpenter	8	6.3
Total	**127**	**100.0**

Source: field data, 2013

Regarding occupation of the SACCO clients/members, table 4.2 above shows that the majority (66.1%) of the respondents were farmers, 27.6% were in business sector and 6.3% were in carpentry. This implies that people in Ntungamo district are generally engaged in farming. However, it was observed that agricultural production for cash is still low and most farmers therefore produce largely for home consumption leaving little or no surplus for sale

which has led income remain low despite accessing loan facilities from SACCOs. This is because most farmers are not engaged in cash crop production that fetches more income in the market like coffee, cotton, tea and vanilla. Consequently, SACCOs in Ntungamo district have not made a significant contribution to increase farmers' income. It should therefore be noted that SACCOs in Ntungamo district needs to move an extra mile, in order for it to be felt in the community as a substantial program that has come to redeem the local poor farmers and enhance people's standards of living.

4.2 The relationship between credit terms and performance of SACCOs

The study first presented descriptive statistics for each variable before presenting inferential statistics (that is results of statistical test). The main reason for this was to help the researcher to interpret exactly how the variables under study relate or affect another. Thus, this approach is adopted in this section and subsequent sections in this chapter. The following are the descriptive results about credit terms in selected SACCOs in Ntungamo district.

4.2.1 Descriptive results about Credit terms in Selected SACCOs

The study focused on credit terms in selected SACCOs and various statements were used as indices and were presented to the respondents who were requested to indicate their level of agreement. Results are presented in the following tables accompanied with an analysis and interpretation of the results in the paragraphs after the tables.

Table 4.3: There are strong credit terms used in credit management process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	32	21.0	21.0	21.0
	Agree	75	50.0	50.0	71.0
	Not sure	6	4.0	4.0	75.0
	Disagree	20	13.0	13.0	88.0
	Strongly disagree	18	12.0	12.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.3 shows that more respondents [71% (50% + 21%)] concurred that there are strong credit terms used in credit management process in their SACCOs compared to respondents who opposed [25% (12% + 13%)] the view. While very, few (4%) were not sure whether there are strong credit terms used in credit management process in their SACCOs. The implication of this finding is that few people did not understand the statement. In an interview held with the manager of Nyabihoko SACCO' he had this to say,

> *"Our SACCO designed its credit terms in such a way that it can mitigate loan default to enhance effective management of credit facilities offered to our members. This improved the efficiency and performance of our SACCO compared to other SACCOs in Ntungamo district. However, we still have some problems of loan default which we are trying to solve by closing gaps clients use to default."*

From the foregoing therefore, it should be construed that credit-issuing procedure must be adhered to, to achieve efficiency in institution's management hence the need for credit terms.

After evaluating the strength of credit terms used in the credit management, the study sought to establish the importance of credit terms as indicated in the table (4.4) on the next page :

Table 4.4: It is important to look at credit terms before implementing credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	27	18.0	18.0	18.0
	Agree	93	62.0	62.0	80.0
	Not sure	8	5.0	5.0	85.0
	Disagree	15	10.0	10.0	95.0
	Strongly disagree	8	5.0	5.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in table 4.4 above indicates that 80% (62% +18%) of the respondents were in agreement that it is important to look at credit terms before implementing credit terms in SACCOs. Conversely, 15% (5% + 10%) disagreed with the view and the remainder (5%) were not sure whether it is important to look at credit terms before implementing credit terms. However, basing on the findings, it is not clear which terms are referred to which must be looked at. However, the results from the interview revealed that credit terms such as risks surrounding the business of the client whether financial risk or business risk must be considered in identifying who should qualify for loan products of the SACCO. One of the Loans Officer of Simuka SACCO, during the interview, had this to say,

> *"It is important to ascertain the terms or business environment in which one is operating in order to determine the credit terms for the customer. This sometimes takes time because there is a need to know a client's past performance which requires the financial records of the clients to be checked and validated before awarding her or him a loan"*

From the foregoing therefore, it should be reasoned that ascertaining the credit terms is very important part in credit management and thus requires a careful assessment before implementing credit terms in SACCOs.

After establishing the importance of credit condition, the research sought to verify whether the credit terms offered to clients are lenient as shown in the table below:

Table 4.5: There are lenient credit terms offered to clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	82	54.0	54.0	54.0
	Agree	38	25.0	25.0	79.0
	Not sure	1	1.0	1.0	80.0
	Disagree	18	12.0	12.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

The results in table 4.5 above also show that 79% (54% + 25%) of the respondents agreed that there are lenient credit terms offered to clients. On the other hand 20% (8% + 12%) of the respondents disagreed with the view and the remainder (1%) were not sure whether they there are lenient credit terms offered to clients.

From the interview with the Administrator of Kabamwe Tukore SACCO it emerged that stringent credit terms followed by the SACCOs in Ntungamo district which does not give customers a breathing space is the reason why some customers default. From the above it should be reasoned leniency of credit terms although can motivate clients to settle their loan

obligations but this does not guarantee that the SACCO will not have a problem of loan default. Sometimes it requires stringent credit terms to eliminate chances of defaults.

From the analysis of whether clients offered lenient credit terms or conditions, the researcher went on to establish whether interest rates have any impact on credit terms in SACCOs. The results collected are presented in the table below:

Table 4.6: Interest rates play a great part in determining credit terms in SACCOs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid					
	Agree	111	73.0	73.0	73.0
	Not sure	4	3.0	3.0	76.0
	Disagree	26	17.0	17.0	93.0
	Strongly disagree	10	7.0	7.0	100.0
Total		151	100.0		

Source: Field data, 2013

It is further reflected in table 4.6 above that the majority (73%) of the respondents accepted that interest rates play a great part in determining credit terms in SACCOs. However, 24% (7% + 17%) disagreed with the statement and 3% were not sure whether interest rates play a great part in determining credit terms in SACCOs. The results generated from the interview indicated that SACCOs generate their incomes from interests charged on to customers. Therefore to remain profitable in the business amidst the fears of competition in financial sector, SACCOs have to charge customers reasonable rates not to discourage members from borrowing but also to remain in the business for long time. SACCOs which fail to revise their interest rate generally collapse and thus cannot survive the threat of competition from other financial institutions. Basing on the above finding, it should be inferred that financial

institution interest rates are rewards expected by the lenders (financial institutions) for the period the borrower spends using the borrowed funds. It is the time value of money for the funds granted to borrowers in a specific period. Therefore, in determining credit terms for clients it is important for SACCOs to establish the interest rates in the market.

From the analysis of whether interest rates have any impact on credit terms in SACCOs, the researcher went on to establish what should be the realistic credit terms for the client. The results solicited are presented in the following table:

Table 4.7: Realistic Credit terms leads to effective credit management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	32	21.0	21.0	21.0
	Agree	84	56.0	56.0	77.0
	Not sure	0	0.0	0.0	77.0
	Disagree	20	13.0	13.0	90.0
	Strongly disagree	15	10.0	10.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.7 shows that 77% (56% + 21%) of the respondents agreed that realistic credit terms lead to effective credit management. Conversely 23% (10% + 13%) rejected the view that realistic credit terms leads to effective credit management. However, the findings from the interview revealed that SACCOs could realize payments faster if they are very strict about their credit condition given to customers. If the SACCO fails to pay attention to its credit terms, then clients will find ways of delaying payments which may adversely affect the cash flows of the SACCO. Therefore, it should be inferred that when loans are offered to

customers, the next step is to remind customers to settle their indebtedness. This is done to ensure that customers are stopped from taking longer time than the one set by the SACCO.

Table 4.8: Credit management can be effective without analyzing credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	18	12.0	12.0	12.0
	Agree	41	27.0	27.0	39.0
	Not sure	9	6.0	6.0	45.0
	Disagree	51	34.0	34.0	79.0
	Strongly disagree	32	21.0	21.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.8 above indicate that 55% (21% + 34%) of the respondents disagreed that credit management can be effective without analyzing credit terms, 6% were not sure and the remainder [39% (27% + 12%)] agreed that the credit management could be effective without analyzing credit terms. From the interview, the results collected from the accountant of Nyakyera SACCO had this to say.

> *"Central to the whole of credit management is the examination of credit terms in the lending program. The credit terms affect the repayment schedule of customers, the revenue to the SACCO, and the financing costs for the client and the ultimate suitability for the use of the loan".*

From the foregoing therefore, it should be reasoned that the closer SACCOs matches the credit terms to their clients' needs, this enable customers/clients to access loan easily and thus settle their obligations in time.

Table 4.9: Customer default rate are triggered off by poor design of credit terms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	83	55.0	55.0	55.0
	Agree	47	31.0	31.0	86.0
	Not sure	6	4.0	4.0	90.0
	Disagree	3	2.0	2.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in table 4.9 above show that 86% (55% + 31%) of the respondents agreed that customer default rate are triggered off by poor design of credit terms. Conversely 10% (8% + 2%) disagreed and the remainder (4%) were not sure whether customer default rate are triggered off by poor design of credit terms. From the interview with the manager of Simuka SACCO, had this to say,

> *"High delinquency rate is an indication of defective credit management policy perused by the SACCO. He further pointed out that if the recovery of loans in the SACCO is very poor, credit management policy would certainly be faulty but if delinquency rate is low or extremely small it is quite possible that some advantages may be gained by liberalizing the credit policy. There will be a little increase delinquency rate but the increase in sales may be much more than this increase in delinquency rate. In this case therefore, it is urged that delinquency rate should be looked upon as a sort of indicator of credit management policy pursued by the SACCO".*

Basing on the above findings it should be concluded that customer default rates are triggered off by poor design of credit terms.

Further the study sought to establish ways that can improve credit terms in order for the SACCO to register good performance. The findings gathered indicated that SACCO should find ways of matching their needs with their clients. When SACCOs identify their needs and these are aligned with the members it becomes easier for members to access loans and makes payment easier and on time. From the foregoing therefore, it should be concluded that SACCOs should design credit terms basing on the conditions of the clients and their capacity to settle their indebtedness. The loan prepayments have one clear advantage, as the repaid loan is available for revolution. However, prepayments are difficult to monitor and if they are significant, they disrupt the cash flow of financial institutions.

4.2.2 Descriptive results about the performance of SACCO

The study focused on the performance of SACCOs and various questions were used as indices and were presented to the respondents who were requested to indicate their level of agreement. Results are presented in the next Table (4.10) on the next page:

Table 4.10: The performance of the SACCO is determined basing on the return on investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	53	35.0	35.0	35.0
	Agree	28	19.0	19.0	54.0
	Not sure	26	17.0	17.0	71.0
	Disagree	18	12.0	12.0	83.0
	Strongly disagree	26	17.0	17.0	100.0
Total		151	100.0		

Source: Field data, 2013

Results in Table 4.10 about the performance of SACCOs show a variation in respondents' views on items with some being in agreement while others disagreeing and others not sure. For example, 54% (35% + 19%) of respondents concurred that the performance of the SACCO is determined basing on return on the investment on the other hand 29% (17% + 12%) rejected the view and the remainder (17%) were not sure whether the performance of the SACCO is determined basing on return on the investment. From the interview it emerged that SACCOs use return on capital employed, this ratio compares the profit earned to the funds used to generate that return. The higher the ratio the more profitably the resources of the SACCOs have been used. In theory, the higher the ratio, the more profitably the shareholders' investment in the company. It has been used and it is often used to compare financial performance between accounting periods, rather than to draw comparisons with the return on share capital of other companies as shown on Table (4.11) next page:

Table 4.11: Profitability may be a misleading indicator about the performance of SACCOs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	3	2.0	2.0	2.0
	Agree	41	27.0	27.0	29.0
	Not sure	32	21.0	21.0	50.0
	Disagree	60	40.0	40.0	90.0
	Strongly disagree	15	10.0	10.0	100.0
Total		151	100.0		

Source: Field data, 2013

It was also noted that 50% (40% + 10%) of the respondents disagreed that profitability may be a misleading indicator about the performance of SACCOs. Conversely, 29% (27% + 2%) of the respondents agreed and 21% were not sure whether profitability might be a misleading indicator about the performance of SACCOs. Basing on the above view it should be argued that profitability trend of SACCO is an important indicator of SACCOs' performance.

Table 4.12: Quantitative profitability analysis on the performance of SACCOs

YEAR	AMOUNT OF CAPITAL (UGX)	RETURN ON CAPITAL (UGX)	PROFITABILITY RATIO %
2011	137,000,000	27,000,000	19.7%
2012	168,000,000	41,000,000	24.4%
2013	203,000,000	58,000,000	28.6%

Source: Audited financial statements for Nyabihoko SACCO.

According to the statistics in Table 4.12, the profit margins indicated, give a direct bearing on the positive performance of the SACCOs. The implication of this finding is that although

SACCOs give out loans they have not registered good profits. The profitability ratio of 19.7% registered in 2011 compared to the amount of capital invested was small implying that SACCO did not benefit a lot. Further the profitability ratio of 24.4% registered in 2012 compared to the amount of capital invested was although improved; still it was small compared to the amount of capital invested. In the year 2013, the selected SACCOs registered profitability ratio of 28.6% and this was small compared to the invested capital.

Table 4.13: High loan recovery is a reflection of performance of a SACCO

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	45	30.0	30.0	30.0
	Agree	82	54.0	54.0	84.0
	Not sure	6	4.0	4.0	88.0
	Disagree	9	6.0	6.0	94.0
	Strongly disagree	9	6.0	6.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in table 4.13 above also show that 84% (54% + 30%) of the respondents concurred that high loan recovery is a reflection of performance of a SACCO. However, 12% (6% + 6%) disagreed with the view and 4% were not sure. According to Ahimbisibwe (2012), the current position of SACCOs in Ntungamo indicates a high incidence of credit risk arising from low loan recovery rates which negatively affect their profitability. This trend not only threatens the viability and sustainability of SACCOs but also hinders the achievement of the goals for which SACCO were intended to provide credit to the rural unbanked population and bridge the financing gap in the mainstream financial sector. It should therefore be argued

that there is a problem of loan recovery from SACCO members and this affects adversely the performance of SACCOs as shown in the table below,

Table 4.14: Outstanding Number of loans and Loan Amounts in the selected SACCOs

	2010	2011	2012	Growth
Outstanding Portfolio	1,465,822,770	1,814,001,163	2,597,747,927	77%
Number of loan accounts	1,543	2,341	2,730	77%

The outstanding loan portfolio and number of loan accounts grew by 77% from 2010 to 2012 as shown in table 4.14. The implication of this finding is that there is poor management of credit and this is the reason why outstanding loan portfolio grew to 77% from 2010 to 2012 as shown in next table below: -

Table 4.15: Poor performance of many SACCO is due to high loan default

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	18	12.0	12.0	12.0
	Agree	77	51.0	51.0	63.0
	Not sure	18	12.0	12.0	75.0
	Disagree	26	17.0	17.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

Majority of the respondents 63% (51% + 12%) in table 4.15 stated that poor performance of many SACCOs in Ntungamo district is due to high customer default rate. Conversely, 25% (8% + 17%) of the respondents opposed the view that poor performance of many SACCOs in Ntungamo district is due to high customer default rate and 12% were not sure. This finding was highlighted by Matovu and Okumu (2006) that poor performance of SACCOs has

generally been characterized by high customer default rate. According to Distler and Schmidt (2011), a German Development Institute (DIE) survey established that the quality of the SACCOs' loan portfolio, a main indicator for the capability of lending institutions, is a critical point that threatens the viability of many SACCOs in Uganda. Therefore, it should be argued that customer default rate has a direct bearing on the performance of SACCOs in Ntungamo district as evidenced in the table below,

Table 4.16: Customer compliance and default rates

PERIOD	NUMBER OF CUSTOMERS	COMPLIANCE	%age	DEFAULT	%age
2011	470	202	42.9	268	57
2012	534	243	45.5	291	54.5
2013	676	296	43.8	380	56.2

Source: Field Data, Nyakyera SACCO, Ntungamo district, 2013.

Table 4.16 is a reflection of the performance of loans given by SACCOs as analysed using the customer compliance and default rates. Poor management of credit is the reason default rate is greater that compliance rate. In 2011, the default rate was 57% compared to compliance rate of 42.9%. In 2012, the default rate was 54.5% compared to compliance rate of 45.5% and in 2013, the default rate was 56.2% compared to compliance rate of 43.8%. From the foregoing therefore, it should be argued there is poor customer compliance.

Table 4.17: Customer outreach has a direct bearing on the performance of SACCO

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	23	15.0	15.0	15.0
	Agree	69	46.0	46.0	61.0
	Not sure	35	23.0	23.0	84.0
	Disagree	12	8.0	8.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.17 above shows that 61% (46% + 15%) of the respondents agreed that customer outreach has a direct bearing on the performance of SACCO. However, 16% (8% +8%) of the respondents rejected the view and 23% were not sure whether customer outreach has a direct bearing on the performance of SACCO. This view was supported by Distler & Schmidt, 2011) that in Uganda, savings and credit cooperatives (SACCOs) as financial intermediaries, channelling savings into loans, provide saving opportunities for the poor, especially in the rural areas. SACCOs fulfil a very important outreach function for expanding access to financial products and services in rural communities of Uganda. This is reflected in the table below, which presents the growth in deposits from year 2010 to 2012

Table 4.18: Customer outreach in selected SACCOs

	2011	2012	2013	Growth
Deposit Volume (Shs)	818,570,012	1,053,360,289	1,401,578,001	71%
Number of accounts	7,691	8,857	10,069	31%

Source: Audited Financial Statements of Kabamwe SACCO, in Ntungamo District.

There is low customer outreach as shown in the table above 4.18. The outreach level is 31% and this is the reason why many SACCO are not performing well and thus this cements the view that customer outreach has a direct bearing on the performance of SACCOs.

Table 4.19: Loan product sustainability of SACCOs is the reason why some SACCOs are performing better

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	30	20.0	20.0	20.0
	Agree	76	50.0	50.0	70.0
	Not sure	7	5.0	5.0	75.0
	Disagree	23	15.0	15.0	90.0
	Strongly disagree	15	10.0	10.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in Table 4.19 above shows that 70% (50% + 20%) of the respondents agreed that loan product sustainability of SACCOs is the reason why some SACCOs are performing better. On the other had 25% (10% + 15%) disagreed that loan product sustainability of SACCOs is the reason why some SACCOs are performing better and other (5%) were not sure about the view. From the interview, it was noted that reliability in the business is the life blood of business when clients or members fail to access their loan facilities in time this sends a wrong signal to would be potential members of SACCO. The reason why some SACCOs are performing better compared to others is because of product sustainability. When a product is developed and introduced to customers, it means that the SACCO will ensure that this product is always present whenever customers need it. If a SACCO fails to maintain the loan product on market, it means it will lose customers and thus this can cripple the

performance of SACCO. The different loan products for the given SACCOs are explained below,

Table 4.20: Loan Product Sustainability

Name Of SACCO	Loan Product	Year Of Introduction	Status
Nyabihoko	Business loans	2010	Active
Nyakyera	Agricultural loans	2009	Active
Kabamwe Tukore	Home Development loans	2011	Active

Source: Field data, 2013.

Given the above data on loan products and their sustainability, it was found out that loan product sustainability has a direct impact on the performance of SACCOs. SACCOs have managed to sustain all the loan products introduced however, such product have not helped much the SACCO to maximise profits. May be the problem is poor management of credit.

Table 4.21: SACCOs which offer inadequate loans to members are most likely not to stay for long in business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	23.0	23.0	23.0
	Agree	70	47.0	47.0	70.0
	Not sure	0	0.0	0.0	70.0
	Disagree	35	23.0	23.0	93.0
	Strongly disagree	11	7.0	7.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.21 indicates that 70% (47% + 23%) of the respondents agreed that SACCOs which offer inadequate loans to members are most likely not to stay in business for long time. Conversely, 30% (7% + 23%) disagreed that SACCOs which offer inadequate loans to

members are most likely not to stay in business for long time. One of the managers of Kabamwe Tukore SACCO said,

> *"When customers are offered inadequate services or products, they lose morale, interest and loyalty to the SACCO. SACCO should strive to offer adequate services/products to members to stimulate their loyalty and this has a direct impact on the performance of the SACCO".*

From the above view, it should be accepted that SACCOs which offer inadequate loans to members are most likely not to stay in business for long time.

Table 4.22: Performance of different loan products

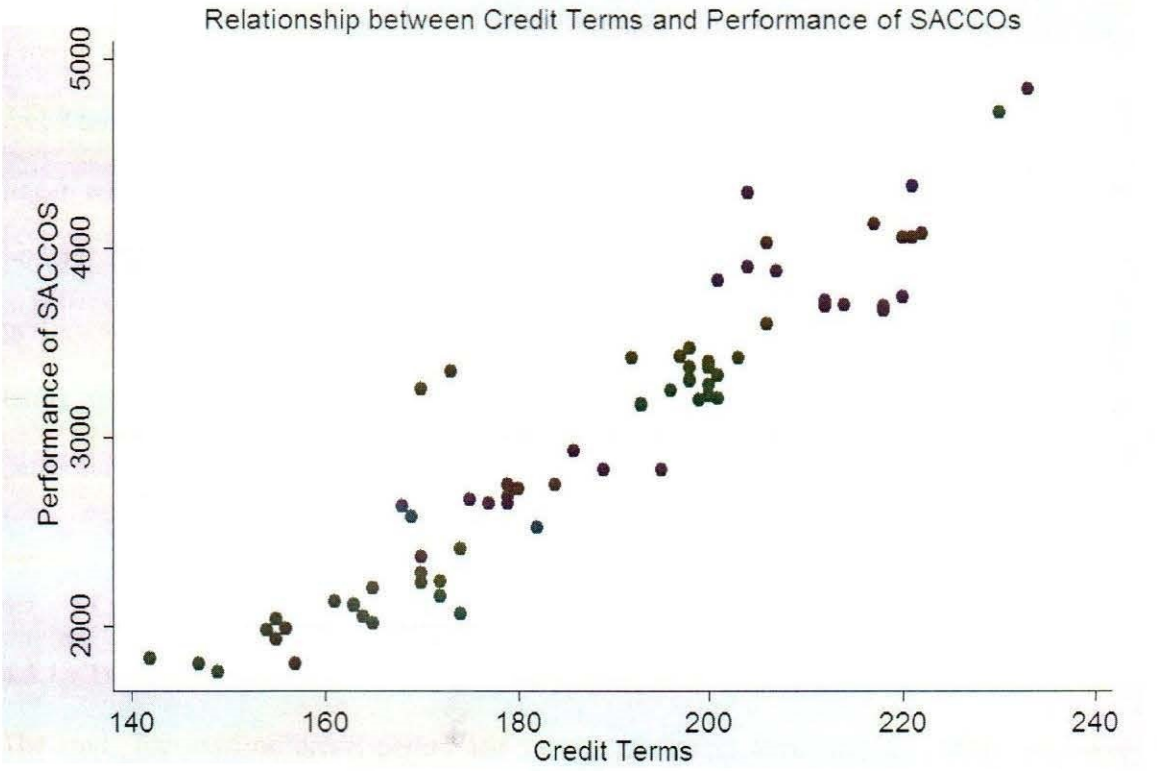
Name Of SACCO	Loan Product	Adequate	Inadequate
Nyabihoko	Business loans	-	Inadequate
Nyakyera	Agricultural loans	Adequate	-
Kabamwe Tukore	Home Development loans	Adequate	-

Source: Field data 2013

As shown in Table 4.22, the adequacy of loan products offered by the selected SACCOs is that, Nyabihoko offers inadequate business loans to clients and this implies that the accessibility of business loans is still a great challenge for clients. On the other hand Nyakyera offers adequate agricultural loans and Kabamwe Tukore offers adequate home and development loans. The implication of this finding is that there is imbalance in offering adequate loans to customers and this is the reason why most of the SACCOs visited were performing poorly due to inadequacy of loan products offered.

4.2.3 The relationship between credit terms and performance of SACCOs

The relationship between credit terms and performance was determined using Pearson product moment correlation. Findings are presented in the following table accompanied with the interpretation of the results.



Source: Field data, 2013

The scatter plot suggests a linear relationship between Performance of SACCOs and Credit terms, with larger values of credit terms tending to be associated with larger values of Performance of SACCOs. There is a positive correlation between the two variables.

Table 4.23: The relationship between credit terms and performance of SACCOs

CORRELATION BETWEEN CREDIT TERMS AND THE PERFORMANCE OF SACCOS		
	Credit Terms	**Performance of SACCOs**
Credit Terms	**1.0000**	
Performance of SACCOs	**0.9474**	**1.0000**

From Table 4.23, A Pearson's correlation was run to determine the relationship between credit terms and Performance of SACCOs. Hence, the findings showed a very strong, positive linear relationship (correlation) between credit terms and the performance of SACCOs ($r = 0.947$, $N = 151$, $p < .001$). Therefore, this implies that credit terms significantly influence performance of SACCOs. If the terms are relaxed, there is a higher risk of defaults, but if the terms are solid then the risk of default is minimised and therefore this leads to better performance of SACCOs.

4.3 Credit Period and Performance of SACCOs

4.3.1 Descriptive results about Credit Period

The study focussed on credit period and various questions were used as indices and were presented to the respondents who were requested to indicate their level of agreement. Results are presented in the following table accompanied with an analysis and interpretation of the results in the paragraphs after the table.

Table 4.24: Credit Period determines credit worthiness of customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	32	21.0	21.0	21.0
	Agree	59	39.0	39.0	60.0
	Not sure	18	12.0	12.0	72.0
	Disagree	20	13.0	13.0	85.0
	Strongly disagree	22	15.0	15.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in Table 4.24 show that there is a variation in the level of agreement to items relating to credit period. For example, 60% (39% + 21%) of the respondents agreed that credit period determines credit worthiness of customers. On the other hand, 28% (15% + 13%) of the respondents disagreed with the view and the remainder (12%) of the respondents were not sure. In an interview with one of the Accountants of Nyabihoko SACCO he had this to say,

> *"There is no way a SACCO can extend credit facilities to its members without ascertain the credit period. In evaluating a customer, the SACCO determined whether the person will be in position to settle his or her obligation in agreed time. That this process is very important in screening customers so that the SACCO mitigates customer default rates and thus register good performance".*

This view was supported by Abedi, (2000) that microfinance Institutions use the 5Cs model of credit to evaluate a customer as a potential borrower and thus determine credit period. The 5Cs help MFIs to increase loan performance, as they get to know their customers better. These 5Cs are character, capacity, collateral, capital and condition. These five components

are relevant to all types of lending institutions. The weight assigned to each component will vary depending on the lending methodology (i.e. solidarity group, village banking or individual), the loan size, and whether it is a new or repeat customer. Not everyone who applies for a loan is a good credit risk. Regardless of the lending methodology, loan officers should be expected to make wise credit decisions.

Table 4.25: The type of business a client does is considered in determining the credit Period and the capacity to repay loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	18	12.0	12.0	12.0
	Agree	79	52.0	52.0	64.0
	Not sure	12	8.0	8.0	72.0
	Disagree	15	10.0	10.0	82.0
	Strongly disagree	27	18.0	18.0	100.0
Total		151	100.0		

Source: Field data, 2013

The results in Table 4.25 above show that 64% (52% + 12%) of the respondents concurred that the type of business a client does is considered in determination of credit period and capacity to repay loans. However, 28% (10% + 18%) rejected the view and 8% were not sure whether the type of business a client does is considered determination of credit period and capacity to repay loans. The results from the interview revealed that credit period is important to examine the business potential of the loan applicant to repay the loan. Some people apply for bigger loans when their businesses are small. When the gearing of the client's business is high, the variability in return is very high and thus the business is at risk of failing to meet its fixed charge called interest. This view was supported by Wacha (2013), that to assess an applicant's capacity to repay, loan officers conduct business assessments. Determining the

business' capacity to repay is a challenge. This is because what the client says she will use the loan for and what she actually uses the loan for may be different (Distler & Schmidt, 2011). However, it is difficult to assess the repayment capacity of a low-income applicant. Estimates of income and expenses may not be reliable, and applicants often do not have supporting financial record. Experienced loan officers should therefore, develop methods of improving the quality of these estimates by determining the basis on which they are made and then testing whether the assumptions are valid.

Table 4.26: SACCO grants loans basing on credit period the person's accumulated past savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	27	18.0	18.0	18.0
	Agree	69	46.0	46.0	64.0
	Not sure	23	15.0	15.0	79.0
	Disagree	20	13.0	13.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

The findings in Table 4.26 above reflected that 64% (46% + 18%) of the respondents were with a view that their SACCOs grant loans basing on the credit period and person's accumulated savings. On the other hand 21% (8% + 13%) rejected the view and 15% were not sure whether. From the review of literature, Srinivasan (2009) asserts that past savings enables the loan officer to determine if the business is solvent and how much capital the client has already invested in the business. With the smallest loans, this component is probably the least important, but its significance increases as loan sizes increase.

Table 4.27: In determination of credit period clients are supposed to produce reference letters from either LCs or to already existing clients

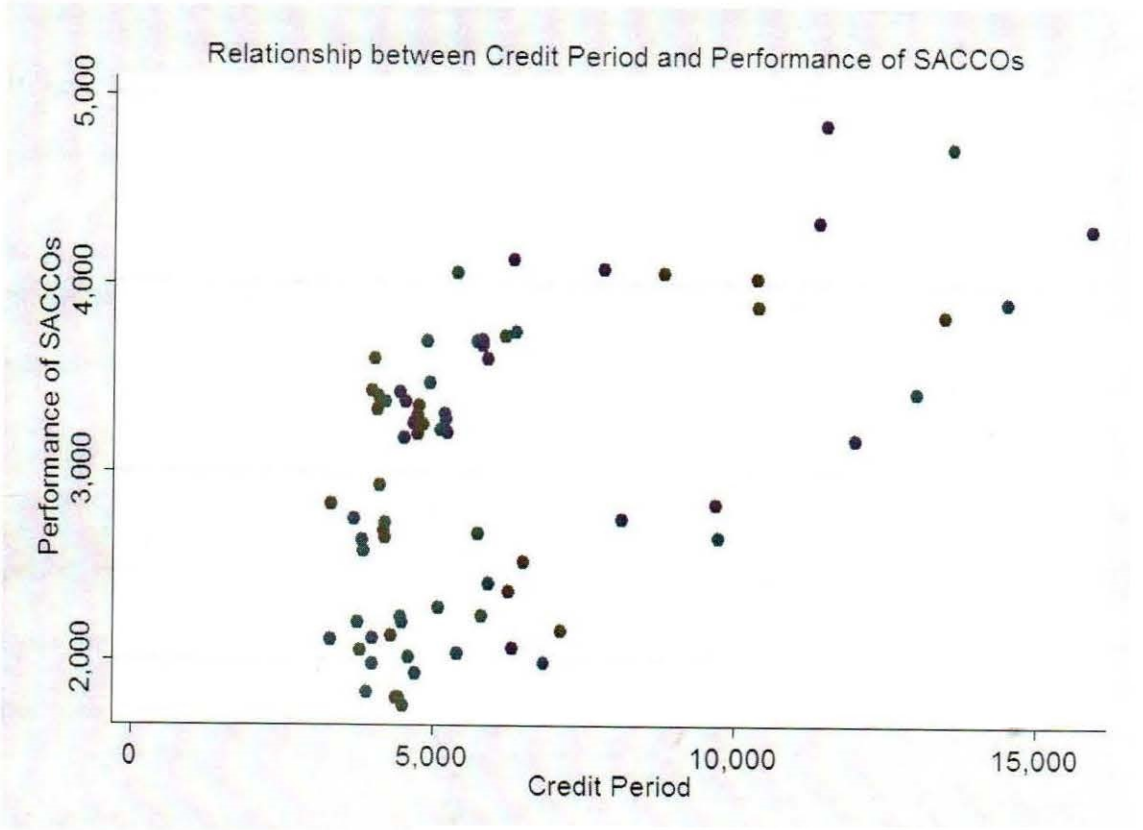
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	23.0	23.0	23.0
	Agree	70	47.0	47.0	70.0
	Not sure	0	0.0	0.0	70.0
	Disagree	35	23.0	23.0	93.0
	Strongly disagree	11	7.0	7.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.27 above shows that 70% (47% + 23%) of the respondents stated that in determination of credit period clients are supposed to produce reference letters from either LCs or to already existing clients. However, 30% (23% + 7%) of the respondents discarded the assertion. From the interview, it was noted that loan applicants in most cases give misleading information and this requires an assurance from the Local Council Unit to provide the basic information required about a customer but not adequate data that is required in loan assessment to determine credit period. Further given the illiteracy levels of most SACCO customers it is not easy to get clear information through an interview since most of them don't have records to back up the information provided. Reference from the LCs gives the background information about the customer and to determine there their ability to service loans and to determine whether they qualify for the particular credit period. Those found not meeting the standards required of them to qualify for the loan are determined at this stage. Advice is extended to the customer whether to grow the businesses stronger first or to save with the institution first.

4.3.2 Relationship between credit Period and performance of SACCOs

The relationship between credit Period and performance was determined using Pearson product moment correlation. Findings are presented in the following table accompanied with the interpretation of the results.



Source: Field data, 2013

The scatter plot shows a relationship between Performance of SACCOs and Credit Periods, with a positive (correlation) linear relationship between the two variables.

Table 4.28: Relationship between credit Period and performance of SACCOs

CORRELATION BETWEEN CREDIT PERIOD AND THE PERFORMANCE OF SACCOS		
	Credit Period	**Performance of SACCOs**
Credit Period	**1.0000**	
Performance of SACCOs	**0.5445**	**1.0000**

Results in table 4.28 above, show a moderate positive linear relationship between credit period and performance of SACCOs ($r = 0.545$, $N=151$, $p<.05$). From the study findings, credit period significantly influences the performance of SACCOs. This means that there is a moderate relationship between the two variables, and therefore, changes in credit period are not strongly correlated with changes in the Performance of SACCOs. The implication is that if the credit period is shorter, the risk of recovering the loan portfolios is reduced and this in one way improves performance. However, it should also be noted that the longer the credit period, the more interest earned from the loan portfolio and it reduces on the risk of recovery since the longer the period the smaller the instalment and therefore it becomes easier for the borrower to pay back.

4.4 Credit limits and Performance of SACCOs

4.4.1 Descriptive results about Credit limits

The study looked at the Credit limits and various questions were used as indices and were presented to the respondents who were requested to indicate their level of agreement. Results are presented in the following tables accompanied with an analysis and interpretation of the results in the paragraphs after the tables.

Table 4.29: The smaller the size of the loan the lesser the chances of defaulting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	56	37.0	37.0	37.0
	Agree	53	35.0	35.0	72.0
	Not sure	4	3.0	3.0	75.0
	Disagree	35	23.0	23.0	98.0
	Strongly disagree	3	2.0	2.0	100.0
Total		151	100.0		

Source: Field data, 2013

In relation to credit limit in credit management, findings in table 4.29 show that 72% (37% + 35%) of the respondents agreed that the smaller the size of the loan the lesser the chances of defaulting. On the other hand, 25% (23% + 2%) disagreed with the view and the minority (3%) were not sure. In an interview with the credit risk Assessment Officer in Kabamwe Tukore SACCO, she said,

> *"It is true that big loans are associated with high risk of default that is why PML offers loans in progressive manner from smaller amounts to larger ones depending on the loan repayment periods, records and history of the customers"*

This is in line with Fin (2005) that when the loan size is small, chances of defaulting are very minimal. This is because small size loans are less risky than large size loans. If there are some economic shifts in the business which are not favorable like increase in exchange rate, interest rates or high inflation, this may force businesses to scale down their operation if in this case the loan size is large, then it becomes hard for the business to meet its debt obligation as it falls due and thus affecting adversely the financial performance of SACCOs.

Table 4.30: Credit limit determines the type of loan to be offered to clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	26	17.0	17.0	17.0
	Agree	76	50.0	50.0	67.0
	Not sure	19	13.0	13.0	80.0
	Disagree	9	6.0	6.0	86.0
	Strongly disagree	21	14.0	14.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.30 further indicates that 67% (50% + 17%) of the respondents were of the view that credit limit determines the type of loan to be offered to clients. Conversely, 20% (14% + 6%) rejected the view and the remainder (13%) were not sure. In an interview held with the loans officers of Nyakyera SACCO, he had this to say,

> "*Credit control department plays an important part in screening the potential clients. The department sets the credit terms for customers and the time they have to settle their loan obligations. Further the department monitors how clients utilize the loans offered to them so as to overcome loan diversion*".

It should therefore be argued that SACCOs give loans in progressive manner starting from smaller amounts to larger ones depending on the loan repayments periods and record. This is an incentive to pay the loan so that one easily gets larger amount of loan.

Table 4.31: Determination of credit limits for clients are based on business earnings of the clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	4.0	4.0	4.0
	Agree	66	44.0	44.0	48.0
	Not sure	31	21.0	21.0	69.0
	Disagree	29	19.0	19.0	88.0
	Strongly disagree	18	12.0	12.0	100.0
Total		151	100.0		

Source: Field data, 2013

The results from table 4.31 also show that 48% (44% + 4%) of the respondents agreed that determination of credit limits for clients are based on business earnings of the clients. On the other hand, 31% (12% +19%) rejected the assertion. It was only 21% of the respondents who were not sure. In an interview held with the manager of Nyabihoko SACCO, he had this to say,

> *"Although business earnings determine the credit limit and the loan size to be given to client, there are many factors SACCOS need to consider besides the business earning such as the security of the loan, business environmental shifts like exchange rates, interest rates, inflationary tendencies in the country among others."*

From the above view, it should be argued that since the supporting percentage of 48 was below 50%, to justify that credit limits for clients are based on business earnings of the clients, it should be argued that credit limits are moderately determined by business earnings.

Table 4.32: SACCOs heavily relied on credit risk techniques in a dynamic and Competitive lending environment to set credit limits

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	38	25.0	25.0	25.0
	Agree	50	33.0	33.0	58.0
	Not sure	22	15.0	15.0	73.0
	Disagree	29	19.0	19.0	92.0
	Strongly disagree	12	8.0	8.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.32 shows that 58% (25% + 33%) of the respondents agreed that SACCOs heavily relied on credit risk techniques in a dynamic and competitive lending environment to set credit limits. However, 27% (19% + 8%) rejected the view that SACCOs heavily relied on credit risk techniques in a dynamic and competitive lending environment to set credit limits.

It was only 15% of the respondents who were not sure. This view was highlighted by Theuri (2012), that credit creation involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. The findings of his study showed that SACCOs heavily relied on particular credit risk techniques to set credit limits for customers.

Table 4.33: Failure to revise the credit limits for customers has resulted in late detection of defaulted loans

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	18	12.0	12.0	12.0
	Agree	57	38.0	38.0	50.0
	Not sure	20	13.0	13.0	63.0
	Disagree	47	31.0	31.0	94.0
	Strongly disagree	9	6.0	6.0	100.0
Total		151	100.0		

Source: Field data, 2013

Table 4.33 above reflect that 50% (38% + 12%) of the respondents agreed that failure to revise the credit limits for customers, has resulted in late detection of defaulted loans. Conversely, 37% (6% + 31%) discarded the view and thus 13% were not sure. It should be argued that failure to revise the credit limits for customers, poor monitoring and control mechanisms in majority of SACCOs has resulted in late detection and determination of non-performing and defaulted loans.

Table 4.34: Credit limit reduces the potential for delinquency or loss

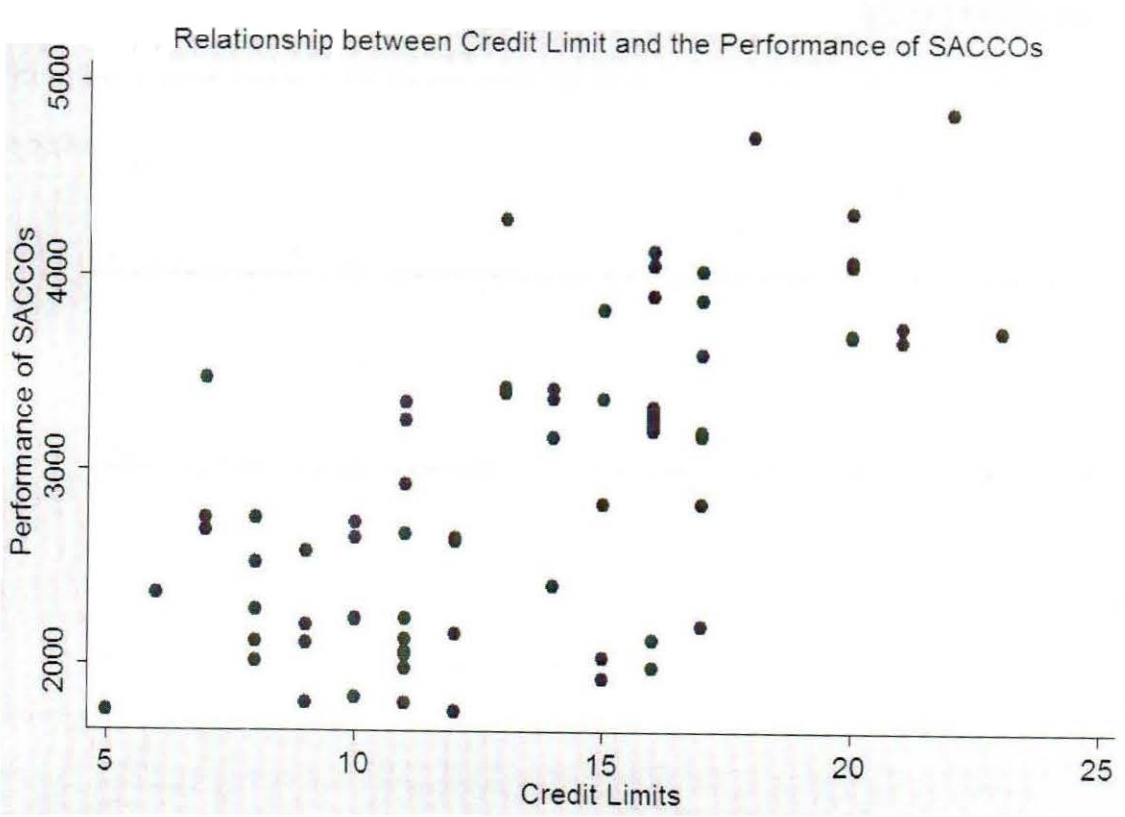
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	36	24.0	24.0	24.0
	Agree	50	33.0	33.0	57.0
	Not sure	15	10.0	10.0	67.0
	Disagree	32	21.0	21.0	88.0
	Strongly disagree	18	12.0	12.0	100.0
Total		151	100.0		

Source: Field data, 2013

The results in Table 4.34 above indicate that 57% (33% + 24%) of the respondents agreed with the view credit limit reduces the potential for delinquency or loss. However, 33% (21% + 12%) disagreed that credit limit reduces the potential for delinquency or loss. It was only 10% of the respondents who remained unsure. This view was noted by Nissanke & Aryeetey (2004), that one microloan does not pose a significant credit risk because it is such a small percentage of the total portfolio. Since most microloans are unsecured, however, delinquencies can quickly spread from a handful of loans to a significant portion of the portfolio. This contagious effect is exacerbated by the fact that microfinance portfolios often have a high concentration in certain business sectors. Consequently, a large number of clients may be exposed to the same external threat, like a crackdown on street vending or a livestock disease. These factors create volatility in microloan portfolio quality, heightening the importance of controlling credit risk.

4.4.2 The relationship between credit limit and the performance of SACCOs

The relationship between Credit Limits and Performance of SACCOs was determined using Pearson product moment correlation. Findings are presented in the following table accompanied with the interpretation of the results.



Source: Field data, 2013

The scatter plot shows a relationship between Performance of SACCOs and Credit Limits, with average values of Credit Limits tending to be associated with average values of Performance of SACCOs. A positive correlation and a linear relationship between the two variables was observed.

Table 4.35: Relationship between Credit limits and Performance of SACCOs

CORRELATION BETWEEN CREDIT LIMITS AND THE PERFORMANCE OF SACCOS		
	Credit Limits	**Performance of SACCOs**
Credit Limits	**1.0000**	
Performance of SACCOs	**0.6726**	**1.0000**

Table 4.35 shows a strong positive linear relationship between credit limits and the performance of SACCOs ($r = 0.673$, $N=151$, $p<.05$). Thus, this implies that credit limits

affects performance of SACCOs. By putting a threshold beyond which members cannot borrow, means that a percentage of the available portfolio remains redundant thus affecting the performance of the SACCOs.

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, summary of findings, conclusions and recommendations. It is divided into four sections. The first section presents the discussion; the second covers the summary of findings according to the objectives and research questions. The third section is focused on conclusions and the fourth section presents recommendations.

5.1 Discussion of findings

5.1.1 The relationship between credit terms and performance of SACCOs

Objective one was to establish the relationship between credit terms and performance of SACCOs.

The findings of the study revealed that more respondents (50% + 21% or 71%) concurred that there are strong credit terms used in credit management process in their SACCOs compared to respondents who opposed (25% (12% + 13%) the view. This is in agreement with Anderson (2002) that credit terms or conditions are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms is to have optimal recovery from credit customers. From the foregoing therefore, it should be construed that credit-issuing procedure must be adhered to, to achieve efficiency in institution's management hence the need for credit terms.

Tandelilin (2007) maintains that credit management is not only concerned about better expected return but is also concerned about better managing of risk and improved performance of SACCOs. Earlier studies by AMFIU in 2007 which discovered that poor management of the loan portfolio, poor appraisal of loan applications and subsequent loan

monitoring by SACCO management had led to depletion of institutional funds due to high default rates.

According to Yermack (1996), John & Senbet (1998) large boardrooms tend to be slow in decision making hence affecting performance of SACCOs. The independent opinion of the researcher, stipulates that though to a greater extent the performance of SACCOs is affected by credit management, there are other several variables, for example, the impact of the industry benchmark, peoples' saving culture, political, and other socio – economic factors like unemployment levels, level of education and income generating activities.

Further 80% (62% +18%) of the respondents were in agreement that it is important to look at credit terms before implementing credit terms in SACCOs. This finding was also supported by Stiglitz and Weiss (2007), that central to the whole of credit management, it is important to look at credit terms before implementing credit terms. It is part of a general exercise to help determine the extent of risk for each borrower (that is, the screening problem). It is designed on the part to ensure that borrowers take actions, and facilitate repayment/make repayment likely (incentive problem), or to compel repayment (enforcement problem).

However, basing on the findings, the author failed to specify the terms which must be looked at. However, the results from the interview revealed that credit terms such as risks surrounding the business of the client whether financial risk or business risk must be considered in identifying who should qualify for loan products of the SACCO. From the foregoing therefore, it should be reasoned that ascertaining the credit terms is very important part in credit management and thus requires a careful assessment before implementing credit terms in SACCOs.

The results show that 79% (54% + 25%) of the respondents agreed that there are lenient credit terms offered to clients. This is in agreement with Anderson (2002) that credit terms are a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of these terms is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy. From the above it should be reasoned leniency of credit terms although can motivate clients to settle their loan obligations but this does not guarantee that SACCO has a problem of loan default. Sometimes it requires stringent credit terms to eliminate chances of defaults.

It is further reflected that the majority [73% (58% + 15%)] of the respondents accepted that interest rates play a great part in determining credit terms in SACCOs. This is in line with Todaro (1992) that interest rates is the amount the borrower must pay to the lender over and above the total borrowed expressed as the percentage of the total amount of the funds borrowed. Basing on the above finding, it should be inferred that financial institution interest rates are rewards expected by the lenders (financial institutions) for the period the borrower spends using the borrowed funds. It is the time value of money for the funds granted to borrowers in a specific period. Therefore, in determining terms for clients, it is important for SACCOs to establish the interest rates in the market.

The findings of the study show that 77% (56% + 21%) of the respondents agreed that credit terms should be realistic for customers if credit management is to be effective. However, it should be argued that SACCOs could realize payments faster if they are very strict about their credit terms. If the SACCO fails to pay attention on its time frame it set, then clients will find ways of delaying payments which may adversely affect the cash flows of the SACCO. Therefore, it should be inferred that when loans are offered to customers, the next step is to

remind customers to settle their indebtedness. This is done to ensure that customers are stopped from taking longer time than the one set by the SACCO.

In addition, the study indicates that 55% (21% + 34%) of the respondents disagreed, that credit management can be effective without analyzing credit terms. This is in line with Messier, (2004) that credit terms are stipulations under which a firm offers credit to its customers. Firms in their bid to credit customers should try as much as possible to make terms attractive to customers. From the foregoing therefore, it should be reasoned that the closer SACCOs matches the credit terms to their clients' needs, this enables clients to access loan easily and thus settle their obligations in time.

The findings also show that 86% (55% + 31%) of the respondents agreed that customer default rates are triggered off by poor design of credit terms. This is in line with Woolcock (2002) that customer defaults are centered on credit terms. That if the loan term is too short, the borrower fails to generate revenue to enable him/her make repayments while a longer loan term may make the client extravagant and the client may in the end fail to pay back. Basing on the above findings it should be concluded that customer default rates are triggered off by poor design of credit terms.

Further the study sought to establish ways that can improve credit terms in order for the SACCO to register good performance. The findings indicated that SACCO should find ways of meeting the loan requirements of members. When SACCOs identify loan requirements of their members, it becomes easier for them to access loans and make payment more easier and on time. In this case, Ledgerwood (1996) contends that loan terms should be designed to minimize the need for prepayments. Bass (1991) indicates that long credit can have the opposite effects on those intended. From the foregoing therefore, it should be concluded that

SACCOs should design credit terms basing on the terms of the clients and their capacity to settle their indebtedness. The loan prepayments have one clear advantage, as the repaid loan is available for revolution. However, prepayments are difficult to monitor and if they are significant, they disrupt the cash flow of financial institutions.

5.1.2 The relationship between credit period and performance of SACCOs

The second objective as to determine the relationship between credit period and performance of SACCOs.The findings show that there is a variation in the level of agreement to items relating to credit period. For example, 60% (39% + 21%) of the respondents agreed that credit evaluation determines credit worthiness of customers. This view was supported by Abedi, (2000) that microfinance Institutions use the 5Cs model of credit to evaluate a customer as a potential borrower and determine the credit period. The 5Cs help MFIs to increase loan performance, as they get to know their customers better. These 5Cs are character, capacity, collateral, capital and condition. These five components are relevant to all types of lending institutions. The weight assigned to each component will vary depending on the lending methodology; i.e. solidarity group, village banking or individual, the loan size, and whether it is a new or repeat customer. Not everyone who applies for a loan is a good credit risk. Regardless of the lending methodology, loan officers should be expected to make wise credit decisions.

The results of the study show that 64% (52% + 12%) of the respondents concurred that the type of business a client does is considered in determining the credit period and the capacity to repay loans. This view was supported by Wacha (2013), that to assess an applicant's capacity to repay and credit period, loan officers conduct business assessments. However, determining the loan period and business' capacity to repay is a challenge. This is because what the client says she will use the loan for and what she actually uses the loan for may be

different (Distler & Schmidt, 2011). However, it is difficult to assess the repayment capacity of a low-income applicant which makes the determination of loan period very difficult. Estimates of income and expenses may not be reliable, and applicants often do not have supporting financial record. Experienced loan officers should therefore, develop methods of improving the quality of these estimates by determining the basis on which they are made and then testing whether the assumptions are valid.

The findings reflected that 64% (46% + 18%) of the respondents were with a view that SACCOs grant loans basing on the credit period and past savings. On the other hand 21% (8% + 13%) rejected the view and 15% were not sure whether. From the review of literature, Srinivasan (2009) says that past savings enables to determine the credit period and the loan officer is in position to determine if the business is solvent and how much capital the client has already invested in the business. With the smallest loans, this component is probably the least important, but its significance increases as loan sizes increase.

It was discovered that 70% (47% + 23%) of the respondents stated that in determination of credit period, clients are supposed to produce reference letters from either LCs or already existing clients. It was further noted that loan applicants in most cases give misleading information and this requires an assurance from the Local Council Unit to provide the basic information required about a customer but not adequate data that is required in loan assessment. Further, given the illiteracy levels of most SACCO customers, it is not easy to get clear information through an interview since most of them don't have records to back up the information provided. Reference from the LCs gives the background information about the customer and to determine there their ability to service loans and to determine whether they qualify for the loan or not. Those found not meeting the standards required of them to

qualify for the loan are determined at this stage. Advice is extended to the customer whether to grow the businesses stronger first or to save with the institution first.

5.1.3 The relationship between credit limits and performance of SACCOs

The third objective was to examine the relationship between credit limits and performance of SACCOs. The findings of the study show that 72% (37% + 35%) of the respondents agreed that the smaller the size of the loan the lesser the chances of defaulting. This is in line with Fin (2005) that when the loan size is small, chances of defaulting are very minimal. This is because small size loans are less risky than large size loans. If there are some economic shifts in the business which are not favourable like increase in exchange rate, interest rates or high inflation, this may force businesses to scale down their operation if in this case the loan size is large, then it becomes hard for the business to meet their debt obligation as they fall due and thus affecting adversely the financial performance of SACCOs.

Further the findings indicate that 67% (50% + 17%) of the respondents were with a view that credit limit determine the type of loan to be offered to clients. It was further noted that credit control department plays an important part in screening the potential clients. The department sets the credit terms for customers and the time they have to settle their loan obligations. Further, the department monitors how clients utilize the loans offered to them to overcome loan diversion. It should therefore be argued that SACCOs give loans in progressive manner starting from smaller amounts to larger ones depending on the loan repayments periods and record. This is an incentive to pay the loan so that one easily gets larger amount of loan.

The results of the study indicates that 48% (44% + 4%) of the respondents agreed that determination of credit limits for clients are based on business earnings of the clients. From the above view, it should be argued that since the supporting percentage of 48 was below

50%, to justify that credit limits for clients are based on business earnings of the clients, it should be argued that credit limits are moderately determined by business earnings.

The study revealed that 58% (25% + 33%) of the respondents agreed that SACCOs heavily relied on credit risk techniques in a dynamic and competitive lending environment to set credit limits. This view was highlighted by Theuri (2012), that credit creation involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. The findings of his study showed that SACCOs heavily relied on particular credit risk techniques to set credit limits for customers.

The findings reflect that 50% (38% + 12%) of the respondent agreed that failure to revise the credit limits for customers, has resulted in late detection of defaulted loans. Conversely, 37% (6% + 31%) discarded the view and thus 13% were not sure. It should be argued that failure to revise the credit limits for customers, poor monitoring and control mechanisms in majority of SACCOs has resulted in late detection and determination of non-performing and defaulted loans

The results indicate that 57% (33% + 24%) of the respondents agreed with the view credit limit reduces the potential for delinquency or loss. This view was noted by Nissanke & Aryeetey (2004), that one microloan does not pose a significant credit risk because it is such a small percentage of the total portfolio. Since most microloans are unsecured, however, delinquencies can quickly spread from a handful of loans to a significant portion of the portfolio. This contagious effect is exacerbated by the fact that microfinance portfolios often have a high concentration in certain business sectors. Consequently, a large number of clients may be exposed to the same external threat, like a crackdown on street vending or a livestock

disease. These factors create volatility in microloan portfolio quality, heightening the importance of controlling credit risk.

5.1 Summary of the Major Findings

5.2.1 To establish the relationship between credit terms and performance of SACCOs

The study indicated a very strong positive relationship ($r = 0.947$, $N=151$, $p<.001$) between credit terms and performance of selected SACCOs in Ntungamo District. Hence, from the study findings, a very strong positive linear relationship indicates that changes in credit terms are strongly correlated with changes in the Performance of SACCOs.

5.1.2 The relationship between credit period and performance of SACCOs

The findings of the study indicated that there is a moderate positive relationship between credit period and the performance of selected SACCOs in Ntugamo District. From the study findings, the linear relationship between Credit period and performance of SACCOs ($r = 0.545$, $N=151$, $p<.05$), was found to be significant.

5.1.3 The relationship between credit limits and performance of SACCOs

From the study, credit limits was found to have a strong positive relationship with performance of SACCOs, and the relationship was found to be statistically significant ($r=0.673$, $N=151$, $p<.05$).

5.2 Conclusion

The findings of the study indicated that there is a very strong positive relationship between credit terms and performance of selected SACCOs in Ntungamo District. It should be noted

that credit terms require a great deal of planning, preparation and time if SACCOs are to register good performance.

There is a moderate positive relationship between credit period and the performance of selected SACCOs in Ntungamo District. It should therefore be stated that good credit period is moderately associated with good performance of SACCOs.

There is a strong positive relationship between credit limits and performance of SACCOs in Ntungamo District. It should therefore be argued that a well-designed credit limits system is strongly associated with the performance of SACCOs in Ntungamo District.

5.3 Recommendations

The study recommends Ntugamo District SACCOs:

The management of SACCOs should review the credit terms, credit period and credit limits basing on the environmental changes such as economic, legal, political and social aspects so as to stimulate the performance of their SACCOs. This is because failure to conduct environmental audit in line with credit management can adversely affect the performance of SACCOs.

The management of SACCOs should increase collection targets to 100%. This would encourage staff to pay adequate attention to all customers/members and reduce tendency of failing to meet the performance targets.

Collection procedure of the SACCOs should be lenient to customers so as to enable customers to settle their indebtedness in time as means of improving the financial performance of the SACCOs. The management should also expand the credit team and

collection centers so that it enhances faster collection of loan arrears from customers that are scattered.

The collection costs of loan arrears should not be high to jeopardize the financial position of the SACCOs. That if the risk involved in the management of accounts receivable is reduced and customers pay in time of course the profits shoot up but if it is vice versa then the profits reduce and this compromises the performance of the SACCOs.

SACCOs should lessen the credit risks involved in the management of accounts by improving the loan collection system and credit management of the SACCOs because mitigation of credit risks reduces non-performing loans and customer default rates which have a direct bearing on the performance of the SACCOs.

5.4 Areas for Further Research

The researcher recommends that investigations should be done on the urgency of credit risk towards profitability of SACCOs because this greatly affects performance of SACCOs. The study suggests different research tools to be used in order to test the relevancy of credit management policies used in SACCOs to mitigate credit risk and thus improve performance.

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APPENDICES

Appendix 1: Krejcie and Morgan (1970) Sample Size Estimation Table

*N**	*S*†	*N*	*S*	*N*	*S*	*N*	*S*	*N*	*S*
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384

*N is the population

†S is the sample size

Appendix 2: Reliability Statistics

Variables of credit management and Performance of SACCOs	Cronbach Alpha Value
Credit terms and performance of SACCOs	.8571
Credit period and performance of SACCOs	.7811
Credit limits and performance of SACCOs	.7422

Variables of credit management and Performance of SACCOs	Content Validity Index
Credit terms and performance of SACCOs	. 806
Credit period and performance of SACCOs	.733
Credit limits and performance of SACCOs	.767

Appendix 3: Questionnaire

Dear Sir/Madam,

This questionnaire is designed to collect data on credit management and performance of selected SACCOs in Ntungamo District. Your contribution will enable the researcher to accomplish the research study. The information given by you will be treated with maximum confidentiality and for academic purposes only. You are therefore kindly requested to spare some of your limited time and answer the following questions by ticking or filling in the blank space with what is most appropriate to you:

Section A: Bio Data

1. Gender

Male	Female

2 Age in years:

20-30	31- 40	41-50	51+

3 Education level of the respondent

Primary	Secondary	University	If others, (please specify)

4. Occupation

.....

Section B: Credit terms

In this part of the questionnaire you are expected to answer by choosing one of the following options:

Code:	**1**	**2**	**3**	**4**	**5**
For:	**Strongly Disagree**	**Disagree**	**Not Sure**	**Agree**	**Strongly Agree**

Credit terms	1	2	3	4	5
1. There are strong credit terms used in credit management process in place.					
2. It is important to look at credit terms before implementing credit terms					
3. There are lenient credit terms offered to clients.					
4. Interest rates play a great part in determining credit terms in SACCOs					
5. Credit period should be reasonable for customers if credit management is to be effective					
6. Credit management can be effective without analyzing credit terms					
7. Customer default rate are triggered off by poor design of credit terms.					

Section C: Performance of SACCO

In this part of the questionnaire you are expected to answer by choosing one of the following options:

Code:	1	2	3	4	5
For:	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree

Performance of SACCOS	1	2	3	4	5
1. The performance of the SACCO is determined basing of the return on the investment					

2. Profitability may be a misleading indicator about the performance of SACCOs					
3. High loan recovery is a reflection of performance of a SACCO.					
4. Poor performance of many SACCO is due to high customer default rate					
5. Customer outreach has a direct bearing on the performance of the SACCO					
6. Loan product sustainability of SACCOs is the reason why some SACCOs are performing better					
7. SACCOs which offer inadequate loans to members are most likely to no stay in business for long time					

8

In what ways can SACCO performance be improved and maintained?.....

.....

.....

.....

Section D: Credit Period

In this part of the questionnaire you are expected to answer by choosing one of the following options:

Code:	**1**	**2**	**3**	**4**	**5**
For:	**Strongly Disagree**	**Disagree**	**Not Sure**	**Agree**	**Strongly Agree**

Credit Period	**1**	**2**	**3**	**4**	**5**
1. Credit period determines credit worthiness of customers					
2. The type of business a client does is considered in determining the credit period					
3. SACCO grants loans basing on credit period and past savings					
4. In determination of credit period, clients are supposed to produce					

references letters from either LCs or already existing clients					
5. Our SACCO seeks opinions of other clients in determination credit period before granting loans to new clients					
6. How can credit period process should be improved to enhance the performance of the SACCO?.....					

Section D: Credit limits

In this part of the questionnaire you are expected to answer by choosing one of the following options:

Code:	**1**	**2**	**3**	**4**	**5**
For:	**Strongly Disagree**	**Disagree**	**Not Sure**	**Agree**	**Strongly Agree**

Credit limits	**1**	**2**	**3**	**4**	**5**
1. The smaller the size of the loan the lesser the chances of defaulting					
2. Credit limit determine the type of loan to be offered to clients					
3. Determination of credit limits for clients are based on business earnings of the clients					
4. SACCOs heavily relied on credit risk techniques in a dynamic and competitive lending environment to set credit limits					
5. Failure to revise the credit limits for customers, has resulted in late detection of defaulted loans					
6. Credit limit reduces the potential for delinquency or loss					
7. In what circumstances can credit limit influence the performance of your SACCO?.....					

END

Thank you very much

Appendix 4: Interview Guide

1. Are you aware of the credit management policies in place?

2. How effective are these policies towards recovering money from book debts?

3. What are the credit management policies that are followed in screening credit worthiness of customers?

4. When customers fail to settle their debts obligation what steps are being taken to recover such money from the defaulters?

5. What are the measures of financial performance of your SACCO?

6. Do you think measures of financial performance bring out the desired level of performance?

7 Do you think credit collection involves high cost which can compromise the financial performance of your SACCO?

8. Is there any correlation between credit management and financial performance of your SACCO?

End

Thank you for your cooperation