# THE EFFECTS OF SACCOs ON BUSINESS GROWTH. A CASE STUDY OF ISHAKA UNITED PEOPLE'S SACCO BUSHENYI –ISHAKA MUNICIPALITY, BUSHENYI DISTRICT.

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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## DECLARATION

I Namwebe Zainab, declare that this is my own work and has not been presented to any other university for any award.

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SIGNITURE: ............................................

DATE: 23/5/2012........................................

## SUPERVISOR'S APPROVAL

This research dissertation has been done under my supervision and is submitted to the College of Economics and Management Sciences with my approval as a supervisor.

**DR KINYATTA STANLEY**

**(SUPERVISOR)**

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DATE: 23rd-05/2012.

# DEDICATION

This work is dedicated to my dear mother Hajjat Sebowa for her tireless and sacrificial efforts, financial support and spiritual encouragement that formed a strong academic foundation for me up to this level.

The work is further dedicated to my late father Hajj Sebowa for the background he gave me and the legacy he left, its his efforts that am seeing my way through, May the Almighty Allah forgive him wherever he is.

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**Everlasting Peace and Blessings to you all.**

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## LIST OF ACRONYMS

| | |
|---|---|
| **CECFIS:** | Co-operative Financial Services |
| **CUDIWU:** | Credit Union Development In Western Uganda |
| **FEFAS:** | Farmer Empowerment through Agriculture Services |
| **HID:** | Human Integrated Development |
| **IFAPI:** | Integrated Finance and Agricultural Production Initiative |
| **MOP:** | Micro Finance Outreach Plan |
| **PACE:** | Promoting Area Co-operative Enterprises |
| **PEAP:** | Poverty Eradication Action Plan |
| **RFSP:** | Rural Financial Service Programmes |
| **SACCO:** | Savings And Credit Co-operatives Organization |
| **SACCOL:** | Savings And Credit Co-operatives Organization Ltd |
| **UCA:** | Uganda Co-operative Alliance |

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## ABSTRACT

Due to the declining performance of loan clients and their performance which has been dilapidating over years despite the decentralization process by the government which has brought financial services nearer to people, there has been a drastic decline of people borrowers from banks.

The process of client evaluation and capability to pay back through identification, measurement and other administrative concerns are emphasized. Whether this is the cause of poor performance of loans and their collections, is the subject of the investigation, and if the management does not look into it, it will continue affecting the performance of loans in the SACCO.

The main purpose of the study was to examine the effects of SACCOs on business growth so that the livelihood of the common people can be uplifted in Bushenyi - Ishaka municipality Bushenyi district.

The survey was carried out among 66 clients and 14 administrators who were randomly selected.

The researcher designed general questionnaires and interview guides which were distributed to respondents and then a descriptive design was applied to describe the variable.

The data collected indicated that there was a strong relationship between past and present loans which helped Ishaka united peoples SACCO to determine the client's capacity to pay back loans in the required schedule. Thus the results indicated that there is need to promote business activity through granting mortgage loans.

# CHAPTER ONE

# INTRODUCTION OF THE STUDY

## 1.0 Background

According to neoclassical growth theory by Harrod-Dommar and Robert Solow's, savings are not an end in themselves however; they play an important role in sustaining growth and development. Through savings there will be capital accumulation leading to investments hence economic growth and ultimately development. Coupled with the above, a high saving economy accumulates assets faster, and thus grows faster, where by creating room for those who don't have to borrow and for those who had saved their money to plan for them than does a low saving economy (Lipsey and Chrystal, 1995).

However, in developing countries like Uganda, there are low levels of saving culture owing to poor underdeveloped stock markets, dominance of urban based commercial banks, Micro Deposit Taking Institutions (MDIs) and non regulated Micro finance institutions in the financial markets as vehicles for savings and leaving money lending as the only option. Thus Savings and Credit Cooperatives (SACCOs) are intended to offer an alternative to improve the above un-desirable situation in low income countries "lending institution".

Savings and Credit Co-operatives (SACCOs) are community membership-based financial institutions that are formed and owned by their members in promotion of their economic interests. These institutions mobilize and intermediate savings exclusively with in their membership under the co-operative statute 1991.

Furthermore, they are one of the several types of cooperatives that are unique microfinance institutions categorized under tier four in the financial market and therefore not regulated by Bank of Uganda.

They are being promoted and developed by Uganda Co-operative Alliance Ltd (UCA) in an effort to alleviate poverty within the framework of Poverty Eradication Action Plan (PEAP),through donor funded projects like Credit Union Development in Western Uganda (CUDIWU),Community Empowerment through Co-operative Financial Services (CECFIS), Promoting Area Co-operative Enterprises (PACE), Farmer Empowerment Through Agriculture Services(FETAS) and Integrated Finance and Agricultural Production Initiative (IFAPI) although presently, the government of Uganda is also fully supportive of SACCOs' establishment, development under its rural financial services strategy. Therefore, Savings and Credit Co-Operatives (SACCOs), one of the several types of co-operatives are unique, legal, member-based Micro-Finance Institutions (MFIs) and unlike many other Micro-Finance Institutions, SACCO owners are also the users of the service that the SACCOs offer.

The SACCOs have gained popularity as accelerators of development in rural areas that, the cabinet of Uganda in August 2005 passed the 'SACCO PLAN' aimed at developing a financial infrastructure of Savings and Credit Co-Operatives for effective implementation of Rural Financial Service Programmes (RFSP). Consequently, an agreement was signed between Uganda Co-operative Alliance Limited (UCA) and Government of Uganda (GOU) (Agency and GOU Agreement, 2006).

Being socio-economic institutions, if well managed and organized, the SACCOs can contribute favorably to bringing about Human Integrated Development (HID), a fact stated by Syed (1991). He further noted that the SACCOs are a tested instrument for promoting integrated development through a self help scheme that makes man a total human being (Syed, 1991).

## 1.1 Historical perspective of cooperatives in Uganda

The formation of the Savings and Credit Cooperatives in Uganda had three main influences according to Lubwama (1995) and these were Campbell, the Church and the Government.

### 1.1.1 Campbell influence

Mr. Campbell drafted Uganda's cooperative ordinance 1946, together with the rules and bye laws. He had been a registrar of cooperatives in Srilanka and his experience in that country influenced the formation of SACCOs in Uganda. He initiated a departure from general impression by the colonial government and other opinion leaders that debt didn't constitute a serious problem in Uganda. It should be pointed out that, the title THRIFT and LOAN rather than Savings and Credit was originally used until the late 1960s (Kabuga and Batarinyebwa 1995).

Lastly the Campbell influence led to the formation of first Savings and Credit Cooperative. This was the African Civil Servants Co-operatives Thrift and Loan Society Limited of Kampala.

### 1.1.2 The Church influence

Kabuga and Batarinyebwa, (1995), mention that the growth and rapid expansion of SACCOs was by the efforts of church clergy especially the Catholics who got involved in encouraging their followers to actually participate in the Programme. The idea was to help people establish lasting socio-economic structure and to encourage self- help, self -reliance and initiative.

### 1.1.3 The Government influence

When the department for cooperative development launched the Agricultural cooperative credit scheme in 1961, consideration was given to the introduction of the rural savings scheme. This was based on the rationale that credit without savings is of

little value. It is like putting a cart before the horse (Kabuga and Batarinyebwa, 1995). Their observation contradicts with that of renown microfinance noble prize winner, Dr Muhammad Yunus, the founder of the Grameen Bank, Bangladesh's "bank for the poor", who believes that, 'If we are looking for one single action which will enable the poor to overcome their poverty, we would focus on credit'. (Grameen Bank, 2001)
The credit scheme having got off to a good start and recognizing the important role SACCOs play in the mobilization of saving and giving of loans to its members, government came up with a policy statement in 1962 like it had done in 2006 about establishment of SACCOs especially at sub counties as channel for prosperity for all funds.

The policy statement dealt with the promotion and development of the Thrift and Loan Society. It was then that a saving and credit section was created in the department for the purpose of concentrating on the promotion guidance and development of the savings and credit scheme. As if that was not enough, in 1970, new model bye- laws for SACCOs were framed and adopted to suit the circumstances. However, presently SACCOs are regulated by the 1991 cooperative societies' statute and 1992 Cooperatives Societies Regulations and Bye Laws suiting each SACCO.

MFPED (2000) defines a lending institution as a financial institution where individuals and organizations acquire loans and other financial related services when in need of improving their business status. However, according to Uganda's Prosperity for All Programs (Bona-Bagagawalle) launched in 2007, business must acquire loans to pay them back if they are to achieve their targeted goals for them to expand their business. This was started in order to improve their household income levels and to improve their standards of living through different business ventures.
In an attempt by the government to improve, avail, uplift, finance and support mostly the "poor".

MFPED (2000) also asserts that microfinance institutions are mutual lending and savings bank with a very high percentage of their available capital and funds in mortgage and are owned by either government financial groups or depositors themselves who have a major influence about institutions policies. Similar to cooperatives, in which depositors are the main stakeholders in the bank's policies. Thus they are required to open a savings account first with the bank for a normal amount before you are eligible for a loan. Different types of loans which include fixed rate mortgage loans, agricultural loans, education loans adjustable rate mortgage loans, land contract mortgage, urban administration mortgage loans and development loans. Prosperity for all still describes village banks as locally targeted and oriented financial institutions aimed at poverty eradication as an initiative for family development and house hold improvements to those who survive on less than one dollar a day.

## 1.2 Statement of the problem

Though the government has introduced village banking through SACCOs in its attempt to help improve standards of living and enhance business, family growth and development among the people living under poverty, the conditions has continued to worsen especially to the majority local population in remote areas (Prosperity for all Report, November 2009).

Notably the Government of Uganda has established 'prosperity for all 'the English version of 'Bona Bagagawalle' (BB) in Luganda; where funds are to be extended to communities by Post Bank Uganda through SACCOs. In response to this, many sub counties in Uganda which did not have SACCOs have rushed to forming SACCOs while those which had formed them earlier are positioning them selves in an attempt to benefit from 'prosperity for all' programme.

Currently, almost every sub county in Bushenyi District has at least one SACCO. The question is whether the existing SACCOs have an effect to the lending culture? This is because improved levels of lending with good outcomes would lead to capital accumulation, investment, hence employment and poverty alleviation. There fore, the study is intended to examine the effects of SACCOs as lending institution on the people's development in Bushenyi District.

### 1.3 Purpose of the study

The purpose of the study was to examine the effects of SACCOs as lending institutions on business growth.

### 1.4 Objectives of the study

The study aimed at the following;

1. To find out the types of loans given by Ishaka United People's SACCOs Bushenyi - Ishaka Municipality Bushenyi district
2. To establish the criteria Ishaka United People's SACCOs use in business growth analysis.
3. To examine the relationship between the past and present loans in Ishaka United People's SACCOs.

### 1.5 Research questions

The study was guided by the following research questions

1. What kind of loans do Ishaka United People's SACCOs give to their clients in Bushenyi Ishaka Municipality, Bushenyi district?
2. Which criteria do Ishaka United People's SACCOs use in business growth analysis?
3. What is the relationship between present and past loans in Ishaka United People's SACCOs?

## 1.6 Scope of the study

The study falls in the area of banking and micro finance industry with some implications on loans disbursements, investment, economic growth and development.

The study was conducted in SACCOs, in Bushenyi District which have been in operation for more than two years. The study was carried out for three months and during this period; two sets of questionnaires were administered. One set was administered to the board and management staff while another set was administered to the general membership of SACCOs randomly selected within the vicinity where Ishaka Peoples United SACCO is operating.

The interview rotated around the types of loans given, establishing the criteria used in business growth analysis and to examining the relationship between the past and present loans.

The study was conducted in Bushenyi District SACCOs more especially Ishaka People's United SACCOs due to the following reasons:

- This district has registered a greatest number of SACCOs to the extent almost every sub county has at least a SACCO.
- Membership in these SACCOs is relatively big.
- There has been no evaluation or study in this area on SACCOs effect especially as regards to the being lending institution in the area.
- It has been used as a pilot district in business culture development initiative under Micro Finance Outreach Plan (MOP) in Ministry Of Finance Planning and Economic Development.

### 1.6.1 Geographical scope

The study was confined in Ishaka United People's SACCOs located in Bushenyi - Ishaka Municipality Bushenyi district in Ishaka town and respondents who the majority are depositors in this SACCO will be found in their respective areas.

### 1.6.2 Content scope

The study focused on the effects of SACCOs as lending institutions on the business growth.

### 1.6.3 Time scope

The study covered the period between January 2011 to December 2011.

## 1.7 Significance of the study

The study is especially significant because it will add onto scanty information about SACCOs as lending institutions in the country. As no such study has previously focused on the effect of SACCOs as lending institution, although some effort has been put into understanding of Uganda's urban and peri-urban saving culture (Rich and Kabatalya, 2005).

The study is also particularly significant at this time because there is a strong push by the government through Rural Financial Services Programme (RFSP) to deliver financial services through community based and locally owned organizations, a key objective is to support communities to establish a nation wide infrastructure of SACCOs to enable communities to access financial services, like savings, credit, money transfers and so forth. Hence this study will guide policy makers in particular and the government in general to spearhead the formation, restructuring, strengthening and development of SACCOs from an informed view point.

It will also inspire other scholars to under take a study on lending culture on other financial institutions such as commercial banks and MDIs.

The study will also be of significant to local councils on how they can employ measures to improve business culture in their areas.

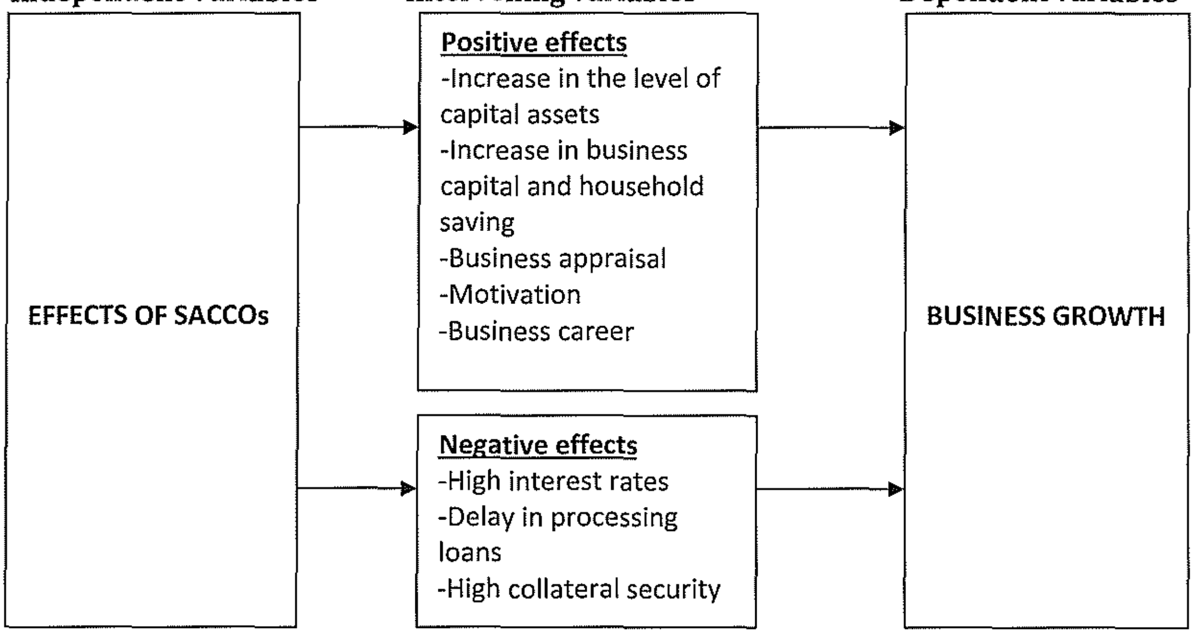
The study will also act as an eye opener to the leaders of village banks and how they can help to develop family income levels.

The study will also be useful in finding out the procedure to be taken to improve personal and family saving cultures to gain income stability.

The study will also add to the existing body of knowledge by stimulating more researchers in the area of study for further research through the findings and subsequent recommendations.

### 1.8 Conceptual frame work

**Independent Variables** **Intervening variables** **Dependent variables**



Inputs will be from local village banks and Savings and Credit Cooperative Organization (SACCOs) where people will be granted low security and interest loans to boost their income earning levels to improve their new economic ventures or businesses. The process of granting loans involves business carrier, motivational and inspirational guidelines, which leads to business appraisal and project identification/advisory services. Thus getting a loan as a resource/input will increase in the level of capital assets which increases business capital and household savings and this will act as an additional source of security to get more loans from banks hence business growth.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

## 2.0 Introduction

This chapter provides a critical review of the issues that have been explored and studied in the existing literature on the effects of SACCOs as lending institutions on business growth. These will include the different types of loans given by SACCOs, the criteria used in business growth analysis and also examining the relationship between the past and present loans in SACCOs.

## 2.1 Meaning of a Savings and Credit Cooperative (SACCO)

A SACCO is one form of a cooperative society whose business is to provide financial services to its members. SACCOs are legal institutions registered under the cooperative laws (1991 Cooperatives Act and 1992 Cooperative Regulations).SACCOs are owned by their members through payment of share capital and membership fees to the institution.

In addition to the above, as per SACCOL (1998), "a savings and credit cooperative (SACCO) is a democratic, unique member driven, self-help, not for profit financial cooperative.

It is owned and governed by members who have the same common bond. A SACCO's membership is open to all that belong to a group, regardless of race, religion, colour, creed, and gender or job status. These members agree to save their money together in the SACCO and to make loans to one another at reasonable rates of interest. Interest is charged to cover the interest cost on saving and the cost of administration .There is no profit paid to any one .The members are the owners and the members decide how their money will be used for the benefit of one another (Bailey, 2001).However, it should be noted that, in Uganda unlike South Africa where the Bailey hails, SACCOs often pay dividends to the members depending on the number of shares one has.

Saving and credit cooperatives (SACCOs) which are known as the credit unions in some other countries are defined as cooperatives which furnish their members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest (Kabuga and Batarinyebwa 1995) an observation that is in agreement with (Bailey, 2001).

The saving and credit cooperatives are usually organized within a group which is already knit together by a bond of common interests such as workers in same factory or members of the same community who are fairly well acquainted with one another (Kabuga and Batarinyebwa 1995).

Further more, the savings and credit cooperatives are cooperative organizations which are guided by the practices, philosophy and principles of the cooperative movement. They differ from the rest of other cooperatives because they are financial cooperative organizations with a social context (Kabuga and Batarinyebwa, 1995).

## 2.2 Concept of loans

Loan sounds quite complicated to imagine but surely, nearly everybody deal with such a word. Many people think that loan is almost always related to bank in today's life. However, loan has wider scope, not only to such institution. It is simply related to the purpose of the loan itself (OXFAM 1987).

Ledger W.J., (1999) defines a loan as a type of debt that entails the redistribution of financial assets over time, between the lender and the borrower. thus in a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount.

Loans are generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan in a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants. Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a typical source of funding (ledger W.J., 1999).

There are three concepts of loan that are familiar in every day situation and these include the following;

**For survival:** People's social status in this world is generally categorized as low-class, middle-class, and high-class. Among the three classes, it seems that low-class is closely related to the concept of loans for survival. Inevitably, bounded by poverty, people of low-class social status tend to face much more difficulties in earning money, compared to that of middle and high classes.

As some of them have no fixed job, they struggle to pay daily cost by taking loans, especially from relatives as well as neighbors. Sometime, they take some foods or goods from neighbor's stalls, and when they get some money, they pay the bill. Unfortunately, very often the money they earn is not always enough to pay the loans. As a result, the loans keep shadowing their lives.

In short, this kind of people takes loans for survival. For them, no loan means no food, and certainly no food no life.

**For Fun or Prestige:** This concept tends to be adopted by middle-class as well as high-class society. They often take loans from certain bank to buy vehicle, house, or apartment. For them, possessing such things will make them easy to enjoy life and to raise their social prestige.

As the price of vehicle, house, or apartment is normally decreasing, it seems that their steps to take the loans are mostly for filling today's needs. Thus, we call this loan concept as for fun or for prestige.

**For Improvement:** Since the idea of getting a better life is so good to plan and to apply, many high-class people, and also some middle-class think strategically for their future financial safety. Thus, they often take loans and manage them for investments, as well as for buying other productive business plan. With such loans, they handle the money to improve their lives quality as well as to secure their future lives.

In this loan concept, such people always think of how the loans can create chances to get beneficial outcomes and exploit them for any potential income in the future. This is what we call loans for improvement (Ledger W.J 1999).

## 2.3 Types of loans

### 2.3.1. Secured loans

A secured loan is a loan in which the borrower pledges some asset (For example a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral — in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain some or all of the amount originally lent to the borrower, for example, foreclosure of a home. From the creditor's perspective this is a category of debt in which a lender has been granted a portion of the bundle of rights to specified property. If the sale of the collateral does not raise enough money to pay off the debt, the creditor can often obtain a deficiency judgment against the borrower for the remaining amount (OXFAM 1987).

#### 2.3.1.1 Types of secured loans

a). A mortgage loan is a secured loan in which the collateral is property, such as a home.

b). A nonrecourse loan is a secured loan where the collateral is the only security or claim the creditor has against the borrower, and the creditor has no further recourse against the borrower for any deficiency remaining after foreclosure against the property.

c). A foreclosure is a legal process in which mortgaged property is sold to pay the debt of the defaulting borrower.

d). A repossession is a process in which property, such as a car, is taken back by the creditor when the borrower does not make payments due on the property. Depending on the jurisdiction, it may or may not require a court order

### 2.3.2. Unsecured loans

Unsecured loans are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages such as credit card debt, personal loans, bank overdrafts, credit facilities or lines of credit and corporate bonds (may be secured or unsecured). The interest rates applicable to these different forms may vary depending on the lender and the borrower. These may or may not be regulated by law (Todaro M.P 1982).

In finance, unsecured loans refers to any type of debt or general obligation that is not collateralized by a lien on specific assets of the borrower in the case of a bankruptcy or liquidation or failure to meet the terms for repayment. In the event of the bankruptcy of the borrower, the unsecured creditors will have a general claim on the assets of the borrower after the specific pledged assets have been assigned to the secured creditors, although the unsecured creditors will usually realize a smaller proportion of their claims than the secured creditors (Todaro M, P 1982).

Mwaniki R (2006) mentions that unsecured loan means the lender relies on your promise to pay it back. They're taking a bigger risk than with a secured loan, so interest rates for unsecured loans tend to be higher. You normally have set payments over an agreed period and penalties may apply if you want to repay the loan early. Unsecured loans are often more expensive and less flexible than secured loans, but suitable if you want a short-term loan (one to five years).

Interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible (Tanzi V 1991).

### 2.3.3. Demand loans

Demand loans are short term loans (typically no more than 180 days) that are atypical in that they do not have fixed dates for repayment and carry a floating interest rate which varies according to the prime rate. They can be "called" for repayment by the lending institution at any time. Demand loans may be unsecured or secured.

A demand loan is a rare form of loan that can be called for complete repayment without any prior warning to the borrower. In other words when the lender demands the money, the borrower must pay it. So unlike a regular loan that is paid in installments and has a defined maturity date, demand loans work on the specific demand of the lender.

Demand Loans sound sinister, but are usually created on a more personal basis, between a pair of longtime business partners. The idea is that the lender is sure the borrower will pay back the loan within a reasonable period of time, so no specifics are discussed. Should something go sour, the lender can demand payment right away. Demand loans are common with new business ventures where it may take time to get the idea up and running. The borrower does not have to worry about installments and loan terms because they have agreed to pay it back once the venture is turning a profit. The borrower may make a small payment every now and then as a gesture, but will usually pay it back when profits allow.

For a lender a demand loan can be quite secure and lucrative. The longer the borrower takes to pay it back, the more interest is earned. However the lender doesn't have to wait until a maturity date, and if they fall on hard times they can call the loan, or if they suspect the borrower will fall on hard times or is deliberately avoiding paying the loan they can demand repayment.

This is a great security measure to ensure repayment. For example if the lender senses or sees the borrower going down a bad financial path, they can call the loan before it defaults. If there is a default with a regular loan the lender may only get a portion of the money back. Think of it as a preemptive strike (OXFAM 1987)

### 2.3.4. Subsidized loans

A subsidized loan is a loan on which the interest is reduced by an explicit or hidden subsidy. In the context of college loans in the United States, it refers to a loan on which no interest is accrued while a student remains enrolled in education. Otherwise, it may refer to a loan on which an artificially low rate of interest (or none at all) is charged to the borrower. Thus for the unsubsidized loan, it is a loan that gains interest at a market rate from the date of disbursement (Wright G 1999).

## 2.4 Granting of mortgage loans

Bank of Uganda (1999) issued a statement that, there is a standard format as mortgages are standard and routine on how they should given to clients/borrower because no borrower anywhere obtains a loan from any lender anywhere without their deal fulfilling these requirements. These are simply "must haves" for any mortgage loan to close and be funded. Because some lenders will not accept some procedures from private lending organizations, consequently your loan officer will need to locate a lender who will accept to be private or if you are getting your best deal from a lender who will not accept a private alternatives would be to produce cancelled checks, or checking account statements which show your bank statement status.

Some lenders may require that your closing funds, down payments (if any) and in some cases, reserves be verified. In this instance, your loan officer will need to have your financial institutions verify the amount of money available in your savings accounts at a given time (Bank of Uganda, 1999)

Wolgergh (2000) asserts that, information regarding your employment such as where you are employed and how long you have been employed are issues for most borrowers with most lenders. The two year time period previous to the time of your application is what is most important here. If you have had three jobs with three different companies or organizations the last two years, your loan officer will need to contact and obtain verification from each of these employers about your employment. But not all borrowers will be subjected to the same type of verification or procedures. The information verified varies from borrowers to borrowers for a number of reasons. Each lender has its guidelines for this but beyond that it could be the borrower's credit profile that matters or it could be the type of loan applied for by the borrower that necessitates.

What should be mentioned here is how your loan officer fits into the verification process and satisfying conditions. With loan officers doing the bulk of this work, it is important to understand that at mortgage march, your loan officer works for you and not the lender. It is the loan officer's job to "punch" your loan through the process to get you the best loan (Kaleshu J, 2009).

Mean while, the lender is there to assess the risk in making this loan available to you. So at times your loan officer may assume almost an advisory role towards the lender in an effort to convince the lender it's a good loan thus not all borrowers will be subjected to the same type of verification. All of this work regarding satisfying issues comes under scrutiny when the loan is reviewed by the lender's underwriting department however (Klein A, 1998).

### 2.5 Business Growth Analysis

Norman M and Thomas W (1993) define business growth analysis as the type of analysis that is conducted on a business with the aim or purpose of identifying the growth pattern of the business. The business growth analysis will reveal any existing needs within the company that will require work for stronger growth. These needs will be addressed through the application of targeted business solutions to the areas of concentration to help stimulate better growth. This analysis examines various units of the business, such as the product the SACCO offers, marketing techniques, environmental studies, human resources, customer service practices, consumer studies, and the study of the competition.

Studying the product of the SACCO as a part of business growth analysis involves a figurative dissection of whatever products or service the company offers. The purpose of this is to identify any defects in the product, the quality of the product in relation other products in similar categories, and the solutions needed to address any deficiencies.

Marketing technique analysis as a part of business analysis involves the study of the methods employed by the company to promote its products. The aim is to find out how effective these methods are and to make any necessary recommendations (Norman M and Thomas W, 1993).

Another factor involved in business growth analysis is the study of consumers and consumer trends in relation to the products and services offered by a business. Studying consumers includes the study of different groups that may be interested in different products offered by a company. For instance, if a company sells items targeted at males in general with different items for teenage boys and for adults, the consumer study will be divided into a study of the behavior of the two groups. The study might ask about the buying habits and spending habits of both groups. It may also ask about the type of advertising each group likes. These are the type of questions that will be answered during a business growth analysis (Norman M and Thomas W, 1993).

A study of the business growth analysis cannot be complete without the study of the competition. This is because the activities of the competition have the ability to affect business growth. If the competition is selling a better quality of product, this will affect the business growth of other companies selling similar items. If the competition is marketing and promoting itself better, this will also affect the business growth of other companies in the same category (Sabana B, 2006).

Mutebile (2009) defined business growth as the ability to pay business loans, increase in current capital assets, and give out mortgages, credits and avoiding receivership to remain in operation.

Makerere University Rural Development Dialogue (MURDD) (2009) mentioned that the challenge in East African Development is lying heavily on extending loans and mortgage services to rural based banks and business. Thus it's about our authorities to encourage financial services to rural areas that will help curb down the rate and level of backwardness on the continent.

Morgan and Marshal (2007), updated different ways of business growth analysis and these include the following;

**Cost of equity**

Cost of equity can be defined as the minimum rate of return that a company must earn on the equity finance portion of its investments in order to leave unchanged the market price of its stock. Most companies use the capital asset pricing method (CAPM) to calculate their cost of equity capital. In the CAPM definition, the cost is equal to the return on risk free securities plus the company's systematic risk (beta) multiplied by the market risk premium.

**Cost of debt**

The cost of debt can be defined by the minimum after tax rate of return that a company must earn on the debt -financed portion of its investments in order to leave unchanged the market price of its stock.

Johnson (1999), states that business growth analysis is a practical, comprehensive and in depth guide to financial modeling designed to cover the modeling issues that are relevant to facilitate the construction of robust and readily understandable models in business analysis of growth in loan availing process.

Basing on Johnson's (1999) extensive experience of building models in business development growth and finance and of training others how to do so mostly in small enterprises, he starts with a review of business functions that are generally most relevant for building intermediate and advanced level of models. It then discusses the principles involved in designing, structuring and building relevant, accurate and readily understandable models in business analysis (including the use o sensitivity analysis techniques) before covering key applications areas such as the modeling of financial statements, cash flow valuation, risk analysis, options and real options. Finally the topic of financial modeling using the above criteria is treated. Practical examples are used throughout and model examples are included.

## 2.6 Relationship between past and present loans

Geller (2009) mentions in his financial analysis and balance of past loans that, the position for new loans are strongly determined by the past loans having considered how much was given and what was the mode of repaying. In his presumption and practice in financial analysis of profit and non profit making organizations, he asserted that past loans determine the procedure and criteria mostly to those who use loans hence it's abundance on invaluable fiscal policies.

Sabana B, (2006) mentions that past loans verify the rate, purpose and criteria of us for new loans as there are no ways to determine loan performance other than considering previous ones. Comprehensive and application of new loans in its attempt to show the importance of comparison between past and present loans before you give out new loans.

Kaleshu J, (2009) also states that building new models and appropriate development in banks coupled with growth in business ideas and evolvement of new business ventures must be hand in hand with maintaining clean and focused use of loan given out by financial institutions.

Ahimbisibwe F, (2007) asserts that businesses should amplify in their current capital assets if their capacity as monetary institutions is to enlarge and get more loans inform of mortgages or otherwise they may not be recognized for their situation and to provide them with resonance and practical foundations to bring financial comparison with other comparable institutions to life.

Klose (2000) gives out a comprehensive guidance on how to build financial models by showing a path from theoretical approaches to more realistic models. The logical development from loan and risk to the analysis of real options is extremely helpful. From daily practice one would recommend this unique strategy to every bank irrespective of status and location, that anyone who carries out banking analysis and strategic financial analysis and especially those interested in risk management, rate and criteria of loan analysis in terms of considering past and present loan situations in businesses as their clients and partners in development.

Considering the rate and criteria of offering mortgage loans, banks have to reconsider the former sheets to balance and decide the practice and handling of credits for new offerings (Ahimbisibwe F, 2007).

Brown (2006) mentions that models in business and finance actively help in training others how to do business comparison especially in banking past statements with a review of expertly analyzing that they are generally most relevant for building intermediate and advanced level models. It also discusses the principles involved in designing, structuring and building relevant, accurate and readily understandable models of past and present financial analysis before covering key application areas such as the loan financial statements, cash flow valuation, risk analysis, options and real options. Thus practical examples are used throughout the banking institutions which are included in all financial institutions.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter presents a background against which data will be gathered. It introduces the various methodology of the study. This section dealt with research design, data collection, data processing and analysis, plus limitations of the study.

## 3.1 Research design

The research design was a cross sectional and this will mainly be qualitative and descriptive in nature. The reason for choosing descriptive design is that it involves describing different types of mortgage loans and the criteria used in business growth analysis most especially in SACCOs. Qualitative research was used to collect detailed data which will be used to answer the objectives of the study.

## 3.2 Study population

The study included top management or board members, manager of the SACCO, the supervisor, the accountant, cashiers, loans officers and business group or clients as the biggest respondents. A number of 80 respondents from 100 total population size was given questionnaires and interview guides. The Manager, Supervisor, Accountant, Cashiers, Loans officers and Clients were chosen because they are the people expected to be having enough experience as regards to the effects of SACCOs as lending institution on business growth. (Krejcie and Morgan 1984)

## 3.3 Sampling strategies

Stratified sampling techniques were used to select the targeted area of study where the samples were chosen from Ishaka Peoples United SACCO. The target samples selected were grouped into strata. This design was chosen because of the proximity to the researcher in views of time and fund constraints.

### 3.4 Sample size and sample selection

The study was carried out at Ishaka Peoples United SACCO main headquarters in Ishaka town. A number of 80 respondents from the SACCO were selected using simple random sampling techniques who represented the whole branch. The composition of the sample population was tabulated as below;

**Table 3.1: Showing the expected respondents.**

| S/n | Respondents | Frequency | Percentages |
|---|---|---|---|
| 1 | Top management | 04 | 05% |
| 2 | Manager | 01 | 1.25% |
| 3 | Accountant | 01 | 1.25% |
| 4 | Supervisor | 01 | 1.25% |
| 5 | Cashiers | 02 | 2.5% |
| 6 | Loans officers | 05 | 6.25% |
| 7 | Clients | 66 | 82.5% |
| **Total** | | **80** | **100%** |

***Source: Primary data***

### 3.5 Data collection methods

Both primary and secondary data were collected. The study began by reviewing the existing literature which is the data that has already been collected by other scholars but relevant to the study topic. Under this source of data magazines, journals, textbooks and internet sources were all used. This helped to establish different types of mortgage loans and the criteria used in business growth analysis a trend which gave a potential picture on the basis of selecting the appropriate sample.

Collection of primary data involved the use of the following instruments.

### 3.5.1 Self administered questionnaire

The staffs to participate in the study filled self administered questionnaires. The questionnaires comprised of both structured and unstructured questions. The study intended to use questionnaires because according to Kakoza (1997), they help to cover a large number of respondents in a relatively short time and can generate reliable data because the respondents answers the questions in their own mood without being affected by the researchers' presence.

### 3.5.2 Interviews

Interviews were administered to participants from the bank. This yielded helpful information to matters related to staff's feelings and responses other people in the bank in both terms and conditions of work. This was necessary in making a reflection on the criteria used in business analysis and in examining relationships between the present and the past loans in SACCO as a lending institution aiming at eradicating poverty among low income earning people.

## 3.6 Validity of the questionnaires

After constructing the questionnaire the researcher contacted the supervisor and two other experts for clear formulation. To establish the validity, the researcher used expert judgment method that was suggested by Gay (1996).

## 3.7 Reliability of the instruments

This refers to consistency of results or measurements. Participants were drawn from across-section of people directly involved in the management of the SACCO. A variety of instruments were used after being pre-tested to collect the data. The Questionnaires and interviews were used.

### 3.8 Study Procedures

The researcher secured a letter of introduction from Kampala International University Faculty of business and management, which was presented to the manager Ishaka People's United SACCO. This helped in seeking permission to carry out the study from his area. There after the selection began.

### 3.9 Data processing and analysis

The researcher employed both qualitative and quantitative techniques in data analysis. The data collected were presented in frequency counts and score tables with varying percentages calculated. However quotations from the responses of the SACCO staffs with relevant information to the findings were concluded to substantiate the findings.

# CHAPTER FOUR

# PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

## 4.0 Introduction

This chapter contains a detailed description of the results obtained after data analysis. In this chapter, figures, and tables are used to present findings versus interpretation and discussions. Data presented in this chapter was collected using methods as given in the previous chapters.

This study investigated the effects of SACCOs as lending institutions on business growth. This was in the light of the increased under performance of businesses especially small scale village based businesses. The entrepreneurs were blamed of not satisfying requirements put up by government to uplift and develop local business adventures and to fit in the governments programs for example, the prosperity for all programs and other developmental opportunities. This was manifested by frequent and high scale business failure, increase in entrepreneur turnover, negligence and poor business adventure. Though the government resorted to various measures like loan provision through Bonabagagawale (Prosperity for All Programme)

## 4.1 Social demographic characteristics of the respondents

These were analyzed in terms of gender, age, education, poverty status, religion and occupation of the respondents as tabulated below;

**Table 4.1: Social demographic characteristics of the respondents**

| Social demographic characteristics | Description | Freq | %age |
|---|---|---|---|
| Gender | Male | 52 | 70% |
| | Female | 22 | 30% |
| Education level | Primary | 28 | 38% |
| | Secondary | 24 | 32% |
| | Diploma | 13 | 18% |
| | Post secondary | 09 | 12% |
| Marital status | Single | 32 | 43% |
| | Married | 42 | 57% |
| Age range | 20-30 | 28 | 38% |
| | 31-40 | 32 | 43% |
| | 41-50 | 09 | 12% |
| | 51 and above | 05 | 07% |
| Religion | Protestant | 28 | 38% |
| | Catholic | 32 | 43% |
| | Moslem | 09 | 12% |
| | Others | 05 | 07% |

***Source: Primary data***

The above table 4.1 shows that 70% of the respondents were males and only 30% were females. This implies that the study was gender sensitive since issues of acquiring a loan and business growth affects both men and women.

Table 4.1 above also indicates that respondents between 20-30 years formed 38%, 43% of the respondents were between 31-40 years, 12% were between 41-50 years while over 50 years indicate a small percentage (07%). This implies that the youth and adults are the most attached to Ishaka People's United SACCO. The majority of the respondents between 31-40 years signify ambitious endeavors of the energetic youth who are willing to look for survival and ready exploit all means of acquiring wealth which also permits distinct advantages such as earning a living and developing of their families.

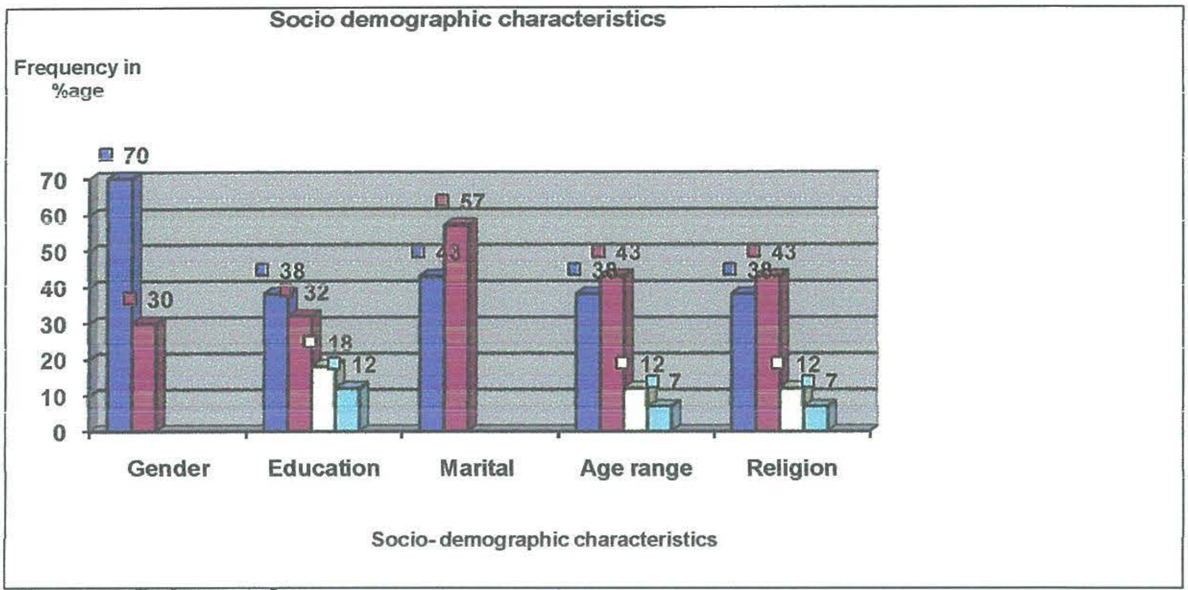
The researcher found out that 57% of the respondents were married, while 43% were single as indicated in table 2 above. The majority of the respondents were married and most likely to benefit from the saving culture and acquiring loans to develop their families. This indicated that the majority of the respondents had families to take care of.

The religious affiliations of the respondents were as indicated above with Catholics 32(43%) leading, closely followed by Protestants 28(38%), Moslems 09(12%) and others 05(07%). The study was therefore inclusive, pluralistic, balanced and open to all religious beliefs. This implies that the approach of Ishaka United People's SACCO most especially on the business growth pertaining family development is a holistic strategic framework enabling all families irrespective of religion to improve their incomes in a sustainable manner.

Also from the above table, the majority of the respondents (38%) was of primary level, followed by secondary (32%), diploma level with (18%) and lastly post primary or university level with only (12%). This implies that all respondents knew how to read and write meaning that they have at least attained the level of formal reasoning, problem solving, critical analysis and systematic judgment abilities. This implies that if the respondents received printed materials from the micro finance support centre, they can read and understand then respond to what is being delivered without any interpreter.

The above data can be further be illustrated as below

**Figure 4.1: Graph showing socio demographic characteristics**




**Source: Primary data**

## 4.2 Response rate

The researcher set out to investigate 80 respondents of which 66 were clients and 14 were staff and administrators who responded to questionnaires, interviews and focused group discussions. The respondents like clients were found in their villages/Wards like Kizinda, Katungu, Kanyamabona, Ishaka Ward A and B, Kaburengye and for administrators, they were found in offices at their SACCO headquarters.

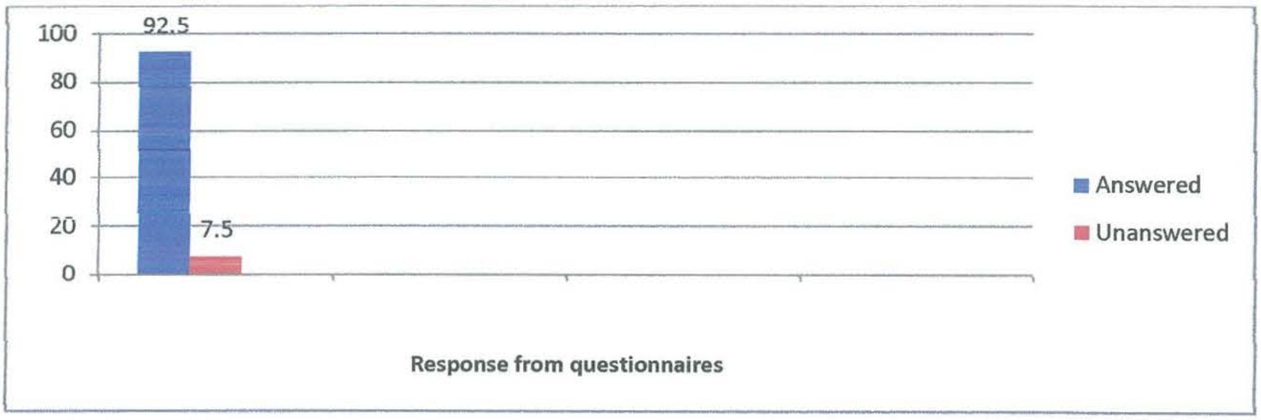
The researcher designed general questionnaires (66 copies) which were distributed to 66 respondents but only 60 respondents returned the questionnaires. Other remaining respondents were subjected to open and closed interviews.

Table 4.2: **Administered questionnaires**

| **Response** | | **Percentage** |
|---|---|---|
| Answered questionnaires | 74 | 92% |
| Unanswered questionnaire | 06 | 08% |
| **Total** | **80** | **100** |

**Source: Primary data**

Figure 4.2: Administered questionnaires




**Source: Primary data**

The general response was that 74 (92.5%) questionnaires were answered and the remaining 06(07.5%) were not returned. Some respondents were also interviewed, though they were first questioned through filling of questionnaires.

### 4.3 Types of Mortgage loans acquired the SACCO

Mortgage lending is the primary mechanism used in many of the SACCOs to finance private ownership of residential and commercial property. Mortgage loans are generally structured as long-term loans, the periodic payments for which are similar to an annuity and calculated according to the time value of money formulae. The most basic arrangement would require a fixed monthly payment over a certain period of time.

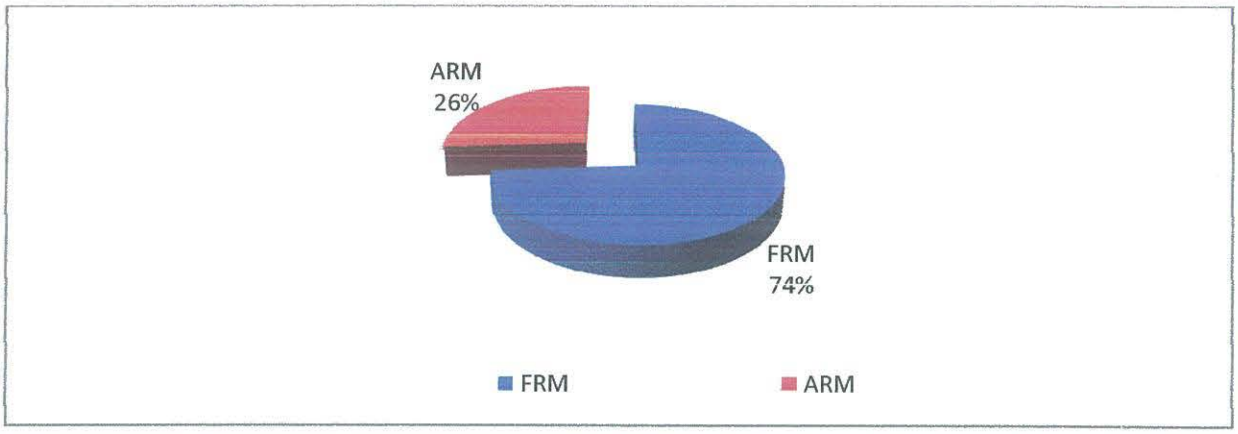
The two basic types of mortgage loans acquired from Ishaka People's United SACCO are the Fixed Rate Mortgage (FRM) and Adjustable-Rate Mortgage (ARM)

**Table 4.3: Showing the mortgage of loans acquired from the SACCO**

| Responses | Frequency | Percentage |
|---|---|---|
| Fixed rate mortgage (FRM) | 55 | 74% |
| Adjustable rate mortgage (ARM) | 19 | 26% |
| **Total** | **74** | **100** |

**Source: Primary data**

Figure 4.3: **Types of Mortgage loans acquired from the SACCO**




From table 4.3 and figure 4.3 above, 74% of the respondents who disclosed to have taken loans from the SACCO responded to have used Fixed rate mortgage loans (FRM) while 26% of the responded to have taken Adjustable rate mortgage loans which they confirmed to have helped a lot in developing their businesses.

### 4.3.1 Granting of Mortgage Loans

In a closed door interview with the loans officer, he disclosed a number of procedures which are considered first before loan are given out. He said "though they are our customers, share holders and stakeholders, there is a laid out procedure that is followed before a loan is given out". Basically, every loan should be having a mortgage for a bank to be secure and for the applicant to work in order to fulfill the requirements not only for the purpose of a loan, but for a business he/she is undertaking.

### 4.3.2 Loan application

Before you become legible to acquire a loan, the applicant should first fill the loan from where the amount requested is stated, date of application, purpose of the loan, interest rate, and type of a loan and the duration of the loan. On this form, two guarantees that have an account with this SACCO are required to sign on this form.

In a loan application, related to the SACCOs procedure, one share fetches a loan value of shillings 50.000/=. It literally means that the more share you have in the SACCOs, the more capability and ability to get an increased amount of loan money, at a reduced interest rate. However, the policy is that, no loan is given to a non member. This means that all shareholders are give priority and are legible to acquire loans. From this stage, the loans officer witnesses the collateral security of the applicant, where the expenses in transport and other field costs are met by the applicant. It will be after the witnessing of the collateral and after the photograph of the collateral is taken and approved in local councils, that the loan may be approved after duration of two weeks as a set standard and after meeting all other requirements in full. For a mortgage loan or for any loan to be sought and approved, the steps involved in Ishaka United People's SACCO are applicable to all.

The first being, the loan applicant must be a member of the SACCO, and should at least be having two shares.

**Table 4.4:** The procedures and their respective charges and fees include the following;

| **Requirements** | **Charges** |
|---|---|
| Membership fee | Ushs 20.000/= |
| Share | Ushs 20.000/= |
| Possession of a pass book | Ushs 2.000/= |
| Ledger card | Ushs 1.000/= |
| Share certificate | Ushs 2.000/= |
| Minimum savings on account | Ushs 5.000/= |

**Source: Primary data**

The loans officer explained that membership fee is paid because the SACCO is in need to recognize its members in full, and it can also be done through payments of membership fee. It also determines the member's capability and determination in the particular SACCO. He said "a person who can afford to pay membership fee is able and determined to be our member". It's thus a preliquisite or an essential tool in the SACCO's operation.

The loans officers explained the following terms as used in the SACCO management;

**Share:** According to the study the SACCO revealed that a share is a unit of ownership as per regards to this organization.

**Share certificate:** This is a document which acknowledges that a person is a registered shareholder in this SACCO and most times indicates the number of shares owned by a client.

**Ledger card:** This shows the day to day transactions of the clients concerning his or her account within the organization.

The minimum savings on the account only means that it's the amount that will keep your account in existence. People are not expected to withdraw and leave their account at nil balance as this will mean an automatic closure of the account. A minimum amount also helps in keeping the records of the financial institution in balance. He said that minimum amount adds up to a certain amount of income that a bank may use to sponsor its activities when in need of them.

In the same interview, the loans officer said that the mortgage loan is essential and helpful to the loan bearer because the applicant will work hard to pay off the loan and do some good production out of the loan he/she acquired if the person is good at managing personal finance. The mortgage will be good to the bank in a way that it will recover the amount of money the applicant took in case of failure to pay back the loan in a specified time. It will thus act as a security.

However, the loans officer identified a general problem in these mortgage loans that people only work to pay back these loans, instead of working aiming at improving and developing their businesses. They put in mind that a bank will sale off their properties in cases of failure to pay back. Thus all efforts are put at avoiding that while focus on business is lost. Even some clients don't take loans because of fear that their property will be taken away. Some capable individuals have a negative attitude towards loans and thus avoid taking them even if they badly need them. This will put the standard of the SACCO down and the general government programs at a fail foot as its aim in poverty alleviation will not take its course.

The manager in an interview mentioned that, those customers who fear risk cannot develop. Business women, men and local farmers who fear taking loans see us as a burden and as hungry lions ready to take off their property in disguise that they are mortgages. But that is not real. Here, we are partners in development. We are like government brokers who make sure that "poor" men are provided with starting capital to ensure that they have something to survive on and later recover our help just in terms of few accumulated profits.

The researcher interviewed the manager about what a poor man means and looks like in Uganda's case and how he may own a business of his choice. She had the following to answer. "People fear and dislike working, believe in quick success and fear consultation. It is a simple magic". He continued that "it's from grass to grace. Just start small with what you have and with determination, the rest will flow your way when you have your attitude of success" People don't even come for business carrier and promotional services, workshops which are offered free of charge or at a minimal cost which may be essential and meaningful to their businesses.

In the interview with the manager and loans officers, they were all in support of granting mortgage loans as they were the source of businesses prosperity. People are not poor, but have poor ideas. They wait for someone to think for them. Though poor people may not afford to raise the required mortgage, yes it can be, but they have other abilities and capabilities. For example brick makers are given minimal loans without mortgages, but pay weekly on a wedge they get and are given mortgage loans which fit their actual business at a certain real time when time comes. People take themselves to be poor, when actually they are not. That is an African excuse formulated as a problem.

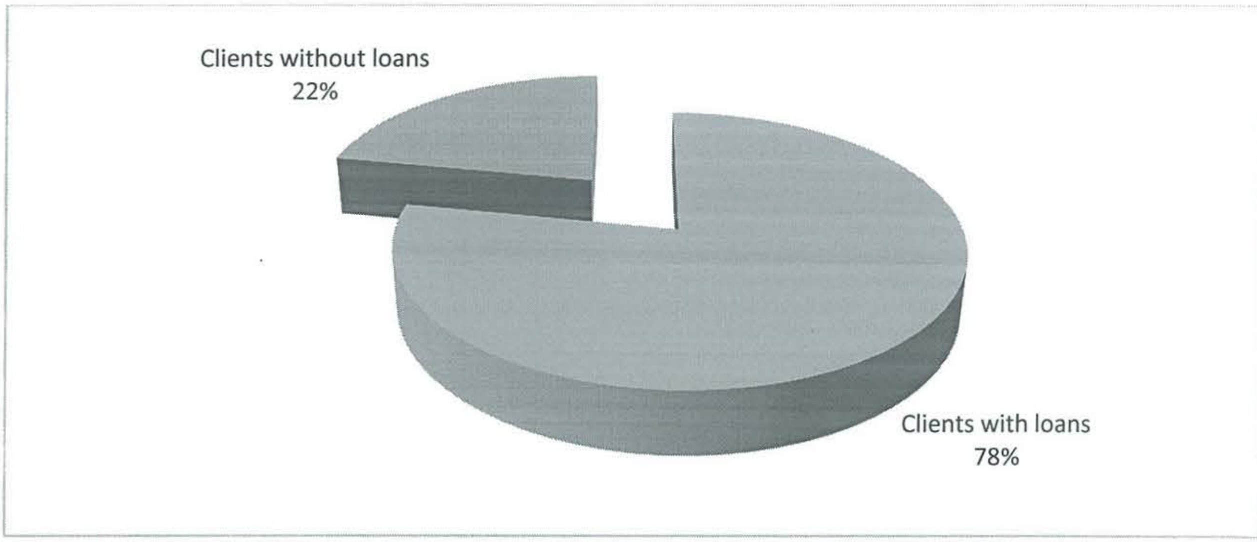
During the research study, from 74 respondents who responded, all were members of the SACCO but only 58 had already acquired mortgage loans, 16 had not yet acquired them but were preparing to acquire them. This can be graphically represented as follows;

**Table 4.5: Loan status from clients**

| Category | Frequency | Percentages |
|---|---|---|
| Clients with loans | 58 | 78% |
| Clients without loans | 16 | 22% |
| Total | 74 | 100% |

**Source: Primary data**

Figure 4.4: **Loan status from clients**




**Source: Primary data**

From table 4.5 and figure 4.4 above, 78% of the respondents agreed to have already acquired loans from Ishaka United People's SACCO while 22% had not acquired loans but were in plans of acquiring them with time.

Those who had already acquired mortgage loans were giving their views that they wanted to expand their business in the process of paying a loan. That this could be the only way to measure the capacity of the business. If at all, a business could afford to pay a loan and expand; this could mean that it is capable for sustaining itself.

Secondly, others were saying that they wanted to benefit from the prosperity for all programmes which President Museveni introduced for Ugandans. Since they are Ugandans, they wanted to benefit from it at whatever cost.

Others got loans because they saw others who got them were prospering in small scale businesses. For example in an interview with Mzee Rwomushana with a piggery business, he said that "I got a loan and started this business, because my friends had started some businesses in that manner. I also went and followed suit. But now, I can see change in my monthly income."

Clients who had not gone for loans as yet gave various reasons for their hesitation of taking a loan. These included; "I want to first see how my friends work with loans, and then I may also get a loan after an analysis of my friends". A middle aged woman in fear of acquiring a loan. Many fear that a loan is like a curse and may spread to anyone who lends to invite it.

Others said they got bad experiences from their friends who at one time acquired loans, and later lost their property due to failures in payment. They gave examples of how they observed bank managers who were friendly in giving loans, later turned harsh when selling off properties of their clients after they failed to pay.

Others said that they have small businesses which don't need loans. In an interview with a small scale agriculturalist who is a SACCO member, he said; "my business is too small and I don't need loan. If at all I can manage my business as one person and move from one step to another, why should I waste time in getting into trouble of mortgaging my small inherited land in disguise of a loan which will make me spend sleepness nights thinking of repayment". He said, I can manage and prosper without a loan. Though he is a member, he said that he wanted a small bank where he could keep her small savings.

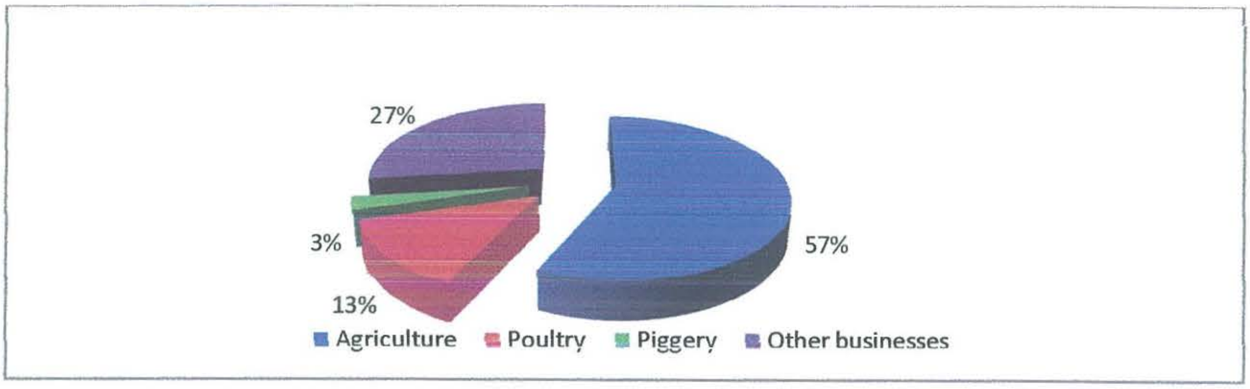
The few who were not decided, said that from experiences, they would rather not go for loans, as loans are meant for big businesses who may afford collateral to mortgage in banks. "We see no differences in people getting loans, and those who don't go there for loans and anyway, those who don't have loans are more peaceful than those who have."

**Table 4.6: Business started from loans**

| **Sectors** | **Frequency** | **Percentages** |
|---|---|---|
| Agriculture | 42 | 57% |
| Poultry | 10 | 13% |
| Piggery | 02 | 03% |
| Other business | 20 | 27% |
| **Total** | **74** | **100%** |

**Source: Primary data**

Figure 4.5: **Business started from loan**




During the research study, the researcher found out that most clients (78%) had already acquired loans, started businesses of agriculture, poultry, piggery and business loans. Among those sampled population, 57% respondents acquired and started agriculture, 13% poultry, 03% piggery and 27% other businesses.

### 4.4 Business Growth Analysis

In an interview with the manager and the loans officer, both defined business growth as the ability to have a business whether big or small, that can afford to pay off loans, remain in operation and remain with the ability to increase in the current capital assets. "As long as my business can afford to pay back a loan, continue in operation and still pay off its workers salaries and increase on its current assets, then my business is growing" the bank manager summarized the question about business growth.

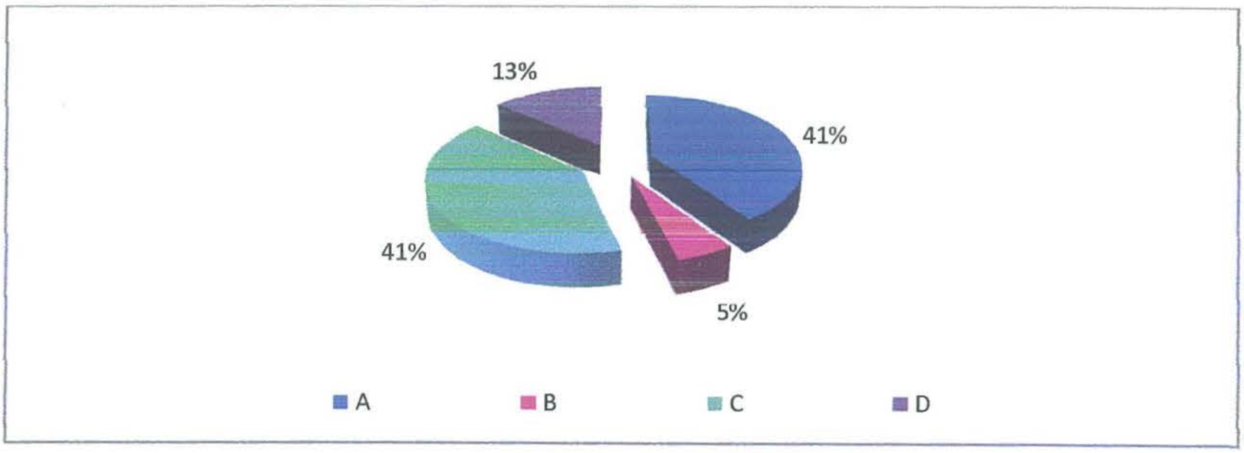
From the study, respondents disclosed that a business growth analysis can only be seen in the following ways.

**Table 4.7: Views on business growth**

| Responses | Frequency | Percentages |
|---|---|---|
| Increase in daily capital and customers | 30 | 41% |
| Ability to pay back loans | 04 | 05% |
| Increase in capital and ability to pay back loans | 30 | 41% |
| Not determined | 10 | 13% |
| **Total** | **74** | **100** |

**Source: Primary data**

**Figure 4.6: Showing views on business growth**



**KEY**

| | | | |
|---|---|---|---|
| **A** | Increase in daily capital and customers | **B** | Ability to pay back loans |
| **C** | Increase in capital and ability to pay back | **D** | Not determined |

From the table 4.7 and figure 4.6 above, 41% respectively responded that business growth is all about increase in daily capital and customers as well as increase in capital and ability to pay back loans, 05% said that, it's all about ability to pay back loans while 13% of the respondents were not determined.

## 4.5 Relationships between past and present loans

The researcher found out from the respondents and administrators that before new loans are given out, there must be clear assessment of the past loans in case you need a new one.

For administrators, the banking history and loan imbursement culture must be first visited if you are to clearly assess the client's ability to get any supplementary loan in terms of top-up loan or another loan. The banking culture according to administrators is the analysis of how many times a client banks income or at which interval does the client bank in that particular bank. After a client is found to be having affairs in banking intervals not only in terms of saving but a good adherence to his/her loan repayment, a new step may be taken in giving a new loan.

To them (administrators), it's the loan payment culture and savings status that will determine the loan duration, enormity and scale respectively. Though they consider collateral, the above is also a main consideration in loan determination.

In an interview with a loans officer whether past loans are considered before giving out new ones, he commented. "Past loans for those who took them are the first qualification before considering giving out new ones". It is from the past loans that we assess the ability and the amount of risk for this new loan. if the client paid well without interference , the risk will be low, hence the loan is recommended to be given out but when there were various acts that may have forced the bank administrators combine efforts with government authorities to recover the loan, then it may be difficult or may take more time before the clients is given another loan.

Not only, but also clients who took loans in the past are a measurement for success or failure in the objectives of the SACCO. If they use their loans in a productive manner, it will guide the administrators find where to put new loans and in which projects.

A measurement here is taken by the magnitude and scale of the business before or at the start of the loan, and the scale at which the business is at the time of the initial installments of the loan. And how the business may have proceeded in the process of loan repayment, after loan repayment and the current life style of the business. To the loans officer, it all is perfect, it may be as a result of good monetary management skills which the client had, thus may get a new loan with ease.

Past loans are also considered to determine the scope, type and magnitude of the loans which is to be given out over a specified period of time this will help in balancing and categorizing loans in the SACCO.

Basically, the whole management of 4 members whom were interviewed, all supported the relation and consultation of past loan criteria in determining new ones.

To clients, past loans are only considered by few individuals. But the biggest aim of loans is SACCO management for their consideration in balancing off their books. Other respondents said that the past loans help in determining their weaknesses as far as business strategy is concerned.

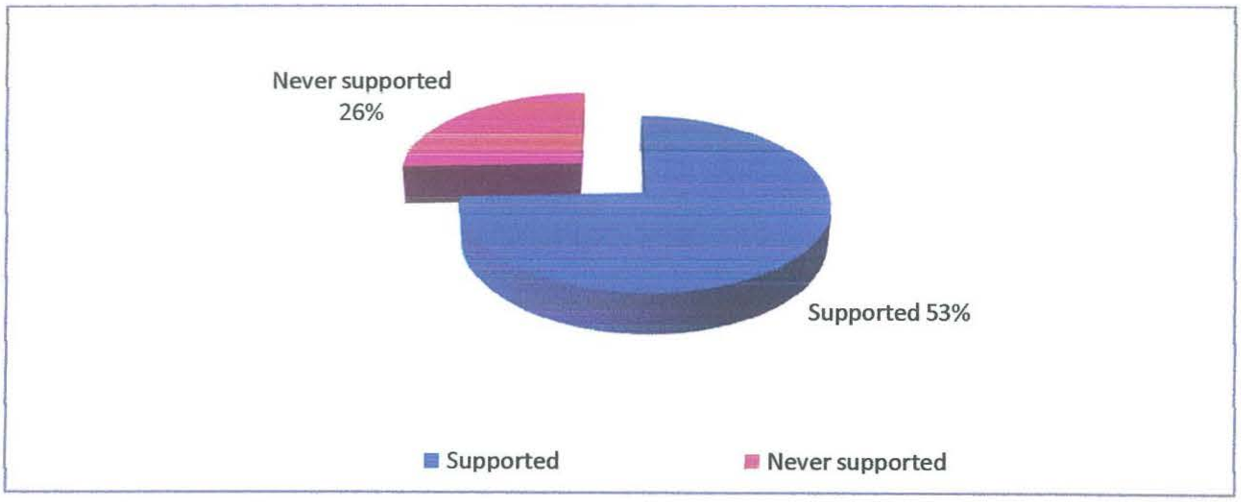
Some clients know that past loans are a foundation for new ones, or for business prosperity. During the research study, the researcher managed to question 74 clients about the past loan relationship, and 19 clients did not support the idea of consulting past loans, 55 clients supported consulting past loans and 16 never returned the questionnaires. This can be presented on the below.

Table 4.8: Relationship between past and present loans

| **Responses** | **Frequency** | **Percentage** |
|---|---|---|
| Supporting consulting past loans | 55 | 74% |
| Never supported consulting past loans | 19 | 26% |
| **Total** | **74** | **100** |

Source: Primary source

Figure 4.7: Relationship between past and present loans




Those in favour of considering past loans for new ones gave reasons as;

Past loans show a foundation stone on which other future loans will lie. The more effective the first loan is the more hope and courage you will have to use the proceeding ones.

A local mixed agriculturist, who started from a loan he got from this particular SACCO, said that; "if the first loan is successful, it will lay down a foundation where other additional capitals in the business will fall, encouraging and favouring the incomes to succeed". I started with 100,000 Uganda shillings, but now am worth twenty times bigger than that. He said.

To him, it is a matter of taking care of the first incomes in the business, and the other will follow a positive path if you manage the savings, and attach value. Every shilling for him means and will mean a lot.

In addition to that, a client commented on past loans being a basis for the organization to lie in calculating its growth criteria. "If they don't relate the past with present, how will they know that they are proceeding or moving backward." As a matter of fact, they have to consider and calculate the past to present loans if the organization is to know the way they are taking.
Some clients disagreed with the aim of considering past loans. They gave reasons which included;

Past loans may have gone badly in some ways, but this will not be the routine will continue as change may come in after learning past mistakes. No success without failure most times. Though I may have failed in the past loans, it doesn't mean it will be a disease. They summarized.

Also some clients decided to change business if past loans fail in their former businesses which failed. Thus this will not mean continuation in failure. A change may make a big significant change which may mean a lot to the business. This will kill the potential of failures at first, and this may be dangerous as they may come up with an improved culture of doing business even more than those who first succeed as their first failure will teach lessons to learn from.

Others were saying that, success or failures are not a constant scenario, even the once successful people can fail at one time and vice versa to the failure at first case. Two clients in Katungu village said, that "failure is the only lesson to success" and when you have not failed, you have not learnt about success. Thus SACCO managers should learn how to treat loan failures may be with workshops which may be influential in their business carrier.

Those who were not decided remained in either way. They were saying that whether you compare or not loans are neither good nor bad to the simply because what you borrow, is what you take back. Even with interest which takes away more money from the business. "If one could use his or her own money whether little or much but carefully, would make more sense than when using loan money". This may later lead to business failure in some businesses as instead of aiming at improving their business status; they will aim at paying off the loan.

## CHAPTER FIVE

## SUMMARY OF FINDINGS, CONCLUSIONS & RECOMMENDATIONS

### 5.0 Introduction

This chapter presents a summary of findings, conclusions and recommendations of the findings made by the researcher.

### 5.1 Summary of findings

According to the research study, business growth was said to be an economic and feasible situations, where both the commerce holder and the business itself have the ability to hold and administer a business, achieve its set objectives, whether big or small , and can have enough money to pay off loans and remain in operations.

### 5.2 Conclusion

#### 5.2.1 Mortgage loans acquired from the SACCO

Mortgage loans are secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan. Thus the word mortgage alone, coming from a Law French term meaning "death contract," meaning that the pledge ends (dies) when either the obligation is fulfilled or the property is taken through foreclosure, it leaves a lot of meaning to the borrower.

The fixed rate mortgage loans (FRM) was seen as the most desired by the borrowers and hence 70% of the respondents confirmed to have taken them this is because in a fixed rate mortgage, the interest rate, and hence periodic payment, remains fixed for the life (or term) of the loan. Therefore the payment is fixed, although ancillary costs (such as property taxes and insurance) can and do change. For a fixed rate mortgage, payments for principal and interest should not change over the life of the loan (Frank 1969)

Adjustable- rate mortgage loans (ARM) (also known as a floating rate or variable rate mortgage) are the norm and will simply be referred to as mortgages. Thus 30% of the respondents responded to have borrowered them and thus according to them, the interest rate is generally fixed for a period of time, after which it will periodically (for example, annually or monthly) adjust up or down to some market index. Adjustable rates transfer part of the interest rate risk from the lender to the borrower, and thus are widely used where fixed rate funding is difficult to obtain or prohibitively expensive. Since the risk is transferred to the borrower, the initial interest rate may be from 0.5% to 2% lower than the average year fixed rate; the size of the price differential will be related to debt market conditions, including the yield curve.

The manager was also quoted saying that a combinations of fixed and floating rate are likely also to exist in some cases, whereby a mortgage loan will have a fixed rate for some period, and vary after the end of that period.

Thus the charge to the borrower from the SACCO depends upon the credit risk in addition to the interest rate risk. The mortgage origination and underwriting process involves checking credit scores, debt-to-income, down payments, and assets.

### 5.2.2 Granting of mortgage loans

During the study, all the respondents who responded , all were members of the SACCO, but only 76% had acquired mortgage loans while 24% had not yet acquired them but were preparing to get them hence had not yet decided themselves.

Clients, who hadn't gone for loans as yet, gave various reasons for their hesitation of taking a loan. These included: some wanted to first see how my friends will work with loans, and then they may also get a loan after an analysis of their friends while others fear that a loan is like accurse and may spread to anyone who tends to invite.

Others said they got bad experience form their neighbors who at one time acquired loans and later lost their property due to failures in payment.

From the research study and those who responded to both interview guide and questionnaires, the researcher found out that most clients (100%) had already acquired loans, started businesses of agriculture, poultry, piggery and business loans. Among them sampled population, 40% respondents acquired and started agriculture, 20% started poultry, 04% started piggery while 36% had started other business like shops, saloons and photocopy businesses.

In conclusion, these loans have helped in developing the public when properly used. Though granting mortgage loans in SACCOs is a guarantee, the most concern for clients was how much and when to pay and get back their security since it was only land that mortgaged and it's the one they are using for survival. But the management also considered the amount of money to be given out, and the rate of desire to pay back the money within people, the only solution was to get security which may be sold off if failure to pay arises.

### 5.2.3 Business growth analysis

Business growth as the ability to have a business whether big or small, that can afford to pay off loans, remain in operation and remain with the ability to increase in the current capital assets. Different respondents gave different views concerning business growth analysis which included;

#### 5.2.3.1 Meeting the intended goal

From the study, it was clear that if the business attains its goal on why it was started, it has grown. According to the manager, it's the only criteria of knowing whether the business has attained its objectives and grown in terms of purpose, goal and objectives. In government aided activities like local banking institutions, once poverty is reduced to the percentage and level which it was intended for, then it has achieved its goal. In this aspect, the business will be judged to have grown that is only after analyzing and finding out that it has met its objectives, in this case reducing poverty level.

### 5.2.3.2 Increase in net incomes

That no business can grow without showing an increase in its net incomes. Increase in assets which can be turned into cash in a shortest time possible can help the business more importantly even better than anything ever thought about. This is because these assets can be turned into high valued cash and can still be used to get additional loan s from lending institutions as security. Thus increases in the bottom line (Profit) also will show business growth since it's here that the firm is judged before it's considered a success by its owner.

According to the accountant who are also responsible to balancing off monthly incomes and expenditures, they gave out views in support of increase in net income. They disclosed that no business can grow without showing an increase in its net incomes. Increase in assets which can be turned into cash in a shortest possible time can help the business more importantly even better than anything ever thought about. This is because these assets can be turned into high valued cash and can still be used to get additional loans from lending institutions as security. Thus increase in their value may be and is the only way to analyze business growth and expectations.

In an interview with business group, they said that their business can be measured in the following ways;

Net profit = Gross profit – Operating expenses

Many business owners found their business operating on breakeven points and few were making profits as few or no profits were made.

To accountants, increase in the bottom line (profit) also will show business growth since it's from here that a firm is judged before it's considered a success by its owner. They said that basically, profits can be measured in.

Gross profit on net assets ratio

a) Gross profit rate = $\frac{\text{Net assets- Cost of goods sold}}{\text{Net assets}}$

This will help to determine whether your average mark will constantly cover your expenses thus resulting to acquire the required profits.

b) Management rate of return ratio

Net profit rate = $\frac{\text{Earnings after tax}}{\text{Net sales}}$

This will provide a primary appraisal to management on net profits that are related to the investment atmosphere.

c) Rate of return on common stock equity ratio

Rate of return = $\frac{\text{Operating income}}{\text{Fixed assets + net working capital}}$

This will be a determinant on whether you have efficient utilization of assets or if you are operating below on or above capacity.

However for clients who started businesses, they had mixed reactions on business growth analysis.

Of the total of 80 respondents asked about profitability analysis, they had the following views to give.

30 clients gave increase in daily capital and increase in the number of customers who consume the organizational products, goods and services. They gave views that if the

business operates well daily; it means that it will operate in the near future and probably for the rest of its life leading to its growth and expansion.

4 respondents gave their views on business growth to be through the ability to pay back a loan and it doesn't affect its operations in that particular period of time. They said that if the business can pay off all its debts and remain in operation but without hindering its mode, structure and level of performance, business growth will be met.

The remaining 30 respondents gave all the above. They said that ability to pay loans and remain in operation is a key to business growth and at the same time, a business cannot grow without making profits which makes it less important. Even government aided projects like SACCOs have to make profits.

16 respondents were not decided on the business growth analysis and they said that if they could remain in operation and survive not collapsing even if they make profits, they will appreciate this. They really had business growth.

#### 5.2.3.3 Gross profit on net assets ratio

a) Gross profit rate $= \frac{\text{Net asset} - \text{Cost of goods sold}}{\text{Net assets}}$

b) Management rate of return ratio

Net profit rate $= \frac{\text{Earnings after tax}}{\text{Net sales}}$

c) Rate of return on common stock equity ratio

Rate of return $= \frac{\text{Operating income}}{\text{Fixed assets} + \text{net working capital}}$

In conclusion, business growth analysis is only analysis is only analyzed when the business moves from one step to another. Though various respondents have mixed reactions, more concern should be put on profits as it's the only determinants and core factor for business survival.

### 5.2.4 Relationship between past and present loans

To clients, past loans were only considered by few individuals. But the biggest aim of loans is SACCO management for their considerations in balancing off their books. Other respondents said that past loans helped in determining their weaknesses as far as business strategies are considered.

Some clients know that past loans are a foundation for new ones or for business prosperity.

During the research study, the researcher managed to interview and question 30 clients about the past loan relationship and 15 clients did not support the idea of consulting past loans, 9 clients supported consulting past loans and 6 were not decided on the management act of consulting past loans .

In conclusion, clients partly supported the act of considering past loans and the same percentage also considered to leave out the gone as the past if they want to prosper and use the SACCOs as business.

## 5.3 Recommendations

In order for profit making organizations to achieve efficiency and make profits, small enterprises like village banks in order to fulfill their objectives and obligations, the researcher recommends the following considerations.

- Educate its employees on how to make the businesses prosper and make profits as a way of every business survival.

- The government and concerned authorities should give tax holidays or scrap off some taxes on small business enterprises since they are the future of the nation.
- Clients should be educated on the importance of business and relying on them for survival, but as a future trademark to be left behind.
- The business owners should also know that cooperation between themselves and the government may lead to more success and prosperity both in their business and social way of life.
- Educate business owners on how to handle recess and poor earnings conditions in their business so as to save the future.
- Educate the public on the importance of business structures both in the short and long run most especially to their new generations.
- Encourage young entrepreneurs to take up new enterprises in short and then long term undertakings.
- Use of fair instruments in charging prices on essential goods mostly agricultural outputs for those backward agricultural hopefuls which will make their prices go high.

## 5.4 Areas for further study

The researcher finds it's necessary for further study to be carried out;

- The impact of village banks on infant growing, but income lacking and near collapsing profit making institutions.
- The relationship between business using recapitalization and those not using recapitalization and their impact on their growth and sales volume in perfect competitive economies.
- The effects of government financial and non financial support on business growth and expansion.

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# APPENDIX I
# RESEARCH INSTRUMENTS

## (a) QUESTIONNAIRES FOR STAFF

Dear respondent,

Iam Namwebe Zainab from Kampala International University College of Economics and Management Sciences, Iam carrying out an academic research on the effects of SACCOs as lending institutions on business growth. A case of Ishaka United People's SACCOs Bushenyi - Ishaka Municipality Bushenyi district

You are therefore requested to respond honestly to the questions because your responses are very vital to this study. Your participation is voluntary but highly valued and this information will be strictly used by the researcher for the intended purpose only. The information given will be kept with utmost confidentiality.

**SECTION A: BIO DATA (Tick the correct answer)**

1).Name :...........................................................................( Optional)

| | | | |
|---|---|---|---|
| 2).Sex: | (a) Male | (b) Female | |
| 3).Age bracket: | (a) Below 20 yrs | (b) 21 – 30 | (c) 31- 40 |
| | (d) 41 – 50 | (e) 51 and above | |
| 4).Marital status: | (a) Married | (b) Widowed | (c) Divorced |
| | (d) Single | (e) Any other specify.............. | |

5).Employment status: (a) Manager (b) Supervisor (c) Cashier

(d) Loans officer (e) Accountant

(f)Any other specify..........................................

6).Educational levels: (a) Primary level (b) Secondary (c) Tertiary

(d)University level (e) Any other specify............

**SECTION B: Types of loans given by SACCOs**

7).What type of loans are given your SACCO?

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8).What is the procedure of giving out mortgage loans?..........................

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9).Are clients briefed or taught before they take out loans?

(a)Yes (b) No

10).What are the procedures considered before loans are taken out?.........

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**SECTION C: Criteria Used In Business Growth Analysis**

7).Does this SACCO have a procedure for giving out loans in place?

(a)Yes (b) No

b).If yes, has this procedure benefited the SACCO through its giving out loan?.......................................................................................

8).Do the clients understand the loan lending procedure in place and how they are applied?

(a).Strongly Agree (b)Agree

(c)Strongly Disagree (d) Disagree

9).Does this SACCO possess conditions that can favour loan repayment?

(a)Yes (b) No

10).Are there standards set by this SACCO to be met by the clients/customers?

(a)Yes (b) No

b).If yes, what are the standards set by this SACCO to customers...........

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11).Are the staffs well equipped with the knowledge to handle the clients?

(a)Yes (b) No

b).If yes, how many qualified staffs are with in this SACCO?.....................

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c).If No, why?........................................................................................

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**SECTION D: The Relationship between the Past and Present Loans**

12).Mention the methods employed in giving out loans in the SACCO

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13).Does the loans given by the SACCO have the influence on the Business growth? (a)Yes (b) No

14).If yes, what is the influence of loans given by SACCO on the business growth?..........................................................................................

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**Thank You for Your Co-operation**

## (b) QUESTIONNAIRES FOR CLIENTS/CUSTOMERS

Dear respondent,

Iam Namwebe Zainab from Kampala International University College of Economics and Management Sciences, Iam carrying out an academic research on the effects of SACCOs as lending institutions on business growth. A case of Ishaka United People's SACCOs Bushenyi - Ishaka Municipality Bushenyi district

You are therefore requested to respond honestly to the questions because your responses are very vital to this study. Your participation is voluntary but highly valued and this information will be strictly used by the researcher for the intended purpose only. The information given will be kept with utmost confidentiality.

**SECTION A: BIO DATA (Tick the correct answer)**

1).Name :.......................................................................( Optional)

| | | | |
|---|---|---|---|
| 2).Sex: | (a) Male | (b) Female | |
| 3).Age bracket: | (a) Below 20 yrs | (b) 21 – 30 | (c) 31- 40 |
| | (d) 41 – 50 | (e) 51 and above | |
| 4).Marital status: | (a) Married | (b) Widowed | (c) Divorced |
| | (d) Single | (e) Any other specify.............. | |
| 5).Employment status: | (a) Farmer | (b) Business person | |
| | (c)Teacher | (d) Cashier (e) Accountant | |
| | (f)Any other specify.......................................... | | |

6).Educational levels: (a) Primary level (b) Secondary level

(c) Tertiary level (d) University level

(e) Any other specify.......................................

**SECTION B: Types of loans given by SACCOs**

7).For how long have you been in this SACCO?

(a) 0-1year (b) 2-3years

(c) 4 and above

8).Do you finance your venture using a loan?

(a)Yes (b) No

9).Which type of loan do you use?.......................................................

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10).What rate of interest do you charge your clients?

b).Does it affect your clients?

(a)Yes (b) No

c).Suggest reasons...........................................................................

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11).What are the requirements necessary for one to attain a particular loan?.............................................................................................

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12).Are you excelling in your ventures financed by the loans you get?

(a)Yes (b) No

b).Support your answer.......................................................................

13).Is the interest rate customer friendly?

(a)Yes (b) No

14).Has the loan affected your business?

(a)Yes (b) No

If yes, how?..........................................................................................

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**SECTION C: Criteria Used In Business Growth Analysis**

7).Does this SACCO have a procedure for giving out loans in place?

(a)Yes (b) No

b).If yes, has this procedure benefited the SACCO through its giving out loan?..............................................................................................

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8).Do you understand the loan lending procedure in place and how they are applied?

(a).Strongly Agree (b)Agree

(c)Strongly Disagree (d) Disagree

9).Does this SACCO possess conditions that can favour loan repayment?

(a)Yes (b) No

10).Are there standards set by this SACCO to be met?

(a)Yes (b) No

b).If yes, what are the standards set by this SACCO to customers.................

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11). Do you think staffs are well equipped with the knowledge to handle the clients?

(a)Yes (b) No

b).If yes, how many qualified staffs are there?..................................................

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c).If No, why?.....................................................................................

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**SECTION D: The Relationship between the Past and Present Loans**

12).Mention the methods employed in giving out loans in the SACCO

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13).Does the loans given by the SACCO have an influence on the Business growth? (a)Yes (b) No

14).If yes, what is the influence of loans given by SACCO on the business growth?.....................................................................................

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## Thank You for Your Co-operation

## (c) INTERVIEW GUIDE FOR TOP MANAGEMENT

Dear respondent,

Iam Namwebe Zainab from Kampala International University College of Economics and Management Sciences, Iam carrying out an academic research on the effects of SACCOs as lending institutions on business growth. A case of Ishaka United People's SACCOs Bushenyi - Ishaka Municipality Bushenyi district

You are therefore requested to respond honestly to the questions because your responses are very vital to this study. Your participation is voluntary but highly valued and this information will be strictly used by the researcher for the intended purpose only. The information given will be kept with utmost confidentiality.

1).What is the sole reason for setting up this SACCO?

3).What types of loans are given out in this SACCO?

4).What is the reason for giving out loans?

5).What is the profit and growth analysis procedure?

6).What is the procedure of giving out mortgage loans?

7).Are clients briefed or taught before they take out loans?

8).What are the procedures considered before loans are taken out?

9).Are non members allowed to getting loans from this SACCO?

10).Does the acquisition of past loans determine the acquisition of the loans?

12).How many clients do you render your services in respect to money lending?

**Thank You for Your Co-operation**

## APPENDIX II

## THE STUDY TIME FRAME

| Activities | Months in 2012 | | | | |
|---|---|---|---|---|---|
| | Jan | Feb | March | April | May |
| Writing research proposal | XXXX | | | | |
| Submission of proposal draft | XXXX | | | | |
| Submission of final proposal | | XXXXX | | | |
| Interviewing respondents/ Questionnaires to respondents | | XXXXX | XXXX | | |
| Data analysis | | | XXXX | | |
| Submission of draft report | | | XXXX | XXX | |
| Revise draft, format for submission | | | | XXX | |
| Submission of final report for making | | | | XXX | XXX |
| Print, bind & submit final copies to the faculty | | | | | XXX |

## APPENDIX III

## THE STUDY BUDGET

| Cost Description | Unit | Qty | No | Unit price (Ushs) | Total |
|---|---|---|---|---|---|
| **Stationeries** | | | | | |
| Printing paper | Ream | 04 | | 15,000 | 60,000 |
| Pens | | 10 | | 700 | 7,000 |
| Flash Disk | | 1 | | 30,000 | 30,000 |
| CD for storage and back-up | | 5 | | 1,000 | 5,000 |
| **Secretarial Work** | | | | | |
| Typesetting and printing research proposal | Pages | 50 | 3 | 1000 | 150,000 |
| Typesetting and printing research questionnaires | Pages | 9 | 1 | 1000 | 9,000 |
| Photocopying Questionnaires | Pages | 9 | 80 | 50 | 36,000 |
| Typesetting and printing research report | Pages | 70 | 3 | 1000 | 210,000 |
| Report production and binding | Books | 1 | 3 | 10,000 | 30,000 |
| **Allowances** | | | | | |
| Statistician | | 1 | 2 | 50,000 | 100,000 |
| Lunch for the Researcher | | 1 | 30 | 5,000 | 150,000 |
| Air time | | | | | 50,000 |
| **Sub- total** | | | | | **837,000** |
| Miscellaneous | 20% | | | | 167,400 |
| **Grand Total** | | | | | **1,004,400** |