

Kampala International University
College of open Education and distance learning

**IMPACT OF CREDIT POLICY MANAGEMENT ON PERFORMANCE OF
MICROFINANCE INSTITUTIONS**

A CASE STUDY OF KITGUM SACCO

BY:

AKWERO FIONA FILDAH

BCO/16568/71/DU

**A RESEARCH REPORT SUBMITTED TO KAMPALA INTERNATIONAL
UNIVERSITY IN PARTIAL FULFILLMENT FOR AWARD OF BACHELOR DEGREE
OF COMMERCE**

SEPT 2011

Declaration

I Akwero Fildah Fiona do declare that this research report is my original work and has never been submitted to any university or institution of higher learning for award of a degree.

Signed:  Date 20/ sept / 2011

Akwero Fiona Fildah

Approval

This research report was carried out under my supervision and is ready for submission

Signed:
.....

Date

20th/09/2011

SSENDAGI MUHAMAD

Supervisor

Dedication

I dedicate this work to my late parents Mr And Mrs Okello Mark And Auma Joska, my brothers and sisters, my beloved husband and my precious daughter Laura Lamuno Megolonyo AND above all my aunty Jenety Acen who her motherly love, care and guidance made this education a success.

Acknowledgement

All praises are to almighty God, the most gracious and merciful, the giver and bestowal of LIFE and knowledge. I wish to acknowledge and extend my sincere gratitude to my supervisor for his professional critique, guidance and inspiration which facilitated the accomplishment of this research project.

And in a special way, I would like to take this opportunity to thank my husband Mr Charles Nyeko Megolonyo whose parental, financial, spiritual and professional guidance has seen me through this education struggle.

Finally, I would also like to express my sincere gratitude and appreciation to all those who took part in one way or the other and contributed to the successful completion of my project.

Table of content

Declaration	i
Approval	ii
Dedication.....	iii
Acknowledgement.....	iv
Table of contents	v
Abstract	5
Chapter one	7
Introduction	7
1.0 background to the study	7
1.1 statement of the problem	8
1.2 objectives of the study	9
1.3 research questions	9
1.4 scope of the study	9
1.5 significance of the study	9
1.6 laminations of the study	10
chapter two	11
Literature review	11
2.0 introduction	11
2.1 credit policy	11
2.2 credit policy variables	11
2.3 Credit evaluation	12
2.4 Management	13
2.5 Corporate governance	15
2.6 Relationship between credit policy variables and management	15
Conclusion	16
Chapter three	17
Methodology	17
3.0 introduction	17
3.1 research Design	17

3.2 survey population	17
3.3 Sampling design and size	17
3.4 Sample size	17
3.5 Sampling procedure	17
3.6 Sources of data	18
3.7 Data collection methods and instruments	18
3.8 Data processing and analysis	18
Chapter four	19
Data presentation, analysis and interpretations of finding	19
4.0 introduction	19
4.1 respondents rate	19
4.2 finding on whether kitgum sacco have credit policy	19
4.2.1 Findings on the period for review of the credit policy	19
4.2.2 Findings on the contribution of credit policy to debt collections	20
4.2.3 Findings on the recommendations made by respondents on the existing credit policy	21
4.2.4 Finding on the credit policy preferred by kitgum sacco	21
4.2.5 Findings on the extent to which the existing policies affect the performance of kitgum sacco ...	22
4.2.6 Findings on the rating of performance of kitgum sacco between 2001 and 2009.....	22
4.2.7 Findings on the impact of management on the credit policy	22
4.2.8 Findings on whether recommendations are required before a customer gets credits.....	23
4.2.9 Findings on whether the sacco assesses a customer's capacity to settle debts.....	23
4.3.0 findings on the payback period	23
4.3.1 findings on whether the sacco organizes sensitization programs	24
4.3.2 findings on the conditions that go with the loans given out	24
4.3.3 Findings on whether the sacco sends reminder letters to customers who do not pay promptly	24
4.3.4 Findings on whether loan are advanced to individual or groups.....	25

4.3.5 Findings on whether customers are required to have accounts with the sacco before application for a loan.	25
4.3.6 Findings on the analysis of bad debts	26
4.3.7 Findings on the rate of interest charged by the sacco.	26
4.3.8 Findings on the collateral security.	26
4.3.9 Findings on the rating of credit policy by the clients	27
4.4.0 Findings on the effort made by the clients to honour their credit obligations....	27
4.4.1 findings on how the sacco contacts its clients	28
4.4.2 findings on the duration taken by clients to clear their debts	28
4.4.3 findings on the relationship between credit policy and management	29
chapter five	30
summary of findings, conclusions and recommendations	30
5.0 introduction	30
5.1 credit policy in kitgum sacco	30
5.2 conclusion	31
5.3 Recommendations	31
5.4 Further research to be done	32
5.5 References	33
5.6 Questionnaire	34

List of figures

Table1: showing the period for review of credit policy.....	20
Table 2: showing the contribution of credit policy to debt collections	20
Table 3: showing the credit policy preferred by kitgum sacco	21
Table 4: showing the impact of management on credit policy	22
Table 5: showing the assessment of customer's capacity to settle debts	23
Table 6: showing the payback period	23
Table 7: showing the catergory of loan advancement.....	25
Table 8: showing accounts requirements	25
Table 9: showing analysis of bad debts	26
Table 10: showing the rating of credit policy	27
Table 11: showing efforts made by the clients	27
Table 12: showing how the sacco contacts its clients	28
Table 13: showing the duration taken by clients	29
Figure1: showing whether the sacco sends reminder letter to customers who do not pay promptly.....	24
Figure 2: showing whether the sacco asks for collateral security before granting.....	26

Abstract

The purpose of the study was to establish the effectiveness of credit policy management and performance in kitgum saving cooperative and credit society (Kitgum SACCO) and to establish the extent to which management contributes to the successful operation of the existing credit policy in kitgum district.

The study sample size was 25 respondents from kitgum sacco. The study was carried out using questionnaires as a method of data collection. The secondary data used were internal documents such as audit reports 2008 – 2009, files, kitgum Saccos' strategies plan 2005 – 2012.

Objectives of the study

- To evaluate the effectiveness of the credit policies on performance of microfinance institutions of kitgum saccos.
- To evaluate the relationship between management and performance of kitgum saccos
- To assess the causes of unethical behaviors of the credit officials of kitgum sacco.

From the findings, the main causes of deteriorating performance are; inefficiency of some credit policy variables, inadequate credit policies and improper management.

However the major weakness in credit management of kitgum sacco is reluctance to make follow up in after the expiration of the period. Uncreditworthiness of some credit officials by writing off debts as bad and yet actually they have received payments. Inefficiency of control systems put in place and failure to implement the appropriate credit policy, resulting into low revenue collections.

Recommendation

In order to be able to check on losses and defaults in kitgum SACCO and also have a more efficient credit policy management. The researcher came up with the following views:

Kitgum SACCO needs to reassess the existing credit policy and if necessary to adopt those policies which can enhance its performance. Further training should be organized for credit officers to ensure that they update knowledge as regards to debt collections and credit management .

Frequent evaluation of the credit official should be carried out to eliminate the inactive and untrustworthy officials.

Chapter one

Introduction

This chapter represents the background to the study, the statement of the problem to be investigated, the rationale of the study, the objectives, and the research questions to be used in the study (hypothesis), the scope of the study finally the significance of the study.

1.0 background to the study

Many times honored management practices such as layoffs, yearend bonuses and automatic pay raises actually reward employees' bad habits and punish good behavior, often with devastating results. These practices stem from theories of performance that have little to do with the science of learning. As such they result in many mistakes initiated by senior leadership at great cost. They are endorsed for the best of reasons but fail to lead to the desire results. So why do so many organization continue to embrace faulty practices? Most business leader are trained in the math or balance sheets. They do not understand that you cannot change organizational behavior without changing human behaviors (Article: management practices that spell doom).

Management is defined as "the process of working with and through individuals and groups and other resources to accomplish organizational goals". (Hersey and Blanchard, 1998).

A credit policy is defined as a set of guidelines/ procedures designed to minimize costs associated with credit while at the same time optimizing benefits from it (Kakura 2003). It is very important for any credit manager to carefully consider the variables, which make up the credit policy before designing any credit policy management system. Pandey (1998) emphasizes the three variables; credit standards, credit terms and collection efforts.

Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of finance services to low income clients including the self employed.

Microfinance is not simply banking, it is a development tool. Activities undertaken by microfinance institutions include; small loans typically for working capital, informal appraisal of borrowers and investments, collateral substitutes, such as group guarantees or compulsory savings, access to repeat and larger loans based on repayment performance, streamlined

organizations (NGO'S), saving and loan cooperatives, credit unions, Government banks, commercial banks or non-bank financial institutions.

Kitgum sacco was founded in 2002 by a group of association with the help of kitgum private sector promotion centre under United Nation Development program me (UNDP) and the government of Uganda program me. It was officially registered in 2011 under the Cooperative Act and it is a sacco limited by shares. Its vision is to become an institution that meets all financial services of its members and the mission is to promote sustainable financial human development focusing on poverty reduction within the community.

Kitgum sacco has a well stated set of guidelines regarding obtaining of credits.

However, due to unethical behaviors of some officers such as insider lending, signing for faulty documents, creating differences on the account balances of certain clients, misappropriation of funds and bribery of auditors have greatly impacted on the reduction of profits made from extending credits to customers.

The main purpose for this study therefore is to evaluate the relationship between credit policy and management of kitgum sacco.

1.1 statement of the problem

The growing need of government programs to embark on poverty alleviation through encouraging the growth of microfinance institutions such as saving and credit cooperative societies (SACCOS) has been a major area of concern.

Despite the existence of the credit policies, kitgum SACCO has continuously registered increasing levels of debtors/accounts receivables and low revenue collections from, the customers probably due to unethical management practices such as insider lending that is lending to themselves (managers) and close relative without following the proper procedures, use of forged documents, misappropriation of funds, bribery and poor customer service. "People who are supposed to supervise the SACCOS should do their work other than waiting for the time when clients' saving have been stolen'. (Lubega, 2009). It is upon this issue of deteriorating performance of microfinance institutions in Uganda and especially the saccos that the researcher

sough to find out the impact of credit policy management and perhaps a solution to sustain the growing number of microfinance institutions in the country.

1.2 purpose of the study

The purpose of the study is to identify the impact of credit policy management and performance of microfinance institution of kitgum sacco.

1.3 Objectives of the study

- To evaluate the effectiveness of the credit policies on performance of microfinance institutions of kitgum sacco.
- To evaluate the relationship between management and performance of kitgum sacco
- To assess the causes of unethical behaviors of the credit officials of kitgum sacco.

1.4 Research questions

To achieve the above objectives, the study was guided by the following questions;

1. How effective is the credit policy of kitgum SACCO?
2. What are the causes of unethical behaviors of the officials of kitgum SACCO?
3. What is the relationship between credit policy management and performance of kitgum SACCO?

1.5 Scope of the study

The scope of the study covers microfinance institutions using kitgum sacco as a case study from the period of 2009-2011.

But due to inadequate resources (time and money), the study will cover one district that is kitgum district.

1.6 Significance of the study

The study was to benefit microfinance institutions since it highlights the areas of credit policy that are not effective for remedial actions to be taken.

The study was to facilitate further research in areas related to credit policy and management.

The study is expected to benefit managers in both public and private organizations, administrators, policy makers, and academicians who are interested in management development in Uganda and around the world

1.7 Limitations the of study

The time that is available from the preparation of research proposal to the time for collecting data was limited. During the data collection, the respondents kept postponing the dates of submitting the answered questionnaires.

Sensitivity of research information where by the respondents may fear to disclose the information taking it to be confidential.

The costs of the materials and equipment to use in the collection of data like photocopying and printing of the questionnaires an interview schedule was very expensive. Sketchy literature on management issues because in most circumstance it's not given priority in achieving organizational objectives.

CHAPTER TWO

Literature review,

2.0 Introduction

This chapter reviews the works of the scholars who have researched about the same topic and or those who have addressed similar issues as those variables in this study.

2.1 Credit policy

Greuning (2000) defines credit policy as a measure to counteract the existing and potential risks inherent in lending activities and the parameters within which credit is to control.

Kakuru (2000) defines credit policy as a set of policy actions designed to minimize costs associated with credit while maximizing the benefit from it. The objective of this policy is to have optimum investment in debtors. Optimal investment is the level of investment where there is a tradeoff between the benefit and costs associated with it. In other words both objectives of profitability and quality are considered.

Credit policy provides a frame work for the entire credit management process. Written credit policies are the cornerstone of sound credit management. They set objectives, standards and parameters to guide bank officers who grant loans and manage loan portfolio. They also provide the board of directors, regulators, internal and external auditors with a basis for evaluating a bank's credit management performance (Mc Naughton, 1996).

The main reason for policy is to ensure operational consistency and adherence to uniform sound practices. Policy should be the same for all and is sometimes referred to as decision made in advance. Policy is the general rule designed to guide each decision.

2.2 Credit policy variables

Pandey (1995) emphasizes the three variables; credit standards, credit terms and collection efforts.

Credit standards; these are the criteria which a firm follows in selecting customers for the purpose of credit extension. A pivotal question in the credit policy of a firm is; what standard should be applied in accepting or rejecting an account for credit granting? A firm has a wide range of choice in this respect. At one end of the spectrum, it may decide not to extend credit to

any customer however strong his credit rating may be. At the other end, it may decide to any customers irrespective of their credit rating.

Between these two extreme positions lay several possibilities, often more practical ones.

In general, liberal credit standards tend to push sales up by attracting more customers. This however is accompanied by a higher incidence of bad debt loss, decrease the investment in receivables and lower the collection costs. (Chandra, 1998)

Credit period; this refers to the length of time customers are allowed to pay for their purchases. It generally varies from 15 days to 60 days. When a firm does not extend any credit, the credit period would obviously be zero. If a firm allows 30 days say of credit, with no discount to induce early payments, its credit terms are stated as 'net 30'.

Lengthening of credit period pushes sales up by inducing existing customers to purchase more and attracting additional customers. This however is accompanied by a larger investment in debtor, and a higher incidence of bad debt losses. Shortening of the credit period would have opposite influence, it tends to lower sales, decrease investment in debtors, and reduce the incidence of bad debt losses (**Chandra, 1984**)

Collection policy; the collection procedure of a firm determines overall collection policy. The procedures should be clear cut and well administered. The procedures include presenting the bills to the customers early, writing to customers, phone calls and individual visits and legal obligations (Van Horne, 1995). Collection its self refers to the procedure the firm follows to recover payments of past dues.

Though the collection procedures should be firmly establishes, individual case should be deal with on its merit. The responsibility for follow up and collection should be clearly fixed because customers in most cases are reluctant to pay back what the organization owes them on time. It is also stated that some clients are slow to pay while others are bad debtors. Thus it is the organization's responsibility to ensure that clients are handled basing on their payment characters.

Information on these variables may be collected from customers, their published financial statements and from outside the agencies which may be keeping credit information about customers. A firm should use this information in preparing categories of customers according to their creditworthiness and default risk.

2.3 CREDIT EVALUATION

Proper assessment of risks credit risks is an important element of credit management. It helps in establishing credit limits. In considering members' loan applications, the credit committee should evaluate the member's qualification based upon an assessment of the following;

Conditions; this relates to the condition under which the loan had been granted applied for. Here we must also take into consideration the overall economic conditions and the prevailing performance of the relevant activity sector.

Capital; the financial reserves of the customer. If the customer has difficulty in meeting his credit obligations from his operating cash flows, the focus shifts to his capital.

Character; the willingness of the customer to honor his financial obligations. It reflects integrity, a moral attributes that is considered very important by credit managers.

Collateral; this is the security provided by members and it included assignment of salaries/ payments for the purpose of this exercise. The ability of the society to dispose of the security if the necessary and the depreciation of levels of the said security must also take into consideration.

Capacity; here we look at the ability of the customers to meet his credit obligations from the operating cash flows. Consideration must be given to job stability, age of member and prospects of continued employment.

To get information on the 5c's a firm may rely on; financial statements, bank references, experience of the firm, process and yields on security.

2.4 MANAGEMENT

The most popular definitions of management is that it is a process of " getting things done through other people" (**Terry and Franklin, 1987**)

Precisely, however management has been defined as " distinct process consisting of activities of planning, organizing, actuating and controlling, performed to determine and accomplish stated objectives with the use of human being and other resources"(**Terry and Franklin 1987**). It has

also been defined as the “the process of designing and maintaining an environment in which individuals working together in groups efficiently accomplish selected goals” (koontz, 1994). Management is also defined as “the process of working with and through individuals and groups and other resources to accomplish organizational goal” (herey and Blanchard, 1998).

Furthermore, management has also been defined as “the process of optimizing human materials and financial contributions for the achievement of organizational goals” (Pearce and Robinson, 1998).

The more modern and dynamic view of management has been expressed by professor sir Roland smith in stating that management should be based on innovation, marketing and risk.

Whatever variations in the definition of management, tow things are generally accepted among scholars; the first is that management is very important in society. The emergence of management as an essential, a distinct and leading institution is a pivotal event in social history (drucker, 1994). The need for management arises out of the scarcity to measure up to its worldwide responsibilities, a high level of efficiency and effectiveness in the use of human and material resource is therefore required.

The progress of any organization if not its very survival depends upon the skills with which we understand and apply the principles of cooperative human effort (koontz, 1990)

Secondly, it is generally agreed that the success of any organization depends on the nature of management practices in that organization. Thus if managers conduct themselves in accordance with accepted codes of conduct and standerds, then it’s likely that it will result in to effective performance of the organization.

MANAGEMENT CHALLENGE;

Management challenge is to maintain control over the processes of an organization while at the same time leading, inspiring, directing and making decisions on all sorts of matter. The challenge of modern managers is to deal with this tension between operations the present systems, structures and processes and the need to change in order to survive. “management as it has been systemized and professionalize, has developed many axioms over the past twenty years, the

stable conditionals that led to the slow emergence of these universals have blown apart” (hannagan, 1998)

MANAGING CHANGE; the management of change in an organization is an area of potential conflict because of these inherent issues of understanding and communication.

Management actions to facilitations change can easily be misunderstood because the procedures and processes already in existence appear to be perfectly good.

‘it is impossible to change organizations which do not accept the dangers of their present way of doing thing’ (John Harvey Jones, 1993).

2.5 CORPORATE GOVERNANCE

In a company, the decision taking authority lies in the hands of management. As the company is a complete organization of various interested parties. Management has the difficult role of reconciling objectives of these parties. In doing so, management may not necessarily act in the best interest of owner and may pursue its own personal goals. But the possibility of pursuing exclusively its own personal goals is considered remote because of the continuous supervision by the company’s owners, employees, creditors, customers, and government will restrict management’s freedom to act in its own interests. It is certain that management will like to survive over long run. A management can survive only if it is successful; and it is successful when it manages the company better than someone else. Every group connected with the company will evaluates management from the point of view of fulfillment of its own objectives. The survival of management will be threatened if the objectives of any of these groups remain unfulfilled (**Pandey, 1995**)

2.6 Relationship between credit policy variables and management

In establishing an optimum credit policy, the financial manager must consider the important decision variables which influence the level of receivable. As stated in the proceeding section, the major controllable decision variables include; credit standards, credit terms and collection efforts.

The credit policy of the firm may be administered by the financial manager or the credit officer. It should however be appreciated that credit policy has important implications for the firm's production, marketing and finance functions. Therefore it's advisable that the firm's credit policy should be formulated by a committee which consists of; executives of production, marketing and finance departments. Within the framework of the credit policy as laid down by the committee, the credit manager should ensure that the firm's value is maximized.

Conclusion

In conclusion therefore, the literature reviewed has indicated that, in establishing an optimum credit policy, the finance manager must incorporate the important variables; credit standards, credit term and collection policy which influence the level of receivables.

Credit officials must also follow the set guidelines as per the credit policy. Otherwise having credit policies which are not implemented is worth nothing.

The credit policy should be revised often so as to eliminate those which are not effective and incorporate new ones which will enhance the levels of receivables.

The credit manager has to work hand in hand with other department managers like organization. Managers should also take decisions which are commensurate to the shareholders' interest to avoid conflicts.

Chapter three

METHODOLOGY

3.0 introduction

This is a chapter focuses on the method and procedure used in the study, it includes research design, area of the study and the sample.

3.1 research design

For consistency, the selection, instrument and procedure of data collection and analysis, the study adopted a cross sectional, qualitative and quantitative were used to capture the relevant information to accomplish the set objectives. The analytical aspect of the study dealt with the analysis of the relationship between credit policy and management of microfinance institutions.

3.2 Survey population

The study sought information from the staff members of the sacco, the credit officials and the clients of the sacco.

3.3 Sampling design

Purposive sampling method was employed in the selection of credit officials since the researcher had to identify respondents with adequate knowledge on management of the sacco. On the other hand, simple random sampling was employed in the selection of respondents from the clients since they were assumed to have similar information on the subject under study.

3.4 Sample size

A total of twenty five (25) respondent were selected comprising of both clients and the staff of kitgum sacco. These were given questionnaires to fill as a way of obtaining relevant information.

3.5 Sampling procedure.

Before going tom the filed for data collection, the research first sought permission from the sacco. This was done with the help of an introductory letter from the faculty of college of open

education and distance learning, department of finance and accounting. The researcher then selected the respondents using the sampling method. From there the researcher sought to interact with the respondents, basically through personal contacts where a few respondents were interviewed. The researcher also personally dropped the questionnaires and went back after two days to pick them.

3.6 Sources of data

The researcher used both primary and secondary sources of data.

Primary data was obtained using the research administered questionnaires and interviews.

This combination was chosen to speed up the response.

Secondary data obtained from the already existing processed information concerning the study area in the institute such as balance sheet, individual ledger cards, and loan files others include textbooks in the library as well as internet websites.

3.7 Data collection methods and instruments

The researcher used a combination of interviews and self administered questionnaires to collect primary data, as well as looking at the organization's documents and relevant journal to collect secondary data.-/

3.8 Data processing and analysis

Editing of the filed instruments was done after which coding was done to feed the responses in the computer for analysis with spss to get the relevant frequencies and percentages that were used in making conclusions on the objectives of the study. The relationship between credit policy and management was then established using the Pearson's correlation coefficient.

Chapter four

Data presentation, analysis and interpretations of findings

4.0 Introduction

This chapter presents the solutions to the research objectives in chapter one that is to say it covers the aspects of credit policy used in kitgum sacco and management of kitgum sacco. The findings are presented using tables and graphs and analyzed using frequencies and percentages basing on the interpretations.

4.1 Respondents rate

The findings in this chapter are representative of the majority of the respondents targeted from the staff and clients of kitgum sacco. From the 25 respondents targeted, all were assessed and gave in their views as required.

4.2 Findings on whether kitgum sacco have credit policy.

The respondents were asked whether kitgum sacco have credit policy and their responses was 95.0% of respondent indicates that kitgum sacco has credit policies in place and only 5.0% were not sure of the policy because they were still in the organization.

4.2.1: findings on the period for review of the credit policy.

The respondents were asked how often kitgum sacco review its credit policy.

Table1: showing the period for the review of credit policy

Responses	Frequency	Percent
Monthly	2	8
Semi annually	2	8
Annually	18	72
It depends on the nature of the ongoing policy	2	8
Total	24	96
System	1	4
Total	25	100

Source: primary data

According to the finding from table 1 (72%) of the respondent revealed that the policies in place are reviewed annually which may not be appropriate in case of an urgency where policy is not performing and needs to be revised with immediate effect.

4.2.2: findings on the contribution of credit policy to debt collections.

The respondents were asked to what extent credit policy has contributed to debt collections.

Table2: showing credit policy contribution

responses	frequency	Percent
Greater	6	24
Moderate	3	12
Lesser	15	60
Not in the system	1	4
totals	25	100.0

Source: primary data

From table2, it is revealed that credit policy does not contribute much to the debt collection as 60% of the responded to a less extent. The findings have indicated that kitgum sacco does not reap much the existing credit policies.

4.2.3: findings on the recommendations made by respondents on the existing credit policy.

The respondents were asked to give their recommendations on the existing credit policy, 85% of respondents have recommended better results as result of the existing credit policy and only 15% of the respondents rejected the credit policy.

4.2.4: finding on the credit policy preferred by kitgum sacco

The respondents were asked to give the credit policy used by kitgum sacco.

The response are shown in the table below

Table 3: showing the credit policy preferred by kitgum Sacco

What credit policy does Kitgum sacco use	Responses	
	N	Percent
credit standard analysis	5	20%
Credit terms analysis	13	52%
Collection procedures	7	28%
Total	25	100%

Source: primary data

From table3, more than half of the respondents (52%) said that credit terms analysis is the credit policy most preferred by the sacco, followed by collection procedures and credit standard analysis is the least preferred.

4.2.5: Financings on the extent to which the existing policies affect the performance of kitgum Sacco.

The respondents were asked to give the extent to which the existing policies affect the performance of the Sacco and 75% said the existing credit policies have affected the performance of kitgum Sacco to a greater extent.

4.2.6: finding on the rating of performance of kitgum Sacco between 2001 and 2009.

The respondents were asked to rate the performance of kitgum Sacco.

From the findings, the performance of kitgum Sacco has been rated by moderate profits with 65%. The financial statements also indicate that there is increasing number of debtors and this implies that the existing credit policy management has loopholes hence affecting performance of the organization.

4.2.7: Findings on the impact of management on the credit policy.

The respondents were asked on the impact of management on the credit policy.

The table below shows the responses.

Tables 4: showing the impact of management

Responses	Frequency	Percent
Strong impact	7	28
Moderate impact	12	48
Low impact	4	16
No impact	2	8
Total	25	100.0

Source: primary data

The findings revealed that, despite the existence of the credit policies, management do not strictly follow and that is why the policies have not contributed much to the performance of the Sacco.

4.2.8: findings on whether recommendations are required before a customer gets credits.

The respondents were asked if recommendations are required before he/she gets credit from the Sacco and they strongly agreed that recommendations are required before a customer gets credit, supported by 90% responses.

4.2.9. Findings on whether the Sacco assesses a customer's capacity to settle debts.

The respondents were asked on whether the Sacco assesses a customer's capacity to settle debts before extension of credits.

The responses are shown in the table below

Table 5: showing the customer's assessment

Responses	Frequency	Percent
Yes	19	95.0
No	1	5.0
Total	20	100.0

Source: primary data

The findings revealed that the Sacco first assesses a customer's capacity to settle debts before credits are extended to him or her.

4.3.0: Findings on the payback period

Table 6: showing payback period

Responses	Frequency	Percent
4 weeks	7	35.0
6 months	8	40.0
Monthly	3	15.0
Depends on the amount of money given	2	10.0
Total	20	100.0

Source: primary data

40% of the respondents said that the payback period is 6 months followed by 35% who reveal that the payback period is 4 weeks. But according to the information I got, the payback period is 6 months, however an active customer can get finish his or her payment within a month and get another loan.

4.3.1: findings on whether the Saco organizes sensitization programs.

The respondents were asked whether the Sacco organizes sensitization programs before extension of credits.

The findings absolutely revealed that the Sacco organizes sensitization programs before credits are extended to customers, so that they are availed with information on how to properly utilizes funds given to them.

4.3.2: Findings on the conditions that go with loans given out.

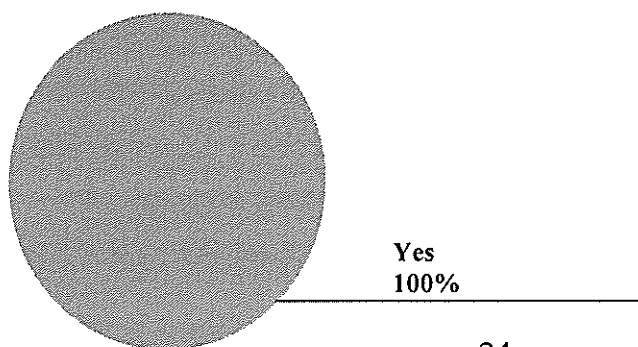
The respondents were asked to give the conditions that go with the loans given out.

According to the findings, it has revealed that the SACCO is more interested in the collateral security as a major condition for granting loans to its customers. In addition to the collateral security, the SACCO also considers group guarantee and past history while granting loans.

4.3.3: Findings on whether the SACCO sends reminder letters to customers who do not pay promptly.

The respondents were asked if the SACCO sends reminder letters to customers who do not pay promptly.

Figure1: showing whether the SACCO sends reminder letters to customers who do not pay promptly.



The findings revealed that reminder letters are sent to customers to remind them of their woeful obligations to the institution.

4.3.4: Findings on whether loans are advanced to individuals or groups

The respondents were asked whether loans are advanced to individuals or groups.

The responses are shown in the table below.

Table 7: showing category of loan advancement

Responses	Frequency	Percent
Individuals	10	40
Groups	7	28
Both group and individuals	8	32
Total	25	100.0

Source: primary data

According to the findings, majority of the respondents said that the SACCO grants both individual and groups basing on the choice of the applicant

4.3.5: Findings on whether customers are required to have accounts with the SACCO before application loans.

The respondents were asked whether customers are required to have accounts with the SACCO before application for a loan.

The table below shows the responses.

Table 8: Showing accounts requirements

Response	Frequency	Percent
Yes	25	100.0

Source: primary data

The findings revealed that, for an application to be granted loans , he/she must be having an account with the SACOO so as to help in credit evaluation of the applicant.

4.3.6: Findings on the analysis of bad debts.

The respondents were asked whether bad debts are written off.

Table 9: showing analysis of bad debts.

Reponses	Frequency	Percent
Yes	16	64
No	9	36
Total	25	100

Source: primary data

64% of the respondents said that bad debts are written off. This at times may not be appropriate because some debts are written off without having adequate information as regards the payments simply because the greedy officials want to maximize their value other than the shareholders'.

4.3.7: Findings on the rate of interest charged by SACCO.

The respondents were asked the rate of interest charged by the SACCO.

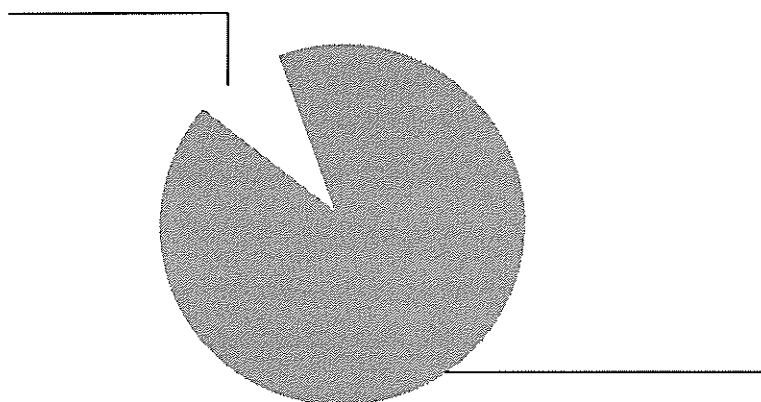
The figure bellows the responses.

As revealed by the findings, the SACOO charge 3% interest rate per period and the credit supervisor said it has been put at a low rate so as to motivate even the low income earners to borrow and thus increase receivable.

4.3.8: Findings on the collateral security

The respondents were asked whether the SACCO asks for collateral security before granting loans clients.

Figure 2: showing whether the SACCO asks for collateral security before granting credits.



89.5% of the respondents revealed that the SACCO asks for collateral security before granting credits to its clients. The respondents through an interview also revealed that the credit officials are always reluctant to go physically and determine the value of the security, as a result the level of debts receivables have increased.

4.3.9: Findings on the rating of credit policy by the clients.

The respondents were asked how they rate the credit policy of Kitgum SACCO

The table below shows the responses.

Table 10: showing the rating of credit policy

Responses	Frequency	Percent
Very effective	5	20
Effective	15	60
Ineffective	3	12
Total	23	92
Missing System	2	08
Total	25	100.0

Source: primary data

The findings revealed that the credit policy of the SACCO is effective; however it would be more effective if the credit officials strictly follow the policies in place, unfortunately the officials themselves are engaged in unethical behavior.

4.4.0: Findings on the efforts made by the clients to honour their credit obligations.

The respondents were asked the efforts they put in to their credit obligations.

Table: 11 showing efforts made by the clients to honour their credit obligations.

Responses	Frequency	Percent
Yes	23	92
Missing system	2	8
Total	25	100.0

Source: Primary data

As revealed by the findings 92% of the respondents (clients) said that they really make an effort to honour their credits obligations only that at times things do not work out as expected and this may result into unnecessary delays which affect the efficient operation of the SACCO

4.4.1 Findings on how the SACCO contacts its clients.

The respondents were asked how they can be contacted by the SACCO

The table shows the responses.

Table 12: showing how the SACCO contacts it clients

How can you be contacted by sacco?	Responses	
	N	Percent
By telephone	15	60%
Personal visit		
Total	10	40%
	25	100.0%

Source: Primary data

The findings revealed that clients contacted through telephoning outweigh that of personal visits. Reason being advancement in technology and most clients has telephone.

4.4.2 Findings on the duration taken by clients to clear their debts.

The respondents were asked how long they take to clear their debts

Table 13: showing the duration taken by clients to clear debts

Responses	Frequency	Percent
Within 10 days	1	4
Within 30 days	4	16
Between 30-60 days	1	4
Between 60-90 days	4	16
Over 90 days	14	56
Total	24	96
Missing System	1	4
Total	25	100.0

Source: primary data

The findings revealed that most clients take between 60-90days to clear their debts majority of the clients said that they take long because of the difficulties of getting money.

4.4.3: findings on the relationship between credit policy and management

The findings revealed that there is a statistically significant relationship between credit policy and management

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 introduction

This chapter covers a discussion of findings, conclusions and recommendations.

The assessment of the performance of kitgum SACCO has been derived from financial reports, strategic plan and the primary data

Discussion of findings

5.1 credit policy in kitgum SACCO

The credit standards revealed that kitgum SACCO relies mostly on the application forms filled by the loan applicants, which may not be efficient and comprehensive enough to cater for all the attributes of credit screening. In other words there is no formal evaluation criterion in place.

The finding revealed that the credit period extended to clients were 6 months and 1 year respectively depending on the amount borrowed. However , findings revealed to the researcher that no discounts are allowed to customers even on prompt settlement of debts and yet this serves as an incentive to customers to pay promptly. The researcher also noted that the credit terms are not strictly adhered to due to the credit officials' laxity in making follow ups.

The findings also indicated that the level of debt receivables largely depending on the effectiveness of collection procedures. however finding also indicated that there is a general laxity by management to follow up and implement the collection procedures and inconsistencies in collection policy which needs to be addressed An analysis of the financial reports revealed that the debtor's turnover period is has remained long which affects the timing of collection . the researchers also noted that due to in adequate finances from revenue collection, Kitgum SACCO has failed to cope up with the collection procedures like putting in place field officers who would otherwise reduce on the operational costs henece continues to rely substantially on government funding and donor support.

The researcher cited some general weakness of management which has also seriously impacted on the performance of the SACCO.these included engaging in insider lending, improper keeping

of loan files which resulted into lost of many files , untrustworthiness of some credit official by engaging in misappropriation of funds as a result some officials ended up being imprisoned.

The findings further established that there was poor client/ credit screening. The credit terms were not strictly adhered to by both management staff and customers, collection procedures do not clearly specify the time frames for taking actions, debt monitoring and recovery procedures were done in a reluctant way. There are also inconsistencies in sending reminder letters to the debtors and all these have frustrated the credit policy in place leading to huge uncollectible arrears thus low revenue collection , and inability of the SACCO to be financially self sufficient from the revenue generated internally.

5.2 conclusions

The study focused on credit policy and management with a view of identifying better approaches to credit management for improved efficiency in operations. From the findings of the study, the researcher concluded that credit policy and management have a significant impact on the performance of kitgum SACCO and the SACCO should also be very selective in choosing credit policies which will yield the desired results and fit into the resources of the company. The major problem were increase in debtors, low liquidity ration, incompetent management among other. Low revenue collections of kitgum SACCO resulted from inefficiencies in the credit management system. All in all credit policy and management affect the performance of kitgum SACCO though there are also other factors which determine its performance.

5.3 Recommendation

In order to be able to check on losses and defaults in kitgum SACCO and also have a more efficient credit policy management. The researcher came up with the following views:

Kitgum SACCO needs to reassess the existing credit policy and if necessary to adopt those policies which can enhance its performance. Further training should be organized for credit officers to ensure that they update knowledge as regards to debt collections and credit management .

Frequent evaluation of the credit official should be carried out to eliminate the inactive and untrustworthy officials.

Credit monitoring still needs to be stepped up to ensure constant check on the customers.
Reasonable punishments should be given to the credit officers who are engaged in unethical behavior like embezzling of the SACCOs' funds, bribery, accounting maneuvering and so forth.

5.4 further research to be done

The most suitable approaches to credit management

The impacts of management on performance

The impact of credit policy on revenue

REFERENCES

Pandy I.M [1995] financial management, seventh revised edition, reprint 1997, p790

Kakuru Julius, [2003]: basic financial management

Paul hersey and Kenneth H. Blanchard [1996] management organizational behavior, seventh edition p7

Terry G and S.G Franklin, [1987], principles of management second edition p4

Prasanna Chandra [1984] financial management theory and practice, fourth edition p451

James C.Van Horne[financial management and policy tenth edition p402

Harold Koontz and Heinz Weihrich, [1990]: essentials of management, fifth edition p4

Tim Hannagan,[1998]:management concepts and practices, second edition

Lubega, February 7, 2009 Saturday MONITOR

QUESTIONNAIRE

KAMPALA INTERNATIONAL UNIVERSITY COLLEGE OPEN EDUCATION AND DISTANCE LEARNING

Dear sir/madam,

Please complete this questionnaire which is for academic purpose only. The researcher is a student of kampala international university, faculty of CODL carry outing a research in the impact of credit evaluation and performance of microfinance institution a case study of kitgum sacco., the information you will provide will be treated with confidentiality.

Please tick the appropriate answer

- 1-Does kitgum sacco has any credit policy in place?
 - a- Yes
 - b- No
 - c- Not sure
- 2-if yes how often does kitgum sacco revise the credit policy in place?
 - a- Weekly
 - b- Monthly
 - c- Annually
- 3-how much has the existing policy contributed to debt collection?
 - a- 20%
 - b- 40%-
 - c- 60%
 - d- 90%
- 4-do you recommend the existing policy for better results
 - a- Yes
 - b- No
- 5-What credit policy does kitgum sacco use?
 - a- Credit standard analysis
 - b- Credit term analysis
 - c- Collection procedures
- 6-to what extend does the existing policy affect the performance of kitgum sacco?
 - a- Greater extend
 - b- Lesser extend
 - c- Not sure
- 7-how do you rate performance of kitgum sacco between 2001 and 2009?
 - a- Very high profit
 - b- Moderate profit
 - c- High profit
 - d- Very low profit
- 8-what impact does management has on the credit policy of kitgum
 - a- Strong impact
 - b- Moderate impact

- c- Low impact
 - d- No impact
- 9-are recommendation required before attaining credits by the customers?
- a- Yes
 - b- No
- 10-does sacco assess customers capacity to settle debts before credits are extended to him/her
- a- Yes
 - b- No
- 11-what is the payback period?
- a- 1 week
 - b- 2 weeks
 - c- 4weeks
- 12-does the sacco organize sensitization programs before extension of credits?
- a- Yes
 - b- No
- 13-what are the conditions that go with the loan given out?
- a- Collateral security
 - b- Group grantee
 - c- Fellow clients
 - d- Employer
 - e- Past history
- 14-does the sacco send reminder letters to customers who do not pay as agreed?
- a- Yes
 - b- No
- 15-does the sacco require customers to have accounts with them before application for a loan?
- a- Yes
 - b- No
- 16-in your opinion how do you rate sacco credit policy
- a- Very effective
 - b- Effective
 - c- Ineffective
- 17-do you make any effort to honour your credit obligations?
- a- Yes
 - b- No
- 18-how can you be contacted by the sacco?
- a- Telephone
 - b- Postal address
 - c- Personal visit
- 19-how long do you take to clear your debts?
- a- Within 10 days
 - b- Within 30 days
 - c- Between 30-60days
 - d- Between 60-90 days

AN INTERVIEW GUIDE

Research question directed to management

1. Is there a well defined hierarchy of authority within kitgum SACCO?
2. Are rules and procedures governing the duties and responsibilities of employees clearly spelled out?
3. Are recruiting, hiring and promotions in kitgum SACCO based on merit and expertise?
4. Do managers of kitgum SACCO know the goals and objectives of the SACCO?
5. Do the managers of kitgum SACCO carry out their responsibilities according to priorities?
6. Does the manager of kitgum SACCO evaluate their targets?
7. Do the managers of kitgum SACCO encourage the training of subordinates in order to increase their overall knowledge in their specific fields?
8. What are the sources of funds in kitgum SACCO and how are they managed?
9. Are expenditures in kitgum SACCO kept at the minimum compatible with the services required?
10. How are conflicts between the shareholders and policies resolved?

**INSTITUTE OF OPEN AND DISTANCE LEARNING
OFFICE OF THE DIRECTOR**

Date: 30th October, 2010

TO WHOM IT MAY CONCERN

Re: AKWERO FILDAH PHIONA – BCOM/16568/71/DU

This is to inform you that the above named is a student of Kampala International University pursuing Bachelors Degree in Commerce under the Institute of Open and Distance Learning. She would like to carry out an Industrial Training within your organization

Kindly assist her so that she can be able to complete her project paper and research report.

Thank you

