CREDIT MANAGEMENT AND LOAN PERFORMANCE OF SACCOs IN KAMPALA, UGANDA: A CASE STUDY OF UGANDA COOPERATIVES SAVINGS AND CREDIT UNION (UCSCU).

BY

MAKOHA PAUL
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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION-FINANCE AND ACCOUNTING OF KAMPALA INTERNATIONAL UNIVERSITY KAMPALA,
UGANDA

JULY, 2019

DECLARATION

I Makoha Paul, declare that this report was my original work and it has never been submitted to any university, or similar institution of higher learning, for the awarding of a degree, or any other academic award.

Signature: _____ Date: 2nd . 07 . 2019

APPROVAL

I confirm that the work reported in this report was carried out by the candidate under my supervision.

Signed: _____ Date: 2/7/2019

Supervisor's Name: Dr. Kirabo K.B Joseph

DEDICATION

I dedicate this research report to my parents who supported me through my education career.

ACKNOWLEDGEMENT

I would like to acknowledge and express my heartfelt gratitude to all those who helped me complete my report and supported me throughout my studies. First of all, I would like to thank the Almighty God for making it possible for me to complete this report. Secondly, I thank my supervisor Dr. Kirabo K.B Joseph for his timeless guidance and correction in the conduct of this research report. I am extremely grateful for all his valuable comments and guidance throughout the process of writing my report. Further thanks to the management of UCSCU for its support in providing me with the data and to the authors whom I have used their references in coming up with this report. In addition, many thanks to my family and friends for their moral support and encouragements in helping me accomplish my academic education.

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LIST OF ABBREVIATION

UCSCU:	Uganda Co-operatives Savings and Credit Union.
SACCOs:	Saving and Credit Co-operatives Organisations.
SPSS:	Statistical Packages for Social Sciences
IMF	International Monetary Fund

ABSTRACT

The purpose of this study was to investigate the effect of credit management on loan performance of Uganda Cooperatives Savings and Credit Union (UCSCU). The study was based on the following 4 objectives; (I) To assess the effect of credit terms on loan performance of Tropical Bank in Uganda; (II) To determine the effect of credit standards on loan performance of Tropical Bank in Uganda; (III) To determine the relationship between credit policy and loan performance of Tropical Bank in Uganda (IV) To establish the effect of collection policy on loan performance of Tropical Bank in Uganda.The study employed a cross-sectional research design and a sample size of 67 respondents were used for this study. The findings revealed that; credit terms is positively (β=0.819) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU; credit standards is positively (β=0.650) and statistically and significantly (p-value=0.001) affect loan performance of UCSCU; credit policy is positively (β=0.988) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU; and credit collection policy is positively (β=0.892) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. The study concluded that; credit terms have a positive significant effect on loan performance of UCSCU; credit standards statistically and significantly affects loan performance of UCSCU; credit policy have a positive significant effect on loan performance of UCSCU; and credit collection policy have a positive significant effect on loan performance of UCSCU. The study recommended that; UCSCU should effectively manage its interest rate for loan repayment and credit worthiness; have effective penalties put on default and late repayment; use auctioneers to recover loans and should normally sale of the property to recover loans. The study contributed to existing knowledge in the following ways; the study developed great ideas for credit terms, credit standards, credit policy and credit collection policy; the study findings helped UCSCU for comprehensively receive customers' complaints to the management to provide possible and appropriate solutions; and the study clearly discussed constructs of independent and dependent variables and clearly indicated the gaps that existed from previous studies as explained from the discussion of the findings section.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter included background to the study, the problem statement, the purpose of the study, research objectives, the research questions, research hypotheses, the scope and the significance of the study and operational definition of key terms.

1.1 Background to the study

In recent years, a growing number of developing countries including Uganda have embarked on reforming and deregulating their financial systems, transforming their institutions into effective intermediaries and extending viable financial services on a sustainable basis to all segments of the population (Seibel, 2006). By gradually increasing the outreach of their financial institutions, some developing countries have substantially alleviated poverty by initiating a framework and infrastructure to encourage lending through public and private credit reference bureaus, institutional strategies to spur economic development such as the vision 2040 in Uganda and financial systems approaches which include alternatives to collaterals in order to access credit.

In the process, a new world of finance has emerged which is demand-led and savings driven and conforms to sound criteria of effective financial intermediation. According to Pronchnow (2001) credit allocation is the process of granting credit or loan to a borrower for a given economic undertaking. This is achieved after evaluation of the borrower's credit worthiness based on the bank's lending policy, credit standards, credit terms, the credit collection terms and credit reference reporting .The process of credit allocation is a two-step process. The first is to evaluate the credit allocation, which involves identifying the leading variables influencing credit allocation. The second is to devise methods to quantify the credit using mathematical models, in order to understand the profile of the instrument. Commercial banks while in the process of providing financial services, assume various kinds of financial risks. Hence, it is

necessary that banks have in place a comprehensive management tool. At some institutions, a dual system is in place where both the borrower and the credit facility are rated. In the latter, attention centers on collateral and covenants, while in the former, the general credit worthiness of the borrower is measured. Some banks prefer such a dual system, while others argue that it obscures the issue of recovery to separate the facility from the borrower in such a manner.

According to Boland (2012) understanding of the business nuances of these countries and establishing credit management strategies in these markets to assure effective portfolio management. Failing to do so could result in control problems, credit losses and large exposures that eventually impair or doom overseas aspirations. The basics of sound credit decisions have not changed over the years.

According to Nyagah (2011), the different maturity levels of the various credit markets in Africa do not lend themselves to a one-size-fits-all credit management strategy. According to Nzuve (2013), credit management models include the systems, procedures and control which a company has in place to ensure the efficient collection of customer payments and the risk of non-payment. The high level of non-performing loans is a challenge to many commercial banks in Uganda, which is evidence that commercial banks are faced by a big risk of their credit. Lending in commercial banks is the main source of profit making hence the need for efficient credit management practices within the industry. Although the credit management is technical and consumes a lot of time the employees are trained regularly and manual used to create awareness. Different measures or models are employed in credit management like the quantitative method to check the client's ability to repay the loan as well as credit worthiness, terms of payment and interest to be charged, consequences in case of default, customer's character, deposit and collateral. The researchers recommends that credit management should be implemented in the Ugandan commercial banks as its useful in helping reduce the risk that is involved while lending to the customers.

1.2 Statement to the problem

It is averred that all over the world, SACCOs face enormous credit management challenges particularly credit risks (Krestlow, 2013). SACCOs are very important in not only banking the low income earners in the society but also advancing credit facilities to them (clients). However, just like other SACCOs, UCSCU experience many cases of default risks, moral hazard and adverse selection. Though UCSCU has set out a new directive on managing credit like using quantitative method to check the client's ability to repay the loan as well as credit worthiness, terms of payment and interest to be charged, consequences in case of default, customer's character, deposit and collateral, UCSCU's loan performance is still poor. In addition, UCSCU experience high levels of non-performing loans and this is due to the fact that, borrowers default in servicing their loans or in meeting their loan servicing obligations of the loans awarded to them and UCSCU does not get returns through interest charged on those loans.

1.3 Purpose of the study

The purpose of the study was to investigate the effect of credit management on loan performance of Uganda Cooperatives Savings and Credit Union (UCSCU).

1.4 Research objectives

(i) To assess the effect of credit terms on loan performance of Tropical Bank in Uganda.

(ii) To determine the effect of credit standards on loan performance of Tropical Bank in Uganda.

(iii) To determine the relationship between credit policy and loan performance of Tropical Bank in Uganda.

(iv) To establish the effect of collection policy on loan performance of Tropical Bank in Uganda.

1.5 Research questions

(i) What is the effect of credit terms on loan performance of Tropical Bank in Uganda?

(ii) What is the effect of credit standards on loan performance of Tropical Bank in Uganda?

(iii) What is the effect of credit policy on loan performance of Tropical Bank in Uganda?

(iv) What is effect of collection policy on loan performance of Tropical Bank in Uganda?

1.6 Research hypotheses

H01; Credit terms have no significant effect on loan performance of Tropical Bank in Uganda.

H02; Credit standards have no significant effect on loan performance of Tropical Bank in Uganda.

H03; Credit policy has no significant effect on loan performance of Tropical Bank in Uganda.

H04; Collection policy has no significant effect on loan performance of Tropical Bank in Uganda.

1.7 Scope of study

1.7.1 Geographical scope

The study was carried out in Uganda Cooperatives Savings and Credit Union (UCSCU).

1.7.2 Content scope

In terms of content, credit management (independent variable) was conceptualized in terms of credit terms, credit standards, credit policy and credit collection policy.

Dependent variable (loan performance) was measured in terms of loan default and low returns on loan interest.

1.7.3 Time scope

This study was conducted from March 2019 to May, 2019, whereby proposal writing took place from March 2019 to April 2019, data collection and analysis were done in May 2019, and then the final report was written and submitted in May 2019.

1.8 Significance of the study

The study was of importance to:

UCSCU credit managers

The study helped the credit managers of UCSCU to develop sound credit risk policies that will help them come up with efficient tools of measuring, controlling and evaluating credit risk in their loan portfolio to effectively contribute to the development of more efficient financial systems.

Government and other regulatory authorities

The Government, Ministry of Finance, Bank of Uganda as the regulator of financial institutions derived information on the overall usage and application of operating efficiency and portfolio quality indicators in the financial sector.

The study informed on the critical prudential regulations that the Government needs to issue to the financial sector to prevent moral hazards and information asymmetry.

This study informed the Ministry of Finance of the best way forward for regulating the deposit taking finance businesses.

Uganda bankers association

The study provided critical information for the development of a code of ethics and best practices in management of various risks facing the sector.

1.9 Operational definition of key terms

Credit term is the agreement between a seller and buyer that lists the timing and amount of payments the buyer will make in the future.

Credit standards are the guidelines issued by a company that are used to determine if a potential borrower is creditworthy

Credit policy is the set of principles on the basis of which a firm determines who it will lend money to or gives credit

Collection policy are the steps that a company follows in ensuring timely payment of its accounts receivable

Credit management is the process of granting credit, setting the terms it's granted on, recovering this credit when it's due, and ensuring compliance with company credit policy

Loan performance is a situation when loan contract's income results from an interest rate premium over a rate at which the funds could have alternatively been invested.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presented different subjects that include theoretical review, concept of credit management, conceptual framework, loan performance and literature review.

2.1 Theoretical review

This study discussed three major theories that became the backdrop of the credit management and loan performance and these included asymmetry theory, adverse selection theory and credit default theory.

2.1.1 Asymmetry theory

In a debt market, information asymmetry arise when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not posses adequate information pertaining the borrower (Edward and Turnbull, 2004), for perceived information asymmetry brings about two problems for financial institutions, moral hazard and adverse selection. Commercial banks find it difficult to overcome these problems as it is not economical to devote resources to appraisal and monitoring where lending is for small amounts as in the case of bank's loans. This is because data is needed to screen applicants and monitor borrowers are not freely available as and when it is required by banking institutions before giving out loans to its clients. Hence, commercial banks face a situation of information asymmetry while assessing lending applications (Binks & Ennew, 2004).

Derban, Binner and Mullineux (2005) recommended that borrowers should be screened especially by banking institutions in form of credit assessment. Collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as indicated by asymmetric information theory. Qualitative and quantitative techniques can be used in assessing the borrowers although one major

challenge of using qualitative models is their subjective nature. However according to Derban et al., (2005), borrowers attributes are assessed through qualitative models can be assigned numbers with the sum of the values as compared to a threshold. This technique minimizes processing costs, reduces subjective judgments and possible biases. The rating systems will be important if it indicates changes in expected level of credit loan loss. Brown (2008) concluded that quantitative measures make it possible to numerically establish which factors are important in explaining default risk, evaluating the relative degree of importance of the factors, improving the pricing of default risk, screening out bad loan applicants and calculating any reserve needed to meet expected future loan losses.

2.1.2 Adverse selection theory of credit markets

In the study, this theory explains the effect of the financial risk, and the interest on the credit. The adverse selection theory of credit markets originates with the paper by Stiglitz and Weiss (1981). The theory rests on two main assumptions: that lenders cannot distinguish between borrowers of different degrees of risk, and that loan contracts are subject to limited liability (that is, if the project returns are less than debt obligations, the borrower bears no responsibility to pay out of pocket).

The analysis is restricted to involuntary default, that is, it assumes that borrowers repay loans when they have the means to do so. In a world with simple debt contracts between risk-neutral borrowers and lenders, the presence of limited liability of borrowers imparts a preference for risk among borrowers, and a corresponding aversion to risk among lenders. This is because limited liability on the part of borrowers implies that lenders bear all the downside risk. On the other hand, all returns above the loan repayment obligation accrue to borrowers.

Raising interest rates then affects the profitability of low risk borrowers disproportionately, causing them to drop out of the applicant pool. This leads to an adverse compositional effect higher interest rates increase the average riskiness of the applicant pool. At very high interest rates, the only applicants are borrowers who could potentially generate very high returns (but presumably with small probability).

Since lenders' preferences over project risk run counter to those of borrowers, they may hold interest rates at levels below market-clearing and ration borrowers in order to achieve a better composition and lower risk in their portfolio. Excess demand in the credit market may persist even in the face of competition and flexible interest rates.

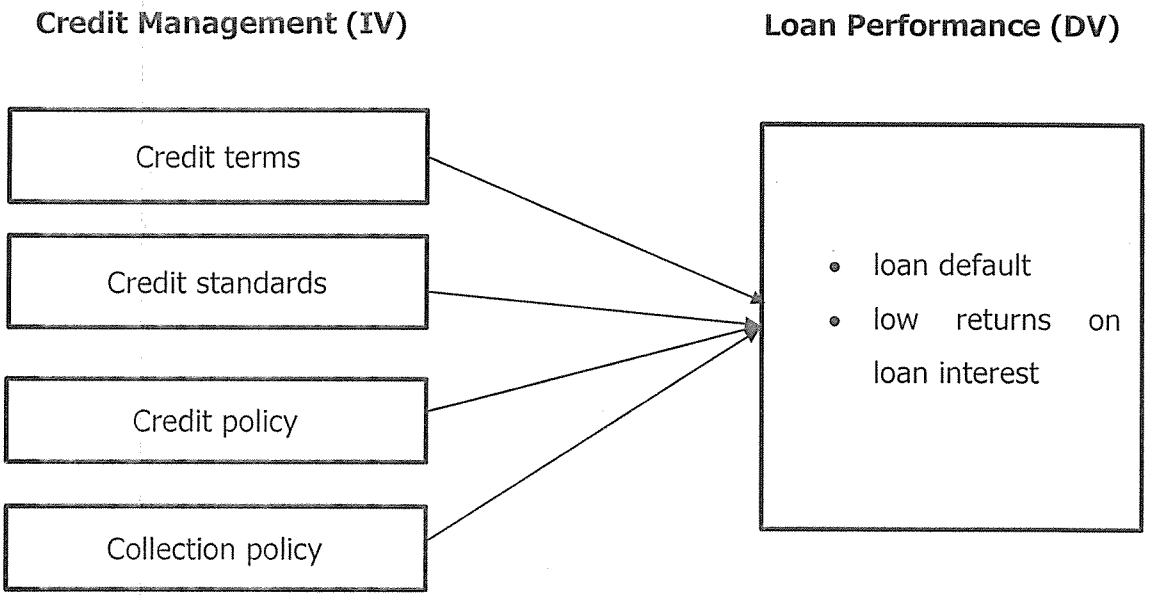
2.1.3 Credit default theory

Credit default theory is mainly intended for use to estimate expected losses through an understanding of the causes of credit default. In practice a loss from a given default often involves lengthy delays (of months or even years) either in a sale of the collateralised asset or in a sale of that asset to a debt collector for loan value recovery or in making a claim from an insurer. The practical definition of a default as a delinquency with a time lag is therefore merely to provide an early recognition of potential loss and the time lag may vary from country to country due to cultural and legal differences. There is no compelling research to suggest a particular delinquency period: 30-days, 90-days or 180-days which will optimize the trade-off between timeliness in the warning of a loss and the likelihood of an actual loss from default. Therefore there is a need to make a distinction between the current practical definitions of default and a theoretical definition, which is necessary to create a credit default theory. A successful credit default theory should be able to estimate the optimal delinquency time lag which is likely to indicate significant expected loss in any given jurisdiction. For an unsecured loan such as a credit card loan, for such loans have very low payment obligations so that delinquency rates and therefore default rates are substantially less than what one would expect. Indeed lenders of unsecured loans seek to obtain substantial gains from charging high interest rates on outstanding balances after the minimum payment obligations have been made. The loss given default when the borrower is unable to even make the minimum payment obligation will depend on the debt collection process and other cultural and legal factors. In this study this theory explains the effect of credit terms on the performance of microfinance.

2.2 Conceptual review

The relationship between the elements associated with the linkage between credit management and loan performance was outlined in Figure 2.1.

Figure 2.1: Conceptual framework of credit management and loan performance



Source: Pandey, 2010

The conceptual framework indicated that credit terms, credit standards, credit policy and credit collection policy constituted the independent variables. On the other hand, loan default and low returns on loan interest constituted the dependent variable. The study was guided by the assumption that both credit terms, credit standards, credit policy and credit collection policy influence loan performance of SACCOs in Uganda.

2.2.1 Credit management

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2003) describe credit

management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management.

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate policies and procedures that will ensure that proper authorities grant credit, the credit goes to the right people, the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. Credit management is the process for controlling and collection of payments from customers. This is the function within financial services to control credit policies that will improve revenues and reduce financial risks (Pandey, 2008).

Credit management is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2002) views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. The higher the amount of accounts receivables and their age, the higher the finance costs incurred to maintain them. If these receivables are not collectible on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid.

Nzotta (2004) opined that credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks credit portfolio. A key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns.

Credit management starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected. It follows that principles of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults. Credit management is concerned primarily with managing debtors and financing debts. The objectives of credit management can be stated as safe guarding the companies" investments in debtors and optimizing operational cash flows. Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments.

2.2.1.1 Credit terms

A credit term is a contractual stipulation under which a firm grants credit to customers furthermore these terms give the credit period and the credit limit. According to Kibor, Ngahu & Kwasira (2015), credit term is the period of credit allowed to a customer before payment becomes due which may be short term or long term, depending on the type of loans; secured, unsecured or mortgage. 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. Credit term may also include any discount terms which may be offered as an incentive for prompt payment to reduce the risk of non-payment or grace period before starting the repayment.

2.2.1.2 Credit standards

There are various credit standards that an organization should put in place to ensure that credit management is done effectively. Traditionally most banks have relied on subjective judgment to assess the credit risk of a corporate borrower. Essentially, bankers used information on various borrower characteristics – such as character

(reputation), capital (leverage), capacity (volatility of earnings), conditions (purpose of the loan), and collateral in deciding whether or not to make a given loan. These characteristics are commonly referred to as the 5 Cs. Commercial banks use the 5Cs theoretical model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help Commercial banks to increase loan performance, as they get to know their customers better. These 5Cs are: 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 and Forgy, 2005). This is the personal impression the client makes on the potential lender. The factors that influence a client can be categorized into personal, cultural, social and economic factors (Psillaki, Tsolas & Margaritis, 2010). The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment. Commercial banks 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.

2.2.1.3 Credit policy

According to Owino (2013), bank credit policy is a statement of its philosophy, andards, and guidelines that its employees must observe in granting or refusing a loan request. These policies determine which retail or corporate clients the commercial banks approved for loans and which will be avoided, and must be based on the bank lending laws and regulations.

2.2.1.4 Collection effort/policy

There are various policies that lenders put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firms bills in time. Rauf, Lebbe & Mulafara (2018) argue that credit collection policies are the systems and procedures which a bank has in place to secure payment from its customers when payment becomes due. These systems are set out to follow up any late payment by employing procedures such as letter, telephone calls or personal visit. They will come into operation only when a

customer's account becomes overdue. Rajedom (2010), defines a collection effort as the procedure an institution follows to collect past due account. Collection policy refers to the procedures micro finance institutions use to collect due accounts. The collection process can be rather expensive in terms of both product expenditure and lost good will. Methods used by commercial banks could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements (Anderson, Williams & Sweeney, 2009).

2.2.2 Loan performance

Loan performance operates as mortgage information and analytics provider, supplying risk management, financial analysis. According to the International Monetary Fund, a performing loan is any loan in which: interest and principal payments are less than 90 days overdue; less than 90 days' worth of interest has been refinanced, capitalized, or delayed by agreement; and continued payment is anticipated (Bholat, Lastra, Markose, Miglionico & Sen, 2016). Loan performance is based on the idea that a loan contract's income results from an interest rate premium over a rate at which the funds could have alternatively been invested. Hence, it is a rough measure of the surplus the bank could expect if there are no problems during the life of the credit contract. Loan performance is also based on capturing of potential problems by looking at the frequency at which disturbances (e.g. delay of principal and/or interest payment by the borrower, technical default by the borrower, or even insolvency) occurred. Such disturbances imply either a definitive loss of payments for the bank, additional cost due to renegotiations, active involvement in the borrower's firm policy, use of collateral, or perhaps all of these factors. Thus, the higher the frequency of such disturbances, the lower the loan performance (Ewert, Schenk & Szczesny, 2000).

2.3 Review of related literature

Credit management play a fundamental role in minimizing the rate of loan default in microfinance institutions in Uganda. Financial institutions should practice credit management practices due to the following reasons for example as a selection tool, to quantify risk, to aid in decision making processes, and to ensure that only credit

worthy customers qualify for credit. This makes the process of credit assessment an important activity to most lending institutions. Nonperforming loans may be brought about by poor credit risk management, improper supervision by credit officers when assessing borrowers, very long litigation processes and lack of credit assessment especially the 5Cs of credit appraisal model. Failure to observe and implement credit management is one of the causes of loan default and non-performing loans in most microfinance institutions.

2.4 Empirical literature review

2.4.1 Effect of credit terms on loan performance

Credit terms refer to the conditions under which microfinance advances credit to its customers. The credit terms will specify the credit period and interest rates. 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 will have its own interest rate in accordance with the theory of term structure. The interest rates charged is a cost on borrowed funds and may affect the loan performance. Riach (2010), observed that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

2.4.2 Effect of credit standards on loan performance

Kakuru (1998) noted that it's important that credit standards are based on the individual credit application by considering character assessment, capacity, condition, and 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 increases bad debts recovery. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower not making credit payments or defaulting on loaned money. The set of standards that a company or bank uses to determine whether to extend a loan or line

of credit to an applicant. Credit standards may include having a recent good credit history, and a certain income.

2.4.3 Effect of credit policy on loan performance

Banks have credit policies that guide them in the process of awarding credit. The policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals. The method of assessment and evaluation of risk of each prospective applicant are part of a credit control policy (Payle, 1997). Simonson and Hempel (1999), Hsiu-Kwang (1969) and IMF (1997) observe that sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of nonperforming assets, loan classification and provisioning. Batar et al (2008), stated that credit policy provides the basis of all the credit management, it establishes objective standards and parameters to be followed by bank employees responsible for the provision and processing of loans and management. Weston (1982), who stated that credit policies considers credit limit which the firm will extend at a point in time. He further stated that banks should have keen awareness of the need to identify, measure monitor and control credit risks as well as have adequate capital against these risks.

2.4.4 Effect of collection effort/policy on loan performance

Padilla and Pagano (2000), stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions. This policy ensures that all customers pay the firms bills in time. Some customers are slow payers while some are non-payers. When customers are slow to pay or default in payment the microfinance losses funds which could affect its loan performance. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010). Rajan (1995), asserts that collection policy is a guide that ensures prompt payment and regular collections. The collection policy specifies clear-cut collection procedures and

hence dissuades conflicts arising from loan repayment periods, amounts and loan structure (Pandey, 2004). Rajan (1995) stressed that the rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. Thus, collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits. However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors. Kibor, Ngahu & Kwasira (2015) argued, the major concern of any lender while advancing credit is how they will get their money back. Credit risk emanates from the probability that borrowers will default on terms of debt, subsequently leading to high levels of non-performing loans.

2.5 Research gaps

Studies have been done in relation to Credit risk management and loan performance: Empirical investigation of micro finance banks (Ahmed & Malik, 2015; Warsame, 2016), Credit Risk Management and Financial Performance of Microfinance Institutions (Kalu, Shieler & Amu, 2018); however, none of these studies have investigated on credit management on loan performance of SACCOs in Kampala, Uganda. This study therefore seeks to determine the effect of credit management on loan performance of SACCOs in Kampala, Uganda.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter includes the research design, target population, sample size, sample techniques, data collection instruments, validity and reliability of the instruments, data analysis and ethical considerations.

3.1 Research design

This study employed a cross-sectional research design. The research design was preferred for the study because it provided quick, efficient and accurate means of accessing information about the population and it was more appropriate for the study. According to Kothari (2003), research design is the arrangement of conditions for collection, analysis and presentation of data in sequential frameworks to reach the intended end.

The study also used cross sectional survey design using both qualitative and quantitative tools. The quantitative research technique was used because of the desire to solicit and present data numerically whereas qualitative tool was used to collect qualitative data about the variable under study. The justification for using the descriptive cross sectional survey was that it provided a meaningful picture of events and explained respondent's perception and behaviour based on data gathered at a point in time.

3.2 Target population

The target population is the population to which the study findings are generalized (Kothari, 2008). The study was limited to top level credit managers, middle level credit officers and low-level credit officers of UCSCU. Hence, the target population of this study comprised of 80 personnel drawn as respondents from the UCSCU credit department.

3.3 Sample size

The researcher used Slovene's formula in determining the minimum sample size. According to this formula, the sample size was obtained using

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

Where, N = target population, n = sample size and e = level of statistical significance and in this study is 0.05.

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

$$n = \frac{80}{1 + 80(0.05)^2} = \frac{80}{1.2}$$

$$n = 67$$

Therefore, 67 respondents were selected for the study.

3.4 Sampling procedure

The researcher used purposive sampling to get the required information from the respondents. Purposive sampling technique is a sampling technique where the elements in the sample will be selected from the population because they conform to a certain characteristic that the researcher is looking for. This was based on the researcher's judgment in as far as the purpose for which the information was sought for. The researcher used purposive research design because it was more representative sampling technique of typical conditions in the survey. The researcher further employed purposive sampling technique in selecting the participants from a variety of participants (Oso and Onen, 2005).

3.5 Data collection instrument

A structured questionnaire was used to collect data from the sampled respondents. The questionnaire captured data relative to respondents' background and data with

regard to both the independent and dependent variables. The questionnaire further captured data on a Likert for effective analysis.

3.6 Validity and reliability of the research instrument

3.6.1 Validity

This is the extent to which a concept, conclusions or measurement is well founded and clearly corresponds precisely to the real world that is the validity of a measurement tool. It is said to be the degree to which the tool measures what it claims to measure (Mugenda & Mugenda, 2009). The study described the content validity of the research instrument. Given that the content validity cannot statistically be determined, the researcher sook for expert opinion from the university supervisor.

3.6.2 Reliability

A pilot was carried out before the main study. The study involved 10 per cent (8 of the respondents) of the target population. There were 8 respondents who will participated in the pilot test. These respondents were randomly selected and participants were excluded from the main study in order to avoid compromising the study findings of the main study. The rationale for pilot testing was to establish any potential weaknesses in the research instrument.

Reliability being the extent to which results are consistent over time and accurately representative of the total population, it is the consistency of research results if is repeated at different times the same results are obtained (Kothari, 2008). When reliability is upheld, then the research instrument should collect similar results when administered to different sampled populations exhibiting related characteristics. The study employed Cronbach's alpha to test reliability of the research instrument. The Alpha values for each variable under study should not be less than 0.7 for the statements in the instruments to be deemed reliable.

3.7 Data analysis

The collected data underwent cleaning to ensure only adequately and appropriately questionnaires were considered, this was done to get rid of non-responses and extreme outliers. The cleaned data was then coded and analyzed using both the descriptive and inferential statistics with the aid of statistical packages for social sciences (SPSS) version 21 program. Descriptive analysis involved frequencies and percentages for bio data. As part of descriptive analysis, means and standard deviations were employed across all variables (independent and dependent). Mean that was obtained using SPSS was interpreted as below;

Table 3.1: Mean interpretation guide

Mean ranges	Response mode	Interpretation
4.21-5.00	Strongly agree	Very high
3.41-4.20	Agree	High
2.61-3.40	Not sure	Moderate
1.81-2.60	Disagree	Low
1.00-1.80	Strongly disagree	Very low

On the other hand, inferential analysis in the form of regression coefficients was employed. The study findings were presented in form of tables that reflected both descriptive and inferential statistics.

3.8 Ethical considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the researcher obtained an introductory letter from the College of Economics and Management of Kampala International University that introduced him to the concerned respondents for permission to collect data for this study. The researcher acknowledged the authors quoted in this study through citations and referencing and the researcher presented the findings in a generalized manner.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

The researcher presented, interpreted and analyzed the findings under this chapter. The researcher followed the objectives of the study to help in making a thorough analysis. The researcher used tables to present and analyze the findings.

4.1 Bio data of respondents

The bio data of both female and male respondents were considered to be significant in terms of evaluating the effect of credit management on loan performance of UCSCU. The bio data consisted of age, gender, marital status, highest educational level attained, working experience and position in the UCSCU.

Table 4.1a: Bio data of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Age					
Valid	26-30	3	4.5	4.5	4.5
	31-35	48	71.6	71.6	76.1
	36-40	4	6.0	6.0	82.1
	41-45	8	11.9	11.9	94.0
	Above 46	4	6.0	6.0	100.0
	Total	67	100.0	100.0	
Gender					
Valid	Male	50	74.6	74.6	74.6
	Female	17	25.4	25.4	100.0
	Total	67	100.0	100.0	
Marital status					
Valid	Single	6	9.0	9.0	9.0
	Married	48	71.6	71.6	80.6
	Divorced	8	11.9	11.9	92.5
	Widowed	5	7.5	7.5	100.0
	Total	67	100.0	100.0	

Source: Primary Data, 2019

From table 4.1a above, it is indicated that the biggest percentage of respondents were in age bracket of 31–35 years as shown by 71.6%. 11.9% were of 41–45 years, 6% were of 36-40 years and above 46 years and only 4.5% was of 26-30 years. This implies that respondents in age bracket of 31–35 years actively participated in the study. This implies that the group have relevant ideas on answering the questionnaire presented to them well.

From table 4.1a, it was found out that the biggest percentage of respondents were males as shown by 74.6% whereas 25.4% of respondents were females, implying that males were the ones who actively participated in the study.

From table 4.1a, it was found out that 71.6% of respondents were married, followed by 11.9% of respondents who were divorced whereas 9% of respondents were single. Therefore, it was indicated that respondents who were married actively participated in the study.

Table 4.1b: Bio data of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Highest level of education completed					
Valid	Diploma	5	7.5	7.5	7.5
	Bachelor's degree	16	23.9	23.9	31.3
	Masters	44	65.7	65.7	97.0
	PhD	2	3.0	3.0	100.0
	Total	67	100.0	100.0	
Working experience					
Valid	1-3	23	34.3	34.3	34.3
	4-9	42	62.7	62.7	97.0
	10 and above	2	3.0	3.0	100.0
	Total	67	100.0	100.0	
Position Level in the SACCO					
Valid	Low level credit manager	7	10.4	10.4	10.4
	Middle level credit manager	22	32.8	32.8	43.3
	Top level credit manager	38	56.7	56.7	100.0
	Total	67	100.0	100.0	

Source: Primary Data, 2019

From table 4.1b, it was indicated that the biggest percentage of respondents were master's holders as it was revealed by 65.7% of the respondents. This was followed by 23.9% of respondents who were bachelor holders, then 7.5% of the respondents

were diploma holders, 3% of respondents were PhD holders. This implied that information provided by the respondents was valid for the study.

From table 4.1b, it was found out that 62.7% of respondents have worked at the UCSCU for 4-9 years. This was followed by 34.3% of respondents who had a working experience of 1-3 years, followed by 3% for 10 and above years. This implies that majority of respondents were of working experience of 4-9 years.

From table 4.1b, it was found out that 56.7% of respondents were in the top level credit manager position of UCSCU. This was followed by 32.8% of respondents who were in the middle level credit manager positon of the UCSCU and 10.4% were in low level credit manager position of the SACCO. This implies that majority of respondents were in the top level credit manager position of UCSCU.

4.2 Descriptive statistics on research variables

The independent variable in this study was credit management, this variable (IV) was broken into four constructs and these were; credit terms, credit standards, credit policy and credit collection policy of UCSCU.

4.2.1 Descriptive statistics on credit terms of UCSCU

Table 4.2: Descriptive statistics on credit terms of UCSCU

	N	Mean	Std. Deviation	Interpretation
UCSCU has more attractive credit terms to act as an incentive to clients	67	3.85	.359	High
UCSCU's credit terms lead to unnecessary high levels of bad debts and increasing organizations risk	67	3.82	.520	High
UCSCU's loan repayment interest rate and credit worthiness accelerate timely to reduce doubtful debts and associated costs	67	3.31	.608	Moderate
UCSCU has clear method of calculating interest and loan repayment installments while determining the credit period	67	3.51	.533	High
Valid N (listwise)	67			

Source: Primary Data, 2019

From table 4.2, results indicated that credit terms affect loan performance of UCSCU. With respect to UCSCU has more attractive credit terms to act as an incentive to clients, was rated high with average mean (mean = 3.85), implying that UCSCU has more attractive credit terms to act as an incentive to clients. With respect to UCSCU's credit terms lead to unnecessary high levels of bad debts and increasing organizations risk, was rated high with average mean (mean = 3.82), implying that UCSCU's credit terms lead to unnecessary high levels of bad debts and increasing organizations risk. Results indicated that UCSCU's loan repayment interest rate and credit worthiness accelerate timely to reduce doubtful debts and associated costs. This was rated moderately high with an average mean (mean = 3.31). This implies that UCSCU's loan repayment interest rate and credit worthiness accelerate timely to reduce doubtful

debts and associated costs. Results indicated that UCSCU has clear method of calculating interest and loan repayment installments while determining the credit period, this was rated high with average mean of 3.51, implying that UCSCU has clear method of calculating interest and loan repayment installments while determining the credit period.

4.2.2 Descriptive statistics on credit standards of UCSCU

Table 4.3: Descriptive statistics on credit standards of UCSCU

	N	Mean	Std. Deviation	Interpretation
UCSCU has set standards to determine whether to extend a loan to an applicant	67	3.42	.497	High
UCSCU normally assesses client characters before giving loan	67	3.22	.487	Moderate
UCSCU usually consider aspects of collaterals while coming up with credit management	67	3.36	.595	Moderate
UCSCU normally assesses credit history and income of the customer before giving credit to them	67	3.93	.317	High
Valid N (listwise)	67			

Source: Primary Data, 2019

From table 4.3, results indicated that credit standards affect loan performance of UCSCU. Results indicated that UCSCU has set standards to determine whether to extend a loan to an applicant. This was rated high with average mean (mean = 3.42). This implies UCSCU has set standards to determine whether to extend a loan to an applicant.

Results further indicated that UCSCU normally assesses client characters before giving loan. This was rated moderately high with average mean (mean = 3.22) which implied

that UCSCU normally assesses client characters before giving loan. Also results indicated that UCSCU usually consider aspects of collaterals while coming up with credit management. This was rated moderately high at average mean (mean = 3.36). This implies that UCSCU usually consider aspects of collaterals while coming up with credit management.

The results indicated that UCSCU normally assesses credit history and income of the customer before giving credit to them, this was rated high with average mean (mean = 3.93). This highly implied that UCSCU normally assesses credit history and income of the customer before giving credit to them.

4.2.3 Descriptive statistics on credit policy of UCSCU

Table 4.4: Descriptive statistics on credit policy of UCSCU

	N	Mean	Std. Deviation	Interpretation
UCSCU has appropriate credit policies to ensure that credit administration is done effectively	67	3.73	.592	High
UCSCU's credit policy helps to mitigate risks to prevent financial losses	67	3.67	.637	High
UCSCU has a comprehensive credit policy that communicates a consistent standard to customers	67	2.43	.763	low
UCSCU's credit policy enable assess risk of losses associated with credit extension to customers	67	2.85	.530	Moderate
Valid N (listwise)	67			

Source: Primary Data, 2019

From table 4.4, results indicated that credit policy affect loan performance of UCSCU. Results indicated that UCSCU has appropriate credit policies to ensure that credit

administration is done effectively. This was rated high and was indicated by average mean (mean = 3.73). This implies UCSCU has appropriate credit policies to ensure that credit administration is done effectively. Results indicated that UCSCU's credit policy helps to mitigate risks to prevent financial losses. This was rated high and indicated by average mean (mean = 3.67). This implies that UCSCU's credit policy helps to mitigate risks to prevent financial losses. Results further indicated that UCSCU has a comprehensive credit policy that communicates a consistent standard to customers. This was rated low with average mean (mean = 2.43). This implied that UCSCU does not have a comprehensive credit policy that communicates a consistent standard to customers.

It was also indicated that UCSCU's credit policy enable assess risk of losses associated with credit extension to customers. This was rated moderately high at average mean (mean = 2.85). This implied that UCSCU's credit policy enable assess risk of losses associated with credit extension to customers.

4.2.4 Descriptive statistics on credit collection policy of UCSCU

Table 4.5: Descriptive statistics on credit collection policy of UCSCU

	N	Mean	Std. Deviation	Interpretation
UCSCU consistently and continuously review active borrowers files	67	3.31	.608	Moderate
UCSCU has effective penalties on default and late repayment and are well known to the borrower	67	2.43	.763	Low
UCSCU normally send prompt notification to the borrower in event of late loan payments or default	67	3.22	.487	Moderate
UCSCU has strict debts collection deadlines and are clear to the borrower	67	3.36	.595	Moderate
Valid N (listwise)	67			

From table 4.5, results indicated that credit policy affect loan performance of UCSCU. Results indicated that UCSCU consistently and continuously review active borrowers files. This was rated moderately high and was indicated by average mean (mean = 3.31). This implies UCSCU consistently and continuously review active borrowers files. Results indicated that UCSCU has effective penalties on default and late repayment and are well known to the borrower. This was rated low and indicated by average mean (mean = 2.43). This implies that UCSCU does not have effective penalties on default and late repayment and are well known to the borrower. Results further indicated that UCSCU normally send prompt notification to the borrower in event of late loan payments or default. This was rated moderately high with average mean (mean = 3.22). This implied that UCSCU normally send prompt notification to the borrower in event of late loan payments or default.

It was also indicated that UCSCU has strict debts collection deadlines and are clear to the borrower. This was rated moderately high at average mean (mean = 3.36). This implied that UCSCU has strict debts collection deadlines and are clear to the borrower.

4.2.5 Descriptive statistics on loan performance of UCSCU

Table 4.6: Descriptive statistics on loan performance of UCSCU

	N	Mean	Std. Deviation	Interpretation
UCSCU has a relatively large loan portfolio	67	2.43	.763	Low
UCSCU has a limit on loan size advanced to borrowers	67	3.67	.637	High
UCSCU has many cases of loan defaults	67	3.67	.637	High
UCSCU's returns from interest charged on loans are high	67	3.67	.637	High
UCSCU has several cases of non-performing loans	67	1.99	.807	Very low
Valid N (listwise)	67			

From table 4.6, results indicated that the level of loan performance of UCSCU. Results indicated that UCSCU has a relatively large loan portfolio, which was low and was indicated by average mean (mean=2.43). This implies that UCSCU does not have a relatively large loan portfolio. Further, UCSCU has a limit on loan size advanced to borrowers and was highly rated by average mean (mean=3.67), and this implied that UCSCU has a limit on loan size advanced to borrowers. results indicated that UCSCU has many cases of loan defaults and this was rated high with an average mean (mean = 3.67). This implies that UCSCU has many cases of loan defaults.

Results indicated that UCSCU's returns from interest charged on loans are high. This was rated high and indicated by average mean (mean = 3.67). This implies that UCSCU's returns from interest charged on loans are high. Results further indicated that UCSCU has several cases of non-performing loans. This was rated very low with average mean (mean = 1.99). This implied that UCSCU has several cases of non-performing loans.

4.3 Regression analysis on research variables

4.3.1 Effect of credit terms on loan performance of UCSCU

The regression results on credit terms and loan performance of UCSCU were as follows;

Table 4.7A: Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.478[a]	.229	.217	1.75791

a. Predictors: (Constant), Credit terms

From table 4.7A, results indicate that $R^2 = 0.229$, therefore, credit terms contribute towards loan performance of UCSCU by 22.9% (0.229*100).

Table 4.7B: Analysis Of Variance (ANOVA)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.582	1	59.582	19.281	.000[b]
	Residual	200.866	65	3.090		
	Total	260.448	66			

a. Dependent Variable: Loan performance

b. Predictors: (Constant), Credit terms

From table 4.7B, results indicated that the sig-value of credit terms is 0.000. This value is less than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit terms statistically and significantly affects loan performance of UCSCU.

Table 4.7C: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.558	2.713		1.312	.194
	Credit terms	.819	.187	.478	4.391	.000

a. Dependent Variable: Loan performance

The results in table 4.7C, indicated that credit terms is positively (β=0.819) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. The sig. value of credit terms is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit terms significantly affect UCSCU's loan performance. This indicates that an increase in credit terms increases loan

performance of UCSCU and a decrease in credit terms decreases loan performance of UCSCU.

4.3.2 Effect of credit standards on loan performance of UCSCU

The regression results on credit standards and loan performance of UCSCU were as follows;

Table 4.8A: Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.387[a]	.150	.137	1.84545

a. Predictors: (Constant), Credit standards

From table 4.8A, results indicate that $R^2 = 0.150$, therefore, credit standards contribute towards loan performance of UCSCU by 15% (0.150*100).

Table 4.8B: Analysis Of Variance (ANOVA)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.079	1	39.079	11.475	.001[b]
	Residual	221.369	65	3.406		
	Total	260.448	66			

a. Dependent Variable: Loan performance

b. Predictors: (Constant), Credit standards

From table 4.8B, results indicated that the sig-value of credit standards is 0.001. This value is less than the level of statistical significance (sig.), alpha ($\alpha = 0.05$). This

implies that the regression analysis of credit standards statistically and significantly affects loan performance of UCSCU.

Table 4.8C: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.388	2.680		2.384	.020
	Credit standards	.650	.192	.387	3.387	.001

a. Dependent Variable: Loan performance

The results in table 4.8C, indicated that credit standards is positively (β=0.650) and statistically and significantly (p-value=0.001) affect loan performance of UCSCU. The sig. value of credit standards is 0.001 and this is less than the level of statistical significance value of 0.05 and this implies that credit standards significantly affect UCSCU's loan performance. This indicates that an increase in credit standards increases loan performance of UCSCU and a decrease in credit standards decreases loan performance of UCSCU.

4.3.3 Effect of credit policy on loan performance of UCSCU

The regression results on credit policy and loan performance of UCSCU were as follows;

Table 4.9A: Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.840[a]	.706	.701	1.08598

a. Predictors: (Constant), Credit policy

From table 4.9A, results indicate that $R^2 = 0.706$, therefore, credit policy contribute towards loan performance of UCSCU by 70.6% (0.706*100).

Table 4.9B: Analysis Of Variance (ANOVA)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	183.790	1	183.790	155.840	.000[b]
	Residual	76.658	65	1.179		
	Total	260.448	66			

a. Dependent Variable: Loan performance

b. Predictors: (Constant), Credit policy

From table 4.9B, results indicated that the sig-value of credit policy is 0.000. This value is less than the level of statistical significance (sig.), alpha ($\alpha = 0.05$). This implies that the regression analysis of credit policy statistically and significantly affects loan performance of UCSCU.

Table 4.9C: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.903	1.012		2.867	.006
	Credit policy	.988	.079	.840	12.484	.000

a. Dependent Variable: Loan performance

The results in table 4.9C, indicated that credit policy is positively (β=0.988) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. The sig. value of credit policy is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit policy significantly affects UCSCU's loan performance. This indicates that an increase in credit policy increases loan performance of UCSCU and a decrease in credit policy decreases loan performance of UCSCU.

4.3.4 Effect of credit collection policy on loan performance of UCSCU

The regression results on credit collection policy and loan performance of UCSCU were as follows;

Table 4.10A: Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612[a]	.375	.365	1.58273

a. Predictors: (Constant), Credit collection policy

From table 4.10A, results indicate that $R^2 = 0.375$, therefore, credit collection policy contribute towards loan performance of UCSCU by 37.5% (0.375*100).

Table 4.10B: Analysis Of Variance (ANOVA)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	97.620	1	97.620	38.969	.000[b]
	Residual	162.828	65	2.505		
	Total	260.448	66			

a. Dependent Variable: Loan performance

b. Predictors: (Constant), Credit collection policy

From table 4.10B, results indicated that the sig-value of credit collection policy is 0.000. This value is less than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit collection policy statistically and significantly affects loan performance of UCSCU.

Table 4.10C: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.440	1.772		2.506	.015
	Credit collection policy	.892	.143	.612	6.243	.000

a. Dependent Variable: Loan performance

The results in table 4.10C, indicated that credit collection policy is positively (β=0.892) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU.

The sig. value of credit collection policy is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit collection policy significantly affects UCSCU's loan performance. This indicates that an increase in credit collection policy increases loan performance of UCSCU and a decrease in credit collection policy decreases loan performance of UCSCU.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Under this chapter the researcher discussed and gave conclusion to the major findings of the study, in light of the objectives and research questions. The researcher also presented some recommendations for credit management and loan performance of UCSCU.

5.1 Discussion of findings

5.1.1 Effect of credit terms on loan performance of UCSCU

The study found out that credit terms is positively (β=0.819) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. This was in support with recommendation of Riach (2010), who observed that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

5.1.2 Effect of credit standards on loan performance of UCSCU

The study found out that credit standards is positively (β=0.650) and statistically and significantly (p-value=0.001) affect loan performance of UCSCU. This was in agreement with view of Kakuru (1998) who noted that 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 increases bad debts recovery.

5.1.3 Effect of credit policy on loan performance of UCSCU

The study found out that credit policy is positively (β=0.988) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. This was in support with the view of Simonson and Hempel (1999), Hsiu-Kwang (1969) and IMF (1997) who observed that sound credit policy would help improve prudential oversight of

asset quality, establish a set of minimum standards, and apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of nonperforming assets, loan classification and provisioning.

5.1.4 Effect of credit collection policy on loan performance of UCSCU

The study found out that credit collection policy is positively (β=0.892) and statistically and significantly (p-value=0.000) affect loan performance of UCSCU. This was in agreement with view of Padilla and Pagano (2000), who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.

5.2 Conclusions of the study

The conclusions were based on research objectives of the study that credit management variables have on loan performance of UCSCU. According to the findings credit terms have a positive significant effect on loan performance of UCSCU. An increase in credit terms increases loan performance of UCSCU and a decrease in credit terms decreases loan performance of UCSCU.

According to the findings credit standards statistically and significantly affects loan performance of UCSCU. An increase in credit standards increases loan performance of UCSCU and a decrease in credit standards decreases loan performance of UCSCU.

According to the findings credit policy have a positive significant effect on loan performance of UCSCU. An increase in credit policy increases loan performance of UCSCU and a decrease in credit policy decreases loan performance of UCSCU.

According to the findings credit collection policy have a positive significant effect on loan performance of UCSCU. An increase in credit collection policy increases loan performance of UCSCU and a decrease in credit collection policy decreases loan performance of UCSCU.

5.3 Recommendations

In regard to credit terms, UCSCU should effectively manage its interest rate for loan repayment and credit worthiness to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

In regard to credit standards, UCSCU should normally assesses credit history and income of the customer before giving credit to them; analyse past borrowers and market conditions to limit the risk of a borrower not making credit payments or defaulting on loaned money; and should normally assess market conditions risk of a borrower to limit loan.

In regard to credit policy, UCSCU enhance its credit policy for cross-functional cooperation especially between the credit and sales departments; UCSCU should have effective penalties put on default and late repayment and are well known to the borrower and the UCSCU should often charge penalties in case of delayed loan payments.

In regard to collection policy, UCSCU should use auctioneers to recover loans and should normally sale of the property to recover loans; should have effective penalties to be put on default and late repayment and are well known to the borrower; should often charge penalties in case of delayed loan payments; should sale of the property to recover loans; and should write off interest and allow the customers to pay the principal.

5.4 Contribution to knowledge

The study contributed to existing knowledge in the following ways; To the management, the study developed great ideas for the management of UCSCU about more on credit management; which included credit terms, credit standards, credit policy and credit collection policy; that have been analyzed and will help UCSCU to make priorities in order to meet its objectives as these among others affect its loan performance. To the community, the study findings helped UCSCU for comprehensively receive customers' complaints to the management to provide

possible and appropriate solutions. This will improve on loan performance once they receive the feedback to these challenges. To academicians, the study clearly discussed constructs of independent and dependent variables and clearly indicated the gaps that existed from previous studies as explained from the discussion of the findings section.

5.5 Limitations to the study

There were various limitations to this study that threatened the research validity. To address this, issue the researcher claimed an allowance of 5% margin of error at 0.05 level of significance. Measures were also indicated in order to minimize, if not to eradicate the threats to validity of the research findings of the study.

There was attrition/mortality in that not all questionnaires were returned completely answered yet some failed to be retrieved back due to circumstances on the part of the respondents such as travels, sickness, hospitalization and refusal/withdrawal to participate. In this case, the researcher received more respondents by exceeding the minimum sample size. The respondents were also reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

The research instruments on the study were not standardized. Therefore, there was validity and reliability test done to produce a credible measurement of the research variables of the study.

During the administration of the questionnaires, the research assistant brought about inconsistency in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents.

5.6 Areas for future research

Future research can be undertaken on the influence of credit risk management on financial performance in deposit taking microfinance Institutions in Uganda.

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APPENDICES

APPENDIX I

QUESTIONNAIRE

Dear Respondents;

I Makoha Paul, a student of Kampala international University of College of Economics and Management finalizing my Degree in Bachelors of Business Administration. As part of my requirement for the Degree award, I have to present a research report. The study is on credit management and loan performance of UCSCU.

I am now on my field part of collecting information for my research report and you are being requested to respond to the various questions in the questionnaire attached.

The information gathered from this questionnaire will be used purely for research purposes. Thank you for taking the time and effort to complete this questionnaire. Your participation is voluntary and you may withdraw from the survey at any stage. I shall be grateful for your cooperation in this regard.

SECTION A: BIO DATA

Please place a cross (X) in the block that applies to you.

1. **Age**

   26-30 ☐ 31-35 ☐ 36-40 ☐

   41-45 ☐ Above 46 ☐

2. **Gender**

   Male ☐ Female ☐

3. **Marital Status**

   Single ☐ Married ☐ Divorced ☐ Widowed ☐

4. **Highest Education Level**

   Diploma ☐ Bachelor's Degree ☐ Masters ☐ PhD ☐

5. **Working Experience In Years**

1 – 3 ☐ 4 – 9 ☐ 10 and Above ☐

6. **Position Level in the SACCO.....**

Please kindly indicate the extent to which you agree or disagree with the following statements by putting a tick that best reflects variable, using the scale given:

Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
1	2	3	4	5

SECTION B: Credit management

SN	Variable	SD	D	NS	A	SA
	Credit terms					
1	UCSCU has more attractive credit terms to act as an incentive to clients					
2	UCSCU's credit terms lead to unnecessary high levels of bad debts and increasing organizations risk					
3	UCSCU's loan repayment interest rate and credit worthiness accelerate timely to reduce doubtful debts and associated costs					
4	UCSCU has clear method of calculating interest and loan repayment installments while determining the credit period					
	Credit standards					
1	UCSCU has set standards to determine whether to extend a loan to an applicant					
2	UCSCU normally assesses client characters before giving loan					
3	UCSCU usually consider aspects of collaterals while coming up with credit management					
4	UCSCU normally assesses credit history and income of the customer before giving credit to them					

	Credit policy					
1	UCSCU has appropriate credit policies to ensure that credit administration is done effectively					
2	UCSCU's credit policy helps to mitigate risks to prevent financial losses					
3	UCSCU has a comprehensive credit policy that communicates a consistent standard to customers					
4	UCSCU's credit policy enable assess risk of losses associated with credit extension to customers					
	Collection effort/policy					
1	UCSCU consistently and continuously review active borrowers files					
2	UCSCU has effective penalties on default and late repayment and are well known to the borrower					
3	UCSCU normally send prompt notification to the borrower in event of late loan payments or default					
4	UCSCU has strict debts collection deadlines and are clear to the borrower					

SECTION C: Loan performance

S/N	Variable	SD	D	NS	A	SA
1	UCSCU has a relatively large loan portfolio					
2	UCSCU has a limit on loan size advanced to borrowers					
3	UCSCU has many cases of loan defaults					
4	UCSCU's returns from interest charged on loans are high					
5	UCSCU has several cases of non-performing loans					

"Thank you for your participation"

APPENDIX II

ATTACHMENT LETTER TO THE FIELD

KAMPALA
INTERNATIONAL
UNIVERSITY

Ggaba Road, Kansanga* PO BOX 20000 Kampala, Uganda
Tel: +256 777 295 599, Fax: +256 (0) 41 - 501 974
E-mail: mugumetm@gmail.com,
* Website: http://www.kiu.ac.ug

COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE

APRIL, 17th/2019

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTORY LETTER FOR MAKOHA PAUL 1163-05014-05487

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration Accounting and Finance, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding his research.

TOPIC: - CREDIT MANAGEMENT AND LOAN PERFORMANCE OF SACCOS IN KAMPALA, UGANDA.

CASE STUDY: - UGANDA COOPERATIVES SAVINGS AND CREDIT UNION.

Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

17/04/2019

DR. JOSEPH B.K. KIRABO
HOD – ACCOUNTING AND FINANCE
0772323344

APPENDIX III

ATTACHMENT LETTER FROM THE FIELD

UGANDA CO-OPERATIVE SAVINGS AND CREDIT UNION LIMITED

P.O. Box 6203 KAMPALA, UGANDA, (E.A)

Registered No. 2725 under Uganda Co-operative Societies Act 1970.
Affiliated with ACCOSCA

Head Office & Training Centre
10 kms Bombo Road, Maganjo
Plot No. 239
Tel: 256-414-233601
Fax: 256-414-233598
E-mail: info@ucscu.coop
Website: www.ucscu.coop

5th June 2019

The Head Of Department
Accounting and Finance
Kampala International University

Dear sir/madam

RE: CONFIRMATION OF MAKOHA PAUL 1163-05014-05487

This is to confirm that Makoha Paul carried out his research at Uganda Cooperative Savings and Credit Union and he was availed with all the necccessry information needed for his Research.

We hope the information shared with him shall be treated with utmost confidentiality

Yours faithfuly

Dr. Sylivester Ndiroramukama
CHIEF EXECUTIVE OFFICER

UGANDA COOPERATIVE SAVINGS AND CREDIT UNION LTD
PLOT 239 MAGANJO
KAMPALA - BOMBO ROAD
TEL: 256-414-233601
FAX: 256-414-233598
P.O. BOX 6203 KAMPALA