EFFECTS OF CREDIT POLICY ON FINANCIAL PERFOMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES AT PREMIER CREDIT ORGANISATION IN KAMPALA UGANDA

BY:

MOMA JOHN

REG NO: 1163-05014-08139

A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR DEGREE OF BUSINESS ADMINSTRATION OF KAMPALA INTERNATIONAL UNIVERSITY MAIN CAMPUS

JUNE, 2019

DECLARATION

I **Moma John** declare that this research report is entirely out of my own effort and knowledge and it has never been presented by any other person to any other institution of higher learning for award of a bachelor's degree.

Signature....................................... Date......13th. 08. 2019................

(Student)

Name: **MOMA JOHN**

APROVAL

This is to certify that this research report has been under my supervision and now ready for submission with my approval.

MRS. ERINAU MUDONDO

....
Signature   Date 13th AUG , 2019.

DEDICATION

I dedicate research report to my parents Mr. Magomu Dasani and Ms. Nambozo Grace for all the parental, financial, material and moral Support that they have rendered towards my academics.

ACKNOWLEDGEMENT

My heartfelt thanks goes to God almighty for his protection and guidance upon successful completion of this research, during the course of carrying out this struggle and through the production of this report, many people assisted me, For this reason, I wish to express my sincere gratitude to all those who helped me materially and morally especially my family members Nambozo Grace, odong dan Woniala Michael Paul, Wokadala Robert and Kahengere Frank for the financial contribution that enabled me to get materials for the research proposal writing.

Once again, I would like to thank the college of Economics and managements of Kampala International University for organizing this exercise that has exposed me to the practical part of my course as well as my supervisor Mrs. Erina Mudondo who invested much of her valuable time in doing this noble exercise without forgetting my fellow colleagues whom I interacted with and offered me assistance in different ways more specially my course mates especially Wanyama Steven, Thembo Jimmy, odock Geofrey, Atubangira nestori and among others who were ethically supportive during the tough times of my exercise.

May the almighty God bless you all abundantly!

ABBREVIATIONS AND ACRONYMS

AMFI   Association of Microfinance Institutions

CARs   Capital Adequacy Ratios

CBU   Central Bank of Uganda

CVI   Content Validity Index

GDP   Gross Domestic Product

FSA   Financial Services Associations

MCR   Minimum Capital Requirement

MFIs   Microfinance Institutions

ROA   Return on Assets

SACCOs   Savings and Credit Co-operatives Societies

SASRA   SACCO Societies Regulatory Authority

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The purpose of this study was to investigate effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda. The specific objectives were to establish the effects of credit policy on the financial performance of SACCOs , examine the influence of credit policy on the financial performance of SACCOs and find out the financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda. Efficient credit policy influences sharing of information among financial institutions about borrowers, stabilizes interest rates, reduces non-performing loans, increases deposits and increases credit extended to borrowers. In Uganda, credit management became widely adopted by regulated SACCOs to mitigate loan defaults and improve financial performance. This study sought to fill the existing knowledge gap by answering the question what is the effect of credit policy on financial performance of SASRA regulated SACCOs in Kampala. The study adopted correlation research design that consisted a population of all 40 SASRA Regulated SACCOs registered under the Societies Act in Kampala, Uganda. The study employed purposive sampling technique in identifying the SACCOs and the respondents from the sampled SACCOs. A multivariate regression model of financial performance versus credit policies was applied to examine the relationship between the variables. The study revealed that regulated SACCOs had adopted credit standards as a credit policy and credit term policy loan ratio in determination of how much a client would borrow. The study revealed that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy which increased Return on Assets (ROA) for the regulated SACCOs to a great extent. From the regression results, use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non-performing loans to total loans would significantly lead to increase in profitability Data was also analyzed and presented with the aid of statistical package for social sciences (SPSS). The findings indicated that credit policy significantly affect financial performance. In order to recover cash lost the management should take key issues on customer assessment and evaluation. The SACCO management should develop credit procedures, policies and analytical capabilities.

CHAPTER ONE

INTRODUCTION

1.1Background to the Study

Microfinance institutions belong to a wider group of financial institutions regarded as semi-formal financial institutions. These are institutions which are registered as non-government organizations performing financial functions of lending and taking deposits (Microfinance Act 2003).

A credit policy is the blue print used by microfinance or rather a lending institution in making its decision to extend credit to a customer. A credit policy helps to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instinct as their credit policy (Blair, 2002). Credit policy has direct effects on the cash flow of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, a credit policy that is too liberal will attract slow paying (even non-paying) customers, increase in the business average collection period for accounts receivables, and eventually lead to cash inflow problems. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow.

The importance of a credit policy is to maximize the value of a firm. (Puxty and Dodds, 1991).An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts. These are the controllable decision variables that should be considered in the extension of credit to optimize investment in accounts receivable. Credit policy is a guide to successful credit administration and benefits must be weighed against the cost to ensure the benefits are worth the effort of administering the credit. Benefits like increase in market share, retention of existing customers, acquisition of new ones, must be weighed against

costs like selling and production costs, administration costs incurred during assessment, supervision and collection of credit and bad debts losses (Pandey, 2001). Credit policy enhances credit administration, increases market share, retention of existing customers, acquisition of new ones, improves risk management and increases financial performance (Pandey, 2001). In Uganda, regulated SACCOs have adopted credit policies and submit financial returns on monthly and quarterly intervals for offsite monitoring and evaluation (SASRA, 2015).

A credit policy outlines a structure or framework that act as guidelines when dispensing credit decisions which are some aspects and arrangements that an institution can set. This structure has fundamental principles and procedures for getting money back from clients, bearing in mind that not all borrowers will pay back since some of them will default since some customers are to pay while others don't pay back their loans (Moti et al, 2012). The accumulation exertion should also consider going for quickening accumulations from averagely those who pay and as such reducing the possibility of a huge obligation burden (Loona & Zhong, 2014). An effective credit policy allows and insights full development of a chance for advancement in allocation and collection of credit. It is advisable for the SACCOs' management to ensure an efficient and effective credit policy (Kipkoech, 2015). Properly formulated credit policy, implemented and well comprehended at every level of an organization enables the management to maintain and uphold proper standards of the credit amount, therefore, avoiding any possible uncertainties and risks thus aiding in assessing and selecting investment opportunities that lead to the growth of the business (Gatuhu, 2013).

The Banking Act (2013) provides for the setting up of Credit Reference Bureaus (CRBs) and their operations. Specifically, it provides for registered CRBs to collect and disseminate prescribed credit information from clients of licensed institutions under the Banking Act (2013) the Microfinance Act (2006) and the SACCO Societies Act (2008). Resultantly SACCOs which are licensed are not barred from giving client information to CRBs but will require written consent for both positive and negative information sharing. Therefore, SACCOs need the approval to request credit information from bureaus with the aim of credit appraisal and give feedback on how the loan is performing (Kimondo & Muthemba, 2015). According to Kuscco (2017) SACCOs have been added in the Credit Information Sharing mechanism to help in tightening the noose on borrowers who default loan

payment and for quite some time have been taking advantage of SACCOs by seeking credit from some financial institutions lack information their credit history.

Ondieki et al. (2017) Acknowledged that Uganda Cooperatives, SACCOs have a significant role in Uganda's financial sector. A Savings and Credit Cooperative main aim is to collect savings from members and in return provide them with credit facilities (UN-HABITAT, 2010). Waweru (2011) asserts that SACCOs are voluntary associations or cooperative financial institutions owned and controlled by their members to promote saving, providing credit at low-interest rates and providing other financial services to its members. The common aim of SACCOs is to foster the economic interests and general welfare of its members. According to World Council of Credit Unions 2015 Statistical report, there are 60500 Credit Unions worldwide; in 109 countries on six continents, serving 223,000,000 members, having a total penetration of 8.3%, penetration rate computed by portioning out the sum of proclaimed credit union members by the economically active population, age 15-64 years old (WOCCU, 2016). Further, the report illustrates that the largest markets in Africa by some members as of December 31st, 2015 are (Uganda, 1,325,517; Kenya, 5,432,009; Senegal, 1,767,506; Rwanda, 1,607,560; and Benin, 1,272,020) (WOCCU, 2016).

1.2 Statement of the problem

A range of challenges affects SACCOs because most of their clients earn a modest income. As a result, members default paying the loans disbursed to them, thus struggling to reach a balance between their running costs and satisfying the clients' needs (Kipngetich & Muturi, 2015). Also, there are no stringent policies set by SACCOs in the country that regulate issuing of loans and collecting payments. Besides, limited credit appraisal poses a hitch in that SACCOs in Uganda carry out an inadequate financial assessment of clients and their guarantors leading to disbursing of loans to credit unworthy members who eventually default (Hyman, 2016). All these challenges result in loss of revenue hence SACCOs collapse, and as such lose their bargaining power in the investment sector, their businesses also risk being liquidated, and they even lose potential customers (Musyoki, 2011). SACCOs should, therefore, solicit for new members who are high-income earners and should consider using liquid assets like Vehicle log books, title deeds and premises as collateral security (Olando, 2013). They should also

formulate policies that meet the current market standards. The SACCOs should work with the Credit Reference Bureau to allowing gathering substantial information that will aid in proper credit appraisal (Banking Act, 2013). A number of studies have been done to determine financial performance of SACCOs including technology (Mosongo, 2013) managerial competency (Lwanga et al, 2014) dividend policy, loan portfolio and surpluses (Maingi, 2014) and thus, the studies recommend for further research on credit management while looking at SACCOs as business units aimed at benefiting their members, their profitability and ability to achieve long-term goals in a competitive market.

1.3 Purpose of the study.

The purpose of this study was to investigate effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda.

1.4 Research Objectives.

i. To determine the effects of credit policy on the financial performance of SACCOs at premier credit Organisation in Kampala Uganda.

ii. To find out the financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda.

iii. To examine the influence of credit policy on the financial performance of SACCOs at premier credit Organisation in Kampala Uganda.

1.5 Scope of the Study

Kampala is the capital and largest city of Uganda. The city is divided into five boroughs that oversee local planning that is; Kampala central division, Kawempe division, Makindye division, Nakawa division and Rubaga division. Surrounding Kampala is the rapidly growing Wakiso district, whose population more than doubled between 2002 and 2014 and as of 2014 Wakiso was reported to stand to over 2 million.

Kampala was named the 13th fastest growing city on the planet with an annual population growth rate of 4.03 percent, by City Mayors. Kampala has been ranked the best city to live in

East Africa ahead of Nairobi and Kigali by Mercer, a global development consulting agency based in New York City.

1.6 Significance of the Study.

The research was beneficial to various parties, for the SASRA regulated SACCOs, they were able to know the importance of their credit policy, the effects it has on their financial performance and how they can be able to use their credit policy to their benefit. SASRA regulated SACCOs and other financial institutions must develop a credit policy to govern their credit management operations. The study was also important to policy makers who will gain insight on the effect of credit policy on financial performance of SASRA regulated SACCOs and formulate strategies to enhance credit policy formulation that will improve financial performance in SASRA regulated SACCOs in Uganda.

The study was further significant to the academic researchers and scholars. There is very little literature if any in the field of credit unions and SACCOs, especially in the developing countries.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature review. It presented the theoretical and empirical review on studies related to the purpose of the study. The chapter presented determinants of credit policy and financial performance and finally a chapter summary is provided.

2.1 Theoretical Review

A theory is an explanation of how two or more variables are related. The study was grounded on the following theories, asymmetric information theory, transactions costs theory and the 5 C's model of client Appraisal.

2.1.1 Asymmetric Information Theory.

The asymmetric information theory was first introduced by Akerlof's 1970 which show that there exists information asymmetry in assessing bank lending applications (Binks and Ennew, 1997). Information asymmetry theory describes a condition in which all parties involved in an undertaking do not know relevant information. (Ekumah & Essel, 2003). The theory point out that perceived information asymmetry poses two problems for the financial institution, moral hazard, monitoring entrepreneurial behavior and adverse selection that is making errors in lending decisions.

The theory informs the study in that if credit unions exchange information about their clients' credit worth, they can assess also the quality of foreign credit applicants and lend to them as carefully as they lend to local customers (Denis, 2010). By reducing information asymmetry between lenders and borrowers, credit registries allow loans to be extended to safe borrowers who had previously been priced out of the market, resulting in higher aggregate lending and low default rates.

2.1.2 Transactions Costs Theory

Transaction cost theory has proven to be an essential framework for decisions on the vertical boundaries of a firm. Williamson (2000), indicated that transaction occurs when a good or service is transferred across a technologically separable interfaces. One stage of activity terminates and another one begins. First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

A threat to breach the contract can be seen as untrustworthy, since there is no alternative. A locking of one transaction party leads to a hold up. Low specificity exists, if there is a range of homogeneous services or goods and supply is secured. This theory informs the study in that financial institutions develop credit policies such as credit terms and credit standard procedures to evaluate their customer credit worthiness and ability to repay credit facilities.

2.1.2 The 5 C's Model of Client Appraisal

Credit Unions use the 5 C's model developed by Myers & Forgy (2005) of credit to evaluate a customer as a potential borrower. The 5 C's help regulated SACCOs to increase credit performance, as they get to know their customers better (Abedi, 2000). This 5 C's include character, capacity, collateral, capital and condition. 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).

The theory informs the study in that, the SASRA regulated SACCO's will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. The success of SACCOs largely depends on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned, savings and on loans extended to members. The SACCOs will consider the member ability to repay credit facility from the business, the timing of the repayment and the successful repayment of the loan.

7

2.2 Conceptual Framework

Effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda was expressed diagrammatically in the conceptual framework below
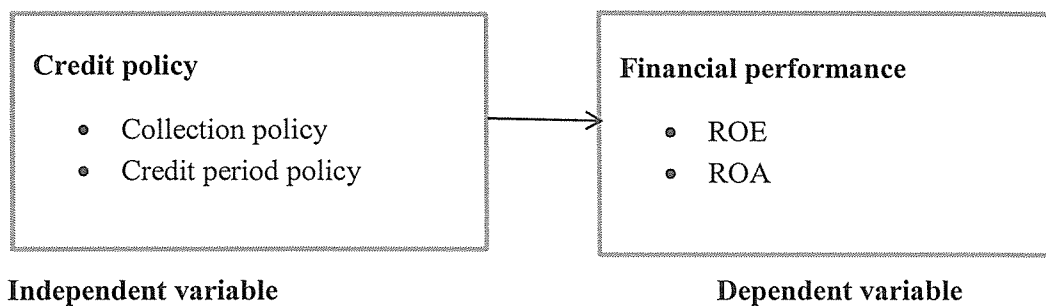
```
┌─────────────────────────┐        ┌─────────────────────────┐
│ Credit policy           │        │ Financial performance   │
│                         │        │                         │
│   ● Collection policy   │ ────►  │   ● ROE                 │
│   ● Credit period policy│        │   ● ROA                 │
│                         │        │                         │
└─────────────────────────┘        └─────────────────────────┘
      Independent variable                Dependent variable
```

Figure 1: Conceptual framework

Source: Author (2019)

2. 3 Determinants of Financial Performance in Deposit Taking SACCOs

The two fundamental functions of SACCOs are financial intermediation and investment. The most basic one is financial intermediation. That is bringing savers and borrowers together (Pelrine, 2001). Kifle, Tesfa and Mariam (2012) emphasized on gender, household income, and amount of loan borrowed and year of cooperative membership. Sambasivam (2013) emphasized on the financial health, sign of growth, efficiency of saving mobilization and the loan services strategies. This study focused on credit policies as determinants of financial performance in deposit taking SACCOs.

2.3.1 Credit Standards

This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (1998) noted that it's important that credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral and security capital. Tight credit standards make a firm lose a big number of customers and when

credit standards are loose, firms gets an increased number of clients but at a risk of loss through bad debts, hence lack of credit standards and credit policy increases bad debts recovery.

In agreement with other scholars, Van Horne (1994) advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so that the regulated credit unions can make profits. This is a criteria used to decide the type of client to whom loans should be extended to, to reduce chances of loan loss. Credit standards are based on the individual credit application by considering character assessment, capacity, condition, collateral and security capital.

2.3.2 Credit Terms

A Credit term is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2002) furthermore, these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments.

It is evaluated by the position of the client as indicated by the ratio analysis is, trends in cash flow and looking at capital position (Christen & Rosenberg, 2000). Maturity of a loan, this is the time period it takes a loan to mature with the interest there on. Cost of loan, by understanding the borrower, the risk premium can be ascertained and the profit erosion from bad debts can be decreased hence increasing bank performance.

2.3.3 Collection Policy

The collection process can be rather expensive in terms of both product expenditure and lost good will (Tandelilin, Kaaro, & Supriyatna, 2007). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets and courts litigation. Methods used by regulated SACCOs could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements. Zimmer (2003) asserts that collection policy is a guide that ensures prompt payment and regular collections.

Collection procedure is required because some clients do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts. According to Dawkin (2010) posited that prompt payments aimed at increasing turnover and keeping bad debts low. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debt losses and increases profitability of the banking institution.

2.3.4 Capital Adequacy

The risk management derives from the objectives of financial regulation. The problem of systemic risk constitutes part of the embodiment of the rationale for financial regulation (Stiglitz, 2001). Regulators impose liquidity monitoring measures on banks to meet specified minimum levels of withdrawals. However, such measures are precautionary against short-term cash flow problems rather than a situation of panic outburst (Gleeson, 2006).

Capital adequacy regulation establishes the maximum level of leverage that a financial institution is allowed to reach on its operations (Jansson, 2007). It is measured by the ratio of risk-weighted assets relative to regulatory equity. Benh-Khedhiri, Casu, and Sheik-Rahim (2005) found that capital regulation influences profitability and interest rates differentials in Tunisian banking industry . More specifically, capital regulation focus on the determinants of credit unions' net interest margins as indicators of the sector's efficiency.

2.3.5 Loan-loss Provision Policy

Loan-loss provisioning policy is critical in assessing financial system stability, in that it is a key contributor for fluctuations in financial institutions' profitability and capital positions, which has a bearing on banks' supply of credit to the economy (Beatty and Liao, 2009). In principle, loan loss provisions allow banks to recognize in their profit and loss statements the estimated loss from a particular loan portfolio(s), even before the actual loss can be determined with accuracy and certainty as events unfold and are actually written off (Demirguc-Kunt, Laeven & Levine, 2003).

A loan loss reserve is a contra income account that enables banks to recognize in their profit and loss statements the expected loss from a particular loan portfolio(s). Depositors are protected against unexpected loss through capital adequacy reserve and protected against anticipated loss

through loan loss provision reserve (Beatty & Liao, 2009). Financial institution with less loan loss provision has high asset quality and higher profitability.

2.4 Empirical Review

Ntiamoah, Diana and Kwamega (2014) carried out a study on assessment of the relationship between credit management practices and loan performance using some selected microfinance institutions in the Greater Accra region of Ghana as a case study. Results of the study indicated that there was high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

Ayodele, Thomas, Raphael & Ajayi (2014) carried out a study on impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank Plc as case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that having a good credit policy in place goes a long way in minimizing the incidence of bad debts.

Owizy (2013) evaluated the impact of credit management on financial performance of Nigerian banks, with particular reference to UBA Plc. Financial ratios as measures of bank performance and credit indicators were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004-2008. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit management has a significant impact on the profitability of Nigeria banks.

Byusa and Nkusi (2012) investigated effects of credit policy on bank performance in selected Rwandan Commercial banks. The aim of this study was to investigate the effects of credit policy on bank performance using data on selected Commercial Banks. The results obtained indicated that the Rwanda's commercial banks increased their accounts, increased customer base and improved their financial indices, thereby maximizing their profits. However, inadequate competition in the banking system led to high spreads. Banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency.

11

Kargi (2011) evaluated the impact of credit risk on the profitability of Nigerian banks. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. Al-Khouri (2011) assessed the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. The results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets.

Soke Fun Ho and Yusoff (2009) in their study on effects of credit policy of selected financial institutions in Malaysia, majority of financial institutions and banks experienced high default due to poor application of credit policies and inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions hence poor profitability. Credit risk emanates from a bank's dealing with individuals, corporate, financial institutions or sovereign entities. A bad portfolio may attract liquidity as well as credit risk.

Kiage, Musyoka and Muturi (2015) conducted a study on the influence of positive credit information sharing determinants among commercial banks in Kisii town, Kenya. The study established that competition had a positive influence on financial performance of Commercial Banks. Privacy protection had a negative influence on financial performance of commercial banks. Wanja (2013) investigated the effects of credit policy used by commercial banks on their performance. The objective of the study was to examine relationship between loan terms and conditions and performance. The study found that the nature of loan terms and conditions have a large effect on the bank's competitiveness.

Gatuhu (2013) carried out a study to determine the effect of credit management on the financial performance of Microfinance Institutions in Uganda. The study adopted a descriptive survey design. The study found that client appraisal credit risk control and collection policy had effect on financial performance of MFIs in Uganda. The study established that there was strong relationship between financial performance and client appraisal, credit risk control and collection policy.

2.5 Summary and Conclusion

From the review of the literature, credit policy plays a critical role in improving financial performance of commercial banking institutions. Most studies such as (Ntiamoah, Egyiri, Fiaklou & Kwamega (2014) have been inclined to focus on determining effects of credit policies on performance of non-performing loans and financial performance in commercial banks, rather than for the provision of a good credit policy framework for their prevention and control of quality portfolio.

Review of local studies such as Gatuhu (2013) and Wanja (2013) had focused on determining effects of credit policy used by SACCOs and Microfinance Institutions in Uganda. It is therefore evident that the studies determining effects of credit policy on financial performance of regulated SACCOs in Uganda remain elusive. This motivated the study to determine the effect of credit policy on financial performance in SASRA Regulated SACCOs in Kampala to fill the research gap that exists.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research design and methodology that was used to carry out the research. It also presented the population, data collection and data analysis.

3.1 Research design.

Research design refers to the way the study is designed, that is the method used to carry out the research (Mugenda and Mungenda, 2003). The study adopted correlation research design. A correlation research design is a quantitative method of research in which two or more quantitative variables from the same group of subjects are analyzed to determine if there is a relationship. It is chosen as it attempts to determine the extent of a relationship between two or more variables using statistical data.

In this type of design, relationships between and among a number of facts was sought and interpreted to establish the causal and effects relationship between variables. The design helped the study in establishing whether credit policy has significant effects on financial performance in SASRA regulated SACCOs in Kampala Uganda.

3.2 Target Population

The study population consisted of 40 respondents under different Regulated SACCOs registered under the societies Act in Kampala, Uganda (SASRA Report, 2015). The list of the SACCOs was obtained from the Ministry of Cooperatives, Development and Marketing. The study was targeting the 40 respondents under Deposit taking SACCOs operating under SASRA.

3.3 Data collection

The study used one methods of data collection and it's described briefly below:

Survey Questionnaire: For the population Survey, a semi-structured questionnaire was developed and was used to collect data from random selected 40 respondents under different Regulated SACCOs registered under the societies Act in Kampala, Uganda. The questionnaire was containing both closed and open ended questions with spaces for explanation from the respondent. Open-ended questions were used to provide greater depth on Effects of credit policy on financial performance of SACCOs in Kampala. The questions and structuring of the questionnaire were informed by findings from review literature.

The data was collected from regulated Sacco's financial books and financial report of the institutions. From financial report, interest and taxes (EBIT) and total Net assets was also extracted from financial statement. Default rate (DR) Ratio was from profit and loss statement, Bad debt cost ratio from financial statements, Cost per loan asset ratio from balance sheet statement loan loss provision was extracted from balance sheet statement, Capital Regulation ratio (CAPR) was extracted from balance sheet statement of SACCOs. Data was collected within a period of one month

3.4 Data Analysis

The collected data was analyzed through descriptive statistics, means and standard deviations to determine the extent to which credit policies influence financial performance in regulated SACCOs. Results were presented in tables and charts, the correlations were used to determine whether the relationships between credit policies and financial performance are weak or strong.

Raw data collected by the researcher was processed before carrying out the analysis. This was by elimination of unusable, ambiguous answers, and contradictory data were detected and corrected or omitted where necessary. After correcting errors the researcher formulated a coding scheme which was used for summarizing and analyzing the information given to the researcher. Then the data was stored in soft and hard copies. The data stored will of course be in statistical packages for social science (SPSS).

Multiple regression analysis was used to establish the association and effect of credit policies on financial performance of regulated SACCOs. A multivariate regression model of financial

performance versus credit policies was applied to examine the relationship between the variables. The relationship model was represented in the linear equation below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \quad (1)$$

Where,

Y = Financial Performance (ROA),

α = Constant Term,

$\beta_1.....5$= Beta coefficients,

X1= Credit Standards,

X2= Credit terms Policy,

X3= Collection Policy,

X4= Capital Adequacy,

X5= Loan Loss Provision

e = Error Term

3.5.1 Operationalization of Variables

This was represented in the table below

Variables	Indicator	Measurement	Extracted From
Y	Financial Performance (ROA)	ROA= EBIT/ Total Assets	Extracted from financial books on profit and loss statement
X_1	Credit Standards(BDC Ratio)	Bad Debt Cost/Total Costs	Extracted from financial statement
X_2	Credit Terms Policy (Loan ratio)	Loan Ratio= Total loans to total assets ratio	Balance sheet statement
X_3	Collection Policy (Default Rate (DR) Ratio)	Non- Performing Loans/ Total loans	Profit and loss statement
X_4	Capital Regulation (CAPR)	Capital/ Total assets	From balance sheet statement
X_5	Loan- loss Provision Coverage Ratio	Pretax income + Loan- loss Provision) / Net Charge-offs	From balance sheet statement

3.5.2. Test of Significant

The significance of the regression model was determined at 95% confidence interval and 5% level of significance. The results of significance were interpreted at 5% level of significance. The p-values were interpreted for significance. T-test was used to determine whether there is any significant difference in the financial performance and credit policies. The ANOVA and F-test showed the model goodness of fit that was used in the study.

17

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.0 Introduction

This chapter presents the findings of the study on the effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda. The chapter presents the data analysis, results and discussion for the findings.

4.1 Descriptive Statistics

The study sought to collect and analyse consolidated data from the 40 respondents under different regulated SACCOs under the societies Act in Kampala. A Survey Questionnaire that was designed helped to collect the data from the 40 respondents of selected SACCOs. The data was collected from regulated Sacco's stake holders' financial books and financial report of the institutions from SASRA and provided by the SACCOs. From financial reports, interest & taxes and total assets was also to be extracted from financial statements. Data on Non-Performing Loans and total loan were also collected. Data on Bad debt and total cost, Loan loss provision and capital was extracted from balance sheet statement. The data collected from SACCOs was for the period 2014-2018.

Mean Financial Performance of SACCOs for Year 2014 - 2018

Table 4.1: Descriptive Analysis on Regulated SACCOs Credit Policy for 2014 to 2018

	Minimum	Maximum	Mean	Std. Deviation
Credit Standards (BDC Ratio)	0.01	0.745	0.0521	0.204
Credit Terms Policy (Loan ratio)	0.022	0.701	0.583	0.114
Collection Policy (Default Rate (DR) Ratio)	0.012	0.578	0.370	0.035
Loan- loss Provision	0.031	0.684	0.213	0.037

Coverage Ratio				
Capital Regulation (CAPR)	0.17	0. 792	0.450	0.132
ROA	0.003	0.093	0.067	0.012

From the table, the study found that respondents selected from regulated SACCOs had adopted credit standards as a credit policy to a great extent as indicated by a mean of 0.521closer to a Max Mean of 0.745. The table indicated that the regulated SACCOs applied credit term policy to a great extent as indicated by a mean of 0.583 closer to Max mean of 0.701. This indicated that regulated SACCOs loan ratio form the base for determination of how much a client would borrow. The study also found that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans when offering credit facility to a great extent as indicated by a mean of 0.370 with a Max mean of 0.578.

The study found that the regulated SACCOs used loan –loss provision coverage rat io to a great extent as indicated by a mean of 0.213 with a Max mean of 0.684 .The study also found that regulated SACCOs adhered to capital regulation to a great extent as indicated by a mean of 0.450 with a Max mean of 0.792. The study found that application of credit policy would led to increase in Return on Assets for the regulated SACCOs to a great extent as indicated by a mean of 0.067 with a Max mean of 0.093.

4.2 Diagnostic Statistics

Table 4.2: Diagnostic Statistics

Indicator	Collinearity		Normality Test
	Tolerance	VIF	KURT
Credit Standards (BDC Ratio)	1.917	5.541	5.3021
Credit Terms Policy ,Loan Ratio (CLA)	3.879	0.243	-2.6657
Default Rate (DR) Ratio	1.895	2.895	-1.3473
Collection Policy (Default Rate	2.912	0.573	3.5285
Credit Risk Mitigation	1.996	6.044	-2.8436

The results on Collinearity, the study established that Tolerance for the Independent variables had a Tolerance Value greater than 1 as that of credit Standard was 1.917, Credit Terms Policy had tolerance of 3.879, Default rate had 1,895; collection policy had 2.912 while that of credit risk was 1.996. The VIF of the IVs were 5.541 for Credit Standards (BDC Ratio), 0.243 for Credit Terms Policy, Collection Policy (Default Rate) had a VIF of 0.573 while Credit Risk Mitigation had VIF of 6.044. Multicolinearity did not exist as Tolerance for the independent variables were above .1 and VIF were less than 10 or an average much greater than 1.

On normality test, the study used Kurtosis test. The study established that credit standards had Kurt of 5.3021 indicating a relatively peaked distribution among all the SACCOs. The study established that data on credit Terms Policy, Loan Ratio (CLA) was relatively flatter distribution as indicated by KURT of -2.6657. The study also found that Default Rate (DR) Ratio had a relatively flatter distribution with KURT of -1.3473. The KURT for Collection Policy (Default Rate was 3.5285 indicating a relative peaked distribution while KURT for credit risk Mitigation was -2.8436 indicating a flatter distribution .

4.3 Credit Policy and Financial Performance

A regression analysis between the dependent variable and the independent variables was performed; independent variable being credit policy and financial performance being dependent variable.

Table 4.3: Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig
0.748a	0.559	0.522	0.468	0.0021

Independent Variables: (Constant), Credit Standards, Credit Terms Policy (Loan ratio), Collection Policy (Default Rate, Credit Risk Mitigation, Capital Ratio

Dependent Variable: Financial Performance

Adjusted R^2 is called the coefficient of determination and indicated that there was great significant variation in credit policy as the value of adjusted R^2 is 0.522. P=0.0021. This implies that, there was a significant variation of 52.2% of ROA varied with variation in credit policies with confidence level of 95%., P= 0.0021 < 0.05

Table 4.4: Analysis of Variances in the Regression Model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7.036	4	1.759	8.186	0.001a
Residual	71.748	36	1.993		
Total	80.863	40			

Independent Variables: (Constant), Credit Standards, Credit Terms Policy (Loan ratio), Collection Policy (Default Rate, Credit Risk Mitigation, Capital Ratio

Dependent Variable: Financial Performance

The Results in Table 4.4 gives the analysis of variances in the regression model. These results indicate that the model had an F-ratio of 8.186 P=0.001<0.05. This result indicates that the overall regression model had a significant goodness of fit as F-calculated, 10.547 was greater than critical F at 8.186. This further indicates that use of credit policies would be statistically significant in predicting ROA in regulated SACCOs

4.4 Demographic Characteristics

This section consists of information that describes basic characteristics such as duration the SACCO has been in operation, level of employment, duration the respondents has worked in the SACCO and tier of the SACCO.

4.4.1 Duration the SACCO has been in Operation

The respondents were asked to indicate the duration the SACCO has been in operation. Majority of the respondents who were 44% indicated that their SACCO has been in operation for more than 16 years, 40% indicated that their SACCO has been in operation for 11-15 years, 12% indicated that their SACCO has been in operation for 6-10years while only 4% who indicated that their SACCO has been in operational for 1–5 years. This illustrates that most SACCOs had existed for over ten years and therefore their credit policy manuals had been severally tested and reviewed to match with the ever changing global financial environment.
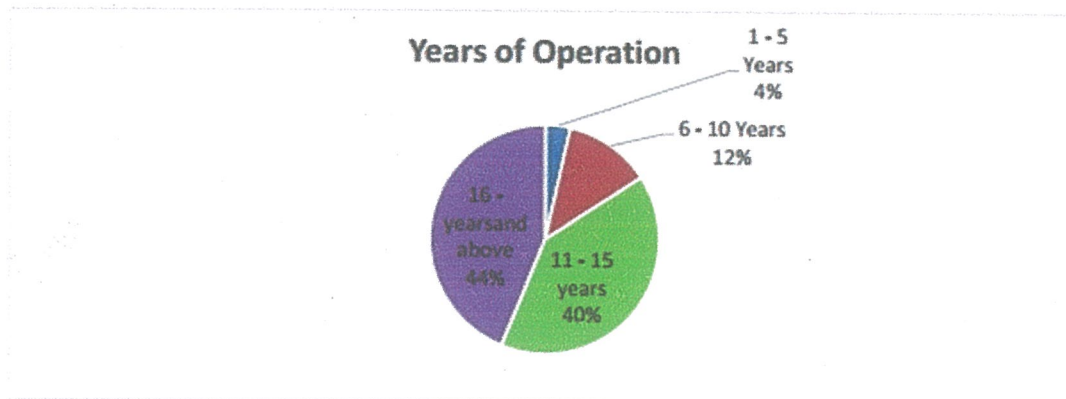
Figure 4.1: Duration the SACCO has been in Operation

4.4.2 Level of Employment

The respondents were asked to indicate their level of employment. The results revealed that majority of the respondents who were 61% indicated that their level of employment was management level, 18% indicated senior level management, 14% indicated entry level while only 7% of the respondents who indicated that their level was BOD level. The results indicate that majority of the respondents were over five years experienced and well versed with credit risk management. Only 14% were in the entry level a meaning that they had adequate experienced officers to offer them guidance.
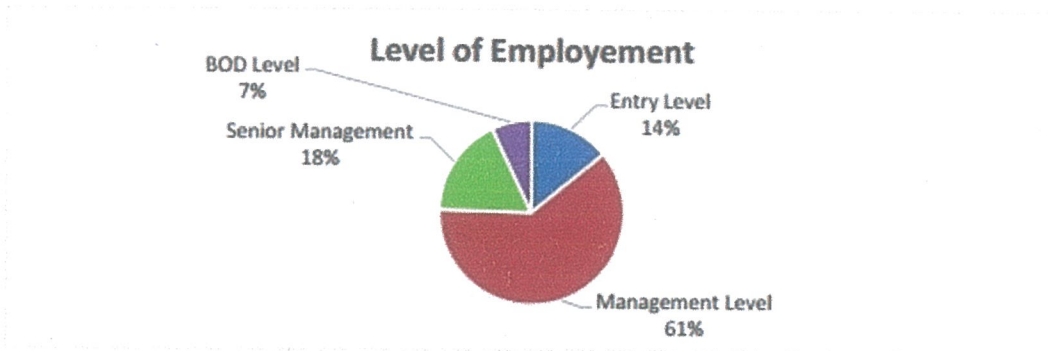

Level of Employement

BOD Level 7%
Senior Management 18%
Entry Level 14%
Management Level 61%

Figure 4.2: Level of Employment

4.4.3 Duration Worked in the Organization

The respondents were asked to indicate the duration they had worked in the organization. Majority of the respondents who were 40% indicated that they had worked for 6–10 years, 37% indicated that they had worked in the organization for 11–15 years,18% indicated that they had worked in the organization for 1–5 years while only 5% who indicated that they had worked in the organization for 16 years and above.
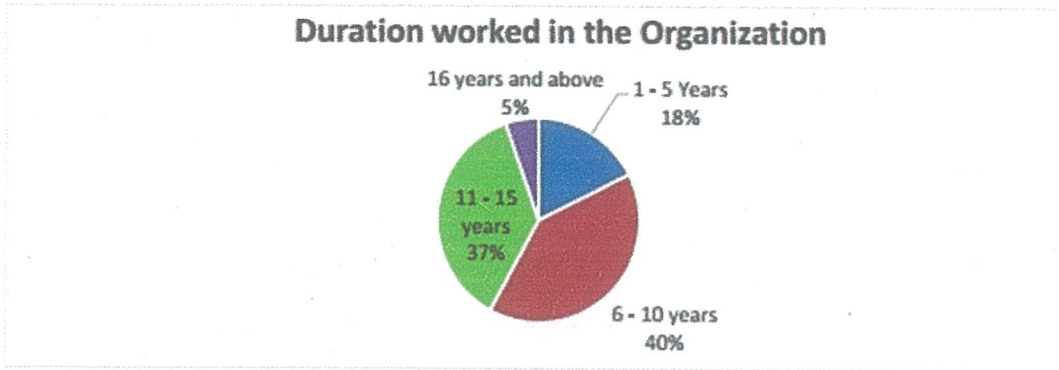
Duration worked in the Organization

Figure 4.3: Duration Worked in the Organization

4.4.4 Tier of the SACCO.

The respondents were asked to indicate the tier of the SACCO. Majority of the respondents who were 62% indicated that their SACCO was tier III hence adequately representing the small SACCOs, 26% of the respondents indicated that their SACCO was tier II and 12% of the respondents indicated that their SACCO was tier I. The resulted to achievement of rich data in terms of diversity amongst all the selected banks.
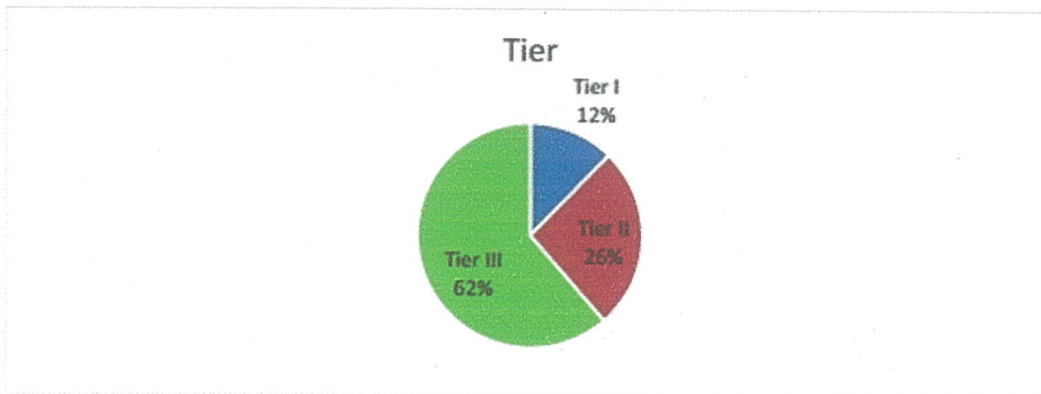

Tier

Figure 4.4: Tier of Bank

4.5 Sample Characteristics
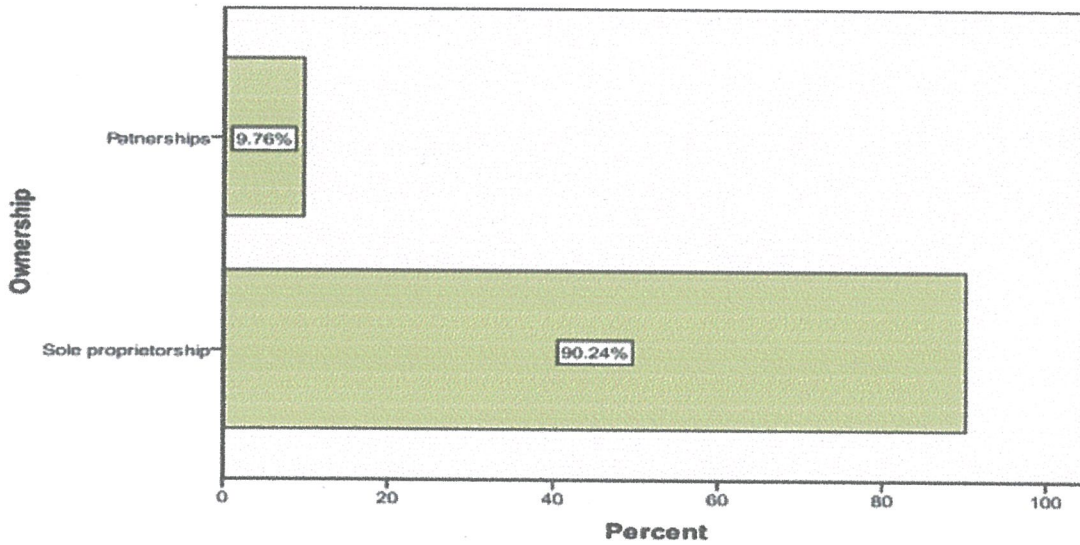
4.5.1 Ownership of the business

Figure 4.5: Ownership of business

From figure 5 above, findings revealed that ownership of most businesses was sole proprietorship representing 90.24% and least were partnership owned comprising of 9.76% in the entire sample.
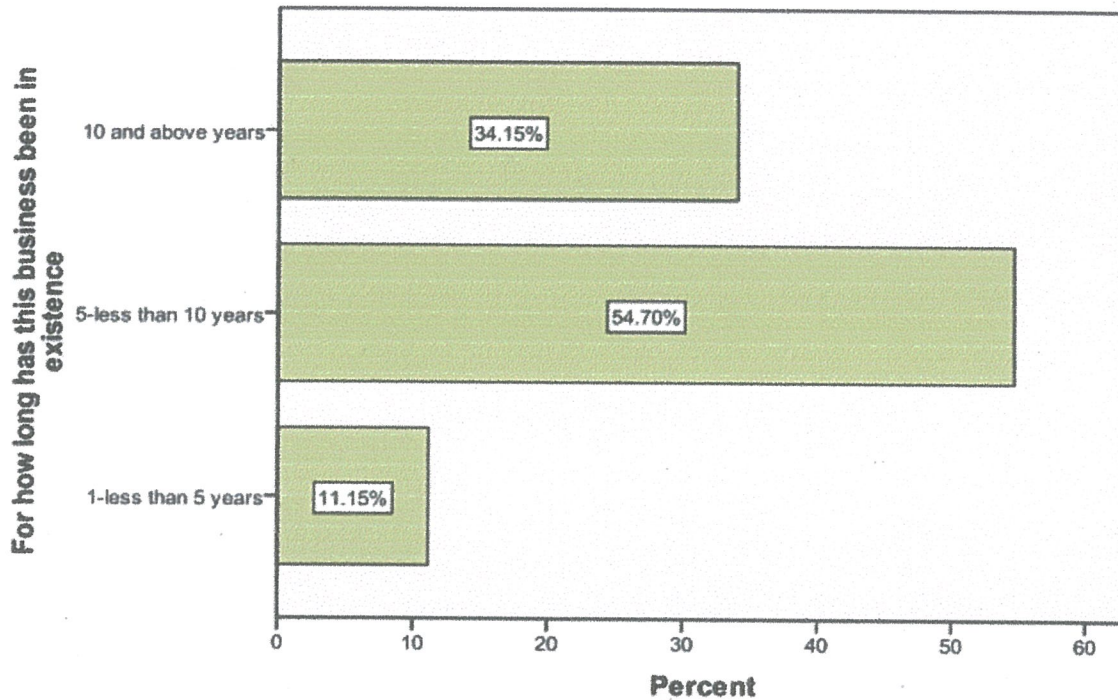
4.5.2 Length of existence in business

Figure 4.6: How long has this business been in existence

Results from figure 3 above, revealed that most of the organizations have been in existence for a period less than 10 years constituting 54.70%, followed by 10 years and above representing 34.15% and the least have been in existence for a period less than 5years representing 11.15% in the entire sample. This signifies higher stability levels in businesses that have existed longer and therefore stand a better age to access credit than those existing for shorter periods and therefore improved financial performance.

4.5.3 Owner/ manager's level of education
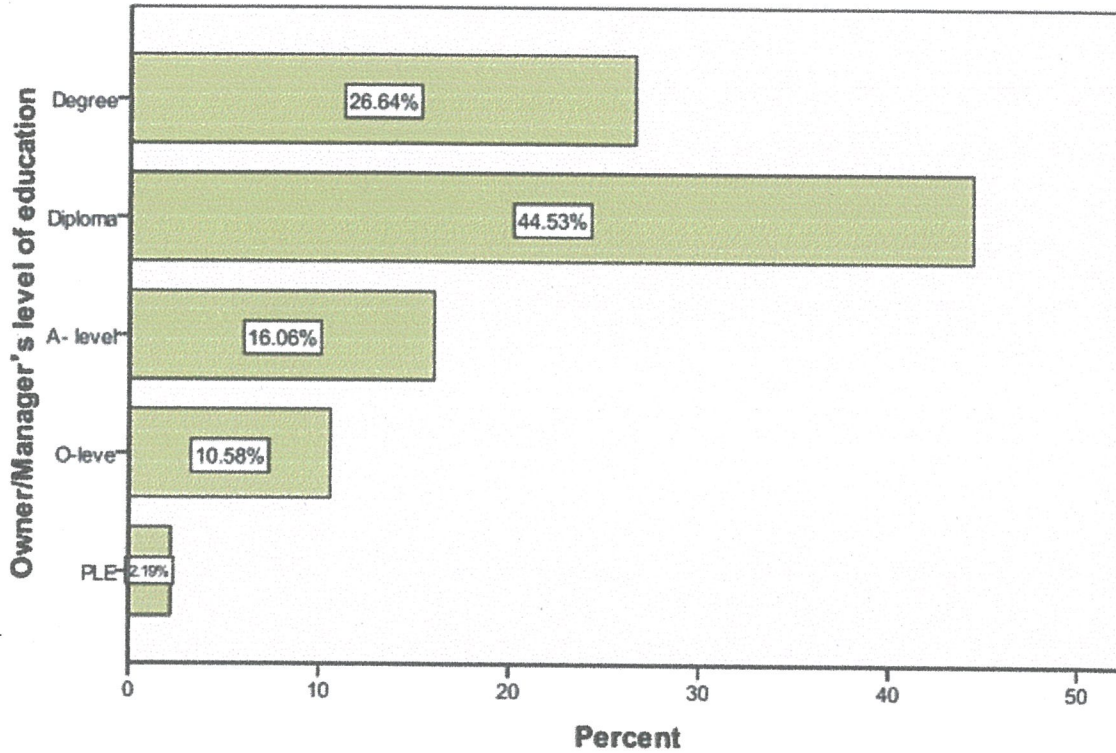
Figure 4.7: Owner/ Manager's level of education

From figure 4 above, out of the 287 owners/ managers, 44.53% had diploma level of qualifications, 24.64% qualified with degrees, 16.06% qualified with A-level and least of the owners/ managers qualified with O-level and PLE level of qualifications constituting 10.58% and 2.19% respectively. This implies that the majority of the respondents had post graduate qualification, meaning that the population sample was made up of learned and experienced owner/managers.

4.5.4 Largest amount ever borrowed

Figure 4.8: Single largest amount ever borrowed

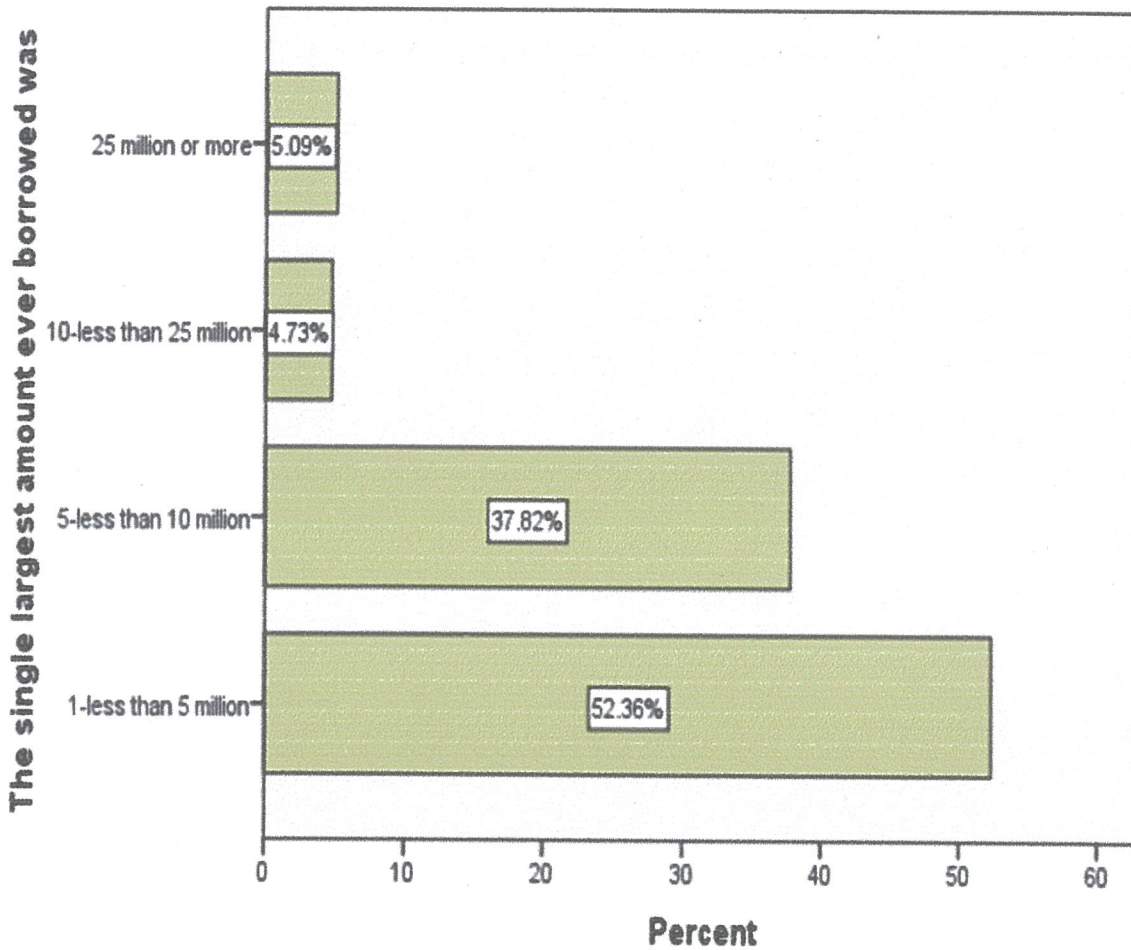From figure 5 above, results indicated that majority of the respondents" single largest amount ever borrowed was less than 5 million representing 52.36% followed with less than 10 million constituting 37.82% and the least of the respondents single largest amount ever borrowed was 25 million or more and less than 25 million representing 5.09% and 4.73% respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents summary, conclusion and recommendation of the findings. The objective of the study was establishing the effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda.

5.1 Summary of Findings

The study revealed that regulated SACCOs had adopted credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow. The study revealed that regulated SACCOs were also applying collection policy, considering non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy which increased Return on Assets for the regulated SACCOs to a great extent. From the correlation results, the study established that there is existed significance strong and positive correlation between Credit Standards (BDC Ratio) and ROA as correlation coefficient. The study revealed that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs as the correlation coefficient and that there existed a significant strong positive association between collection policy (Default Rate) and financial performance of regulated SACCOs. The study also indicated that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs.

The study established that compliance with capital requirements enhanced credit policy in regulated SACCOs. The study established that the application of credit standards led to significant increase in financial performance, application of credit standard would improve return on assets of regulated SACCOs. Application of Credit Terms Policy significantly increased ROA of regulated SACCOs, hence decreasing loan to assets ratio would significantly led to increase in financial performance.

From the regression results, use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non-Performing loans to total loan would significantly lead to increase in profitability. The study established that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Uganda.

5.2 Conclusions

The study concluded that regulated SACCOs had adopted credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow, applied collection policy, considered non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy which increased Return on Assets for the regulated SACCOs to a great extent. The study concluded that there existed significance strong and positive correlation between credit Standards (BDC Ratio) and ROA as Correlation coefficient. The study concluded that there existed a significant strong positive correlation between credit terms policy (Loan ratio) and financial performance, ROA in regulated SACCOs as the correlation coefficient and that there existed a significant strong positive association between collection policy (Default Rate) and financial performance of regulated SACCOs. The study also indicated that there existed a significant strong positive correlation between credit risk mitigation and financial performance in regulated SACCOs.

The study concluded that the application of credit standards led to significant increase in financial performance, use of credit standard would improve return on assets of regulated SACCOs and that application of Credit Terms Policy significantly increased ROA of regulated SACCOs, hence decreasing loan to assets ratio would significantly lead to increase in financial performance.

The study concluded that use of collection policy (Default Rate) led to significant increase in ROA of regulated SACCOs indicating that lowering non-Performing loans to total loan would significantly lead to increase in profitability and that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Uganda.

5.3 Recommendations

For policy implications, the study recommend that regulated SACCOs and other financial institutions such as Microfinance Institutions should adopted and implement credit standards as a credit policy, credit term policy loan ratio in determination of how much a client would borrow and applying collection policy, considering non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy as it would result into increase in Return on Assets to a great extent.

The management of financial institutions including regulated SACCOs, requires to enhance application of credit standards as this would lead to significant increase in financial performance, application of credit standards would improve return on assets of regulated SACCOs

The study recommend that commercial banking institution should apply Credit Terms Policy as it would significantly increase ROA, hence decreasing loan to assets ratio would significantly lead to increase in financial performance.

The study recommend that management should use collection policy (Default Rate) to significantly increase in ROA of regulated SACCOs indicating that lowering non-Performing loans to total loan would significantly lead to increase in profitability and that use of credit risk mitigation led to significant increase in ROA in regulated SACCOs in Uganda.

From the findings, the study recommends that in order for the regulated SACCOs and other financial institutions to have a high financial performance, the organization will have to also concentrate on other factors affecting its operations such as capital requirements. The study recommends that SACCO Societies should ensure compliance to financial regulations to accentuate efficiency of credit policies and increase in return on assets.

REFERENCES

Ahmed, S (2004). Message to the Asia-Pacific region Micro-credit summit of councils

(APRMS) (*Presented in palli Karma Foundation Bangladesh.*)

Anwar, K. E. (2005). Independence Federal Savings Bank (IFSB). Guiding Principles of Risk

Management for Institutions (Other than Insurance Institutions) Offering only Financial

Services.

Arun, T (2005). Regulating for development: The case of microfinance. The Quarterly Review

of Economics and Finance. 45(2-3): 346-357

Ayodel U, Thomas,T and Raphael Ajayi, R, (2014) Impact of Credit Policy on the

Performance of Nigerian Commercial Banks using Zenith Bank Plc. Research Paper.

Benston, G.J. (1998). Regulating Financial Markets. A Critique and Some Proposals,

Hobart Paper No. 135, London, Institute of Economic Affairs.

Bhole, L. M (2004). Financial Institutions and Markets Structure, Growth and

innovations, Fourth Edition, National Bureau of economic research Cambridge.

Byusa, V & Nkusi, D. (2012) Effects of credit policy on bank performance in selected

Rwandan Commercial banks. Rwanda Journal Volume 26, Series B: Social

Sciences.

Christen, R., Lyman, T., & Rosenberg, R. (2003). Microfinance consensus guidelines: Guiding

Principles on regulation and supervision of microfinance. Washington.CGAP.pp.57-71

Dawkin, S. (2010), Micro finances double bottom line, the relationship lending

constructs, Journal of Microfinance, Vol 1 No 7 pp5.

Eppy I (2005) Perceived Information Asymmetry, Bank lending Approaches and Bank

Credit Accessibility by Smes in Uganda (Unpublished thesis) Makerere University

Fgurlong, F. (2002). Capital regulation and bank lending," Federal Reserve Bank of San
Francisco Economic Review, 23-33.

Financial Sector Deepening, (2009) Saving Credit Cooperative Societies Large SACCO
Restructuring Facility outline, Retrieved 18 February 2010

Gatuhu, (2013) Effect of Credit Management on the Financial Performance Of
Microfinance Institutions in Uganda

Gleeson, M.(2006), Credit risk management and policy implications for microfinance
Institutions, Research Paper.

Guidotti, P., Rojas-Suarez, L. & Zahler, R. (2004). Designing financial regulatory policies that
work for MFIs

Hardy, D., Holden, P. & Prokopenko, V. (2003). Microfinance institutions and public
policy'. Policy Reform, Vol.6 (3): pp147-158.
institutions, Research Paper.

Kiage,P. Musyoka, E. and Muturi, H. (2015) Influence Of Positive Credit Information
Sharing Determinants Among Commercial Banks In Kampala Town

Kitaka, G. (2001) A survey on the use of financial performance indicators by MFIs in Kenya,
Un publish MBA Project, University Of Nairobi

Kungu, J. N, Wanjau,L Waititu,A,G Gekara, G.M. (2014) carried out a study on effects of
credit policy on profitability of manufacturing firms in Uganda. IOSR Journal of
Economics and Finance (IOSR-JEF), Volume 2, Issue 4 (Jan. 2014).

Lee, N. (2002). 'Developing and applying regulatory impact assessment methodologies in low and middle income countries'. Working Paper No 30. Centre on regulation and Competition, IDPM, University of Manchester.

Loona,Y. C., & Zhong, Z. K. (2014). The impact of central clearing on counterparty risk, liquidity, and trading: Evidence from the credit default swap market. Journal of Financial Economics, 12(1), 91-115.

Mattius, M. (2009), Using the credit policy in achieving microfinance missions, Credit Manual for lending Institutions

McConnell, A. (2007). Survey of Growth of Saving and Credit Society Report, Mutara Development SACCO, Uganda, February

Meyer, R. L. (2002), Track Record of Financial Institutions in Assisting the Poor in Asia ADB Institute Research Paper, No 49, December.

Modurch,B. (2012) Credit risk management and policy implications for microfinance

Mugenda, O. M. & Mungenda, A. G. (2003). Research Method Quantitative & Qualitative Approaches.

Murinde,V. (2010) Micro Finance and Social Protection. Paper Submitted to the European Report on Development 2010

Nyawera K.N.(2013) Effects of Credit Policy on Financial Performance of Micro Finance Organizations.

Ntiamoah,P. E., Diana, F. and Kwamega, E (2014) Assessment of the Relationship Between Credit Management Practices and Loan Performance, Journal of Risk

Finance, vol. 8

Quiroz, R. D. (2007). The formal regulatory approach to banking regulation", Badell & Grau

Legal Consultants.

Rajedom, R. (2010), The lending policy and customer defection in finance organization

Journal of finance and marketing Vol. 1

Rhyne. E. (2002). The Experience of Micro Finance Institutions with Regulations And

Supervision. Paper presented in the 5th International forum on micro-finance Enterprise;

September 2002 Rio de Janeiro

Santos, J. A. C. (2001). Bank capital regulation in contemporary banking theory: A Review of

Literature, Financial Markets, institutions and Instruments, Vol.10 (2)

Soke, F. Ho, E. and Yusoff, R. (2009), in their study on effects of credit policy of selected

Institutions in Malaysia. Journal of Banking and Finance 20 (3)

Staschen, S. (2003). Regulatory requirements for microfinance. A comparison of legal

frameworks in 11 countries worldwide'.Vol3.pp56-89

Stiglitz, J. (2001). Principles of financial regulation: a dynamic portfolio approach'. The World

Bank Research Observer, Vol.16(1):1-18

World Council of Credit Unions, (2009). "Credit Union Best Practices." Retrieved (3rdMarch

2010). (Online topical documents available at: http://www.woccu.org

Zimmer, K. (2003). Supervision and regulation of microfinance institutions. The Bolivia

Experience

SURVEY QUESTIONNAIRE

INTRODUCTION

Dear Respondent,

You have been selected to participate in this study about the topic stated **"Effects of credit policy on financial performance of savings and credit cooperative societies at premier credit Organisation in Kampala Uganda"**

I am a student at Kampala International University in my final year doing Bachelor degree of Business Administration. So, this study is being conducted for purely academic practices.

Your cooperation in answering this questionnaire will help in compiling a research report for the study. All your responses will be treated with ultmost confidentiality and will be used for academic purposes only.

Thank you for your cooperation.

Sign............................

MOMA JOHN

1163-05014-08139

(Researcher)

SECTION A: DEMOGRAPHIC SURVEY

1. **Name of the SACCO. ....**

Please tick (√) as appropriate

2. **Location of the SACCO**
   a) Central ☐

b) Nakawa ☐

c) Makindye ☐

d) Rubaga ☐

e) Kawempe ☐

3. **How long has the Sacco been in operation?**

   a) 1-3 years ☐

   b) 4-6 years ☐

   c) 7-10 years ☐

   d) More than 10 years ☐

4. **How many years have you worked in the Organization?**

   a) Less than 1 year ☐

   b) 1 - 4 years ☐

   c) 5 - 10 years ☐

   d) More than 10 years ☐

5. **Type of loan products offered by the Sacco:**

   a) Normal loan ☐

   b) Development loan ☐

   c) School fees loan ☐

   d) Others (specify) ☐

SECTION B: CREDIT RISK MANAGEMENT (CREDIT TERMS, CREDIT STANDARDS AND COLLECTION EFFORT)

6. **Does the SACCO have a credit policy?**

   a) Yes ☐

   b) No ☐

From 6 above if (YES) do you agree with the credit terms, credit standards and collection effort in financial performance of a SACCO?

(Key: Strongly disagree-1, Disagree-2, Neutral-3, Agree-4, strongly agree-5)

No	Statement	1	2	3	4	5
1	Provision of standardized loan forms					
2	Regular assessment of borrowers operating condition					
3	System used to repay loan applied					
4	Maximum period is given to borrowers to repay their loan					
5	Processing of Loan term loans should take a period of one month					
6	Credit committee going through the loans before they are approved for posting					
7	Loans have a standard interest rate					
8	Loans are verified by the internal auditor before posting					

SECTION C: IMPACT OF CREDIT MONITORING.

7. **How regularly does the credit committee do the credit monitoring?**
   a) Quarterly
   b) Semiannually
   c) Annually
   d) Others specify

7a. to what extent do you agree with the following statement on credit monitoring?

Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is

Disagree and 5 is Strongly disagree.

Factors on credit monitoring	1	2	3	4	5
Internal auditor doing verification of the loan					
keep track of borrowers' compliance with credit terms					
Conduct periodic valuation of collateral					
Monitoring timely repayments of loans					
Loan aging report					

SECTION D: IMPACT OF CREDIT POLICY MANAGEMENT ON FINANCIAL PERFORMANCE

8. **What obstacles affect achievement of organization credit policy management goals and objectives most?**
   a) Inadequate knowledge   ☐
   b) Rejection from employees   ☐
   c) Lack of attention from managers   ☐

8 a. Please comment on the challenges faced in credit policy management and their impact on the financial performance of your SACCO………………….

To what extent does your Sacco involve the following parties in formulating credit risk management policies? Use scale 1 to 5 where 1 is to a lesser extent and 5 to a greater extent.

Parties	1	2	3	4	5
Board of directors					
Credit committee					
Credit officers					
Employees					

SECTION E: PERFORMANCE OF THE SACCOS

9. **What is the trend of the following in your business for the last five years? Please tick as appropriate**

TREND	Greatly improved	Improved	Constant	Decreasing	Greatly Decreased
Loans default Control					
Gross income					
Share capital					
Dividends/ Return					
Loans issued					

Thank you very much for taking your time to fill this questionnaire