LOAN MANAGEMENT AND FINANCIAL PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVES IN KAMPALA DISTRICT, UGANDA

BY

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A THESIS PRESENTED TO THE COLLEGE OF HIGHER DEGREES AND RESEARCH IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING AND FINANCE) OF KAMPALA INTERNATIONAL UNIVERSITY
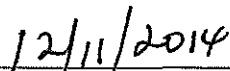
NOVEMBER 2014

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DECLARATION A

I declare that this Thesis is my original work, and has not been submitted to any institution of higher learning for any other academic award.

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Norah Kwizera

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12/11/2014
Date

DECLARATION B

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

_____
Name and Signature of Supervisor

_____
Date

DEDICATION

To my beloved Father and Mother:

Mr. Herbert Kwizera and Mekitilida Kokumanya Nalongo

(the fountain of my inspiration)

ACKNOWLEDGEMENT

I wish to acknowledge a number of people whose contribution and inspiration have greatly contributed to the success of my studies.

To begin with, I would like to thankfully acknowledge the very good work done by my Supervisor, Dr. Muhamad Ssendagi. Without his professional guidance, this Thesis would not have taken shape.

Special thanks also go to my beloved Parents (Mr. Herbert Kwizera and Mekitilida Kokumanya Nalongo) who not only brought me to this world but natured me from childhood, educated me and molded me into the adult am today.

Besides, I would like to thank my beloved Husband, Prof. Kepha Natolooka, and our three lovely Sons – Joseph, David and Elijah, and Niece – Phionah Nakirya, for the love, support, and sacrifice they (have) made to see me through my Bachelor's and Master's Degree Studies. I also wish to thank my friends: Susan Nambafu, Moses Kisule and Edith Wamalwa for their continuous encouragement and support they have accorded me throughout.

Overall, I would like to extend my deep heartfelt thanks the Almighty God for the gift of life and enablement. Without Him, I would be nothing. May His Mighty Name be glorified forever, and to Him be the Glory!

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ABSTRACT

The study delved into Loan management and financial performance of the selected Savings and Credit Cooperatives (SACCOs) in Kampala District, Uganda. Specifically, the study sought: to determine the extent of loan management in the New Vision and Toyota Uganda's SACCOs; to determine the level of financial performance; and to establish if there was a significant relationship between the extent of loan management and level of financial performance of the New Vision and Toyota Uganda's SACCOs. Using descriptive correlation and cross sectional survey designs, a sample of 173 respondents was selected and studied through a self-administered questionnaire. Frequency counts and percentage distribution were used to analyze data on the profile characteristics of the respondents; while means and ranks were used to determine the extent of loans management and the level of financial performance of the SACCOs. The study findings revealed as follows. First, the extent of loan management in both SACCOs is generally satisfactory (overall mean=2.57). Second, the level of financial performance was generally high (average mean=2.90). And third, there is a positive significant relationship between the extent of loan management practices and financial performance of the two SACCOs (r=0.619, sig. = 0.000) implying that an improvement in the loan management practices of a SACCO is likely to increase its financial performance indicators. On the basis of the foregoing findings, it was concluded that the extent of loan management and the financial performance of the two SACCOs are generally satisfactory. Nevertheless, the loan management practices of these SACCOs significantly affect their financial performance and financial health. Besides, proper assessment of the credit worthiness of clients, credit period, decision to grant loans and securities, and penalties, significantly enhance the financial health of a SACCO. However, offering incentives in form of discounts to encourage early repayment may worsen the financial performance of SACCOs. For these SACCOs to improve their financial performance, therefore, the researcher recommends as follows: the loans officers/managers should make sure that they give clients a specific date of repayment; the policy on repayment discounts should be streamlined; the whole practice/policy on securities and penalties should be improved; there is need to reduce the number of defaulters; the need to increase investments in stocks; and to systematize the procedures for deciding to grant loans and credit period.

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

This chapter describes the background of the study in terms of historical, theoretical, conceptual and contextual perspectives. It also gives the statement of the problem, purpose of the study, objectives, research questions, hypothesis, scope and significance of the study.

1.1 Background to the Study

1.1.1 Historical Perspective

Globally, Saving and Credit Cooperative Societies (SACCOs) have received international recognition as means through which poverty in developing countries can be alleviated (Park *et al.*, 2007). At the national scene in the early 1930s, 1940s, 1950s, and 1960s, several cooperative societies were established along tribal geographical lines. For example, in the early 1980s there existed Busoga Cooperative Union, Bugisu Cooperative Union, East Mengo Cooperative Union, Banyankore Kweterana Cooperative Union. These cooperative unions no doubt played a central role in improving not only the income per capita standards of living but most fundamentally became a scene of unity in which individual groups came together to fight poverty (Kibande, 2008).

In 1980s, cooperative unions experienced a severe setback following the collapse of Obote II government. According to Kibande (2008), although several factors accounted for the collapse of these cooperative societies, one important outstanding factor is deeply rooted in poor management and political interference.

Under the cooperative statute of 1991 and Regulations of 1992, the National Resistance Movement government re-established the cooperative societies, in the names of Savings and Credit Cooperative

Societies (SACCOs). The objective of these SACCOs was to mobilize financial resources and involve the active poor members of the rural community in income generating activities, although later their movement spread to urban areas to provide loans to small traders and women. SACCOs have now lived on since 2001 and it is expected that the rate of access to loans by women and other small traders has generally increased.

After their establishment, SACCOs have met an obvious need for people who are excluded from the loans market but their objectives go beyond simply providing small loans to include the aim of improving the living conditions of its members. While there is in fact little rigorous empirical evidence due to the absence of really convincing evaluations, the very principle of impact assessment has given rise to a great deal of debate among both practitioners and academicians (Smith, 2001).

SACCOs, if they were to serve the purpose for which they were created, were meant to provide various types of loans, not limited to short term emergency loans (less than 6 months), medium term (less than one year), and long term loans (less than two years) with favorable interest rates (Mutesasira *et al.*,1998). SACCOs therefore operate more or less like formal banks, since they can offer such loan facilities to their members. Mutesasira *et al.* (1998) argue that SACCOs are popular with members because they are a source of easy (and cheap) loans compared to banks whose bureaucratic requirements include long complicated application procedures among other things.

Ahimbisibwe (2007) conducted a study on the effects of savings and credit co-operative on members' saving cultures which recommended that SACCOs should develop varied products that meet various categories of membership needs. He also recommended that the

management of SACCOs should take seriously the rewarding of best and regular savers and so is payment of interest on savings deposits and for the government to strengthen supervision and licensing and facilitate SACCOs to acquire bank codes to handle salaries for the professional members so as to attract new professionals and retain old ones. The current study considers these recommendations as the based on the several challenges SACCOs were facing in mobilisation of savers and recovery of loans, which when done well, their financial and general performance will greatly be enhanced.

1.1.2 Theoretical Perspective

Effective loans management determines the business cash flow and thereby the liquidity of the operation (Drever & Armstrong, 2005). Failure to effectively manage loans sees SACCOs experiencing late payments to their creditors and a breakdown in the financial flow chain which then affects their ability to service their debtors.

There are various models or theories which explain the operation of the money lending business. Many of them explain the conventional banking principles, based on profit maximisation and the use of collateral securities. All these conventional business/financial institutions' management models do not explain the micro loans management aspect. This made the researcher to adopt the use of the social business model, initiated by Muhammad Yunus, the founder of the Grameen bank in 1976 (Muhammad, *et al.*, 2010). This model according to Muhammad *et al.* (2010) requires new value propositions, value constellations and profit equations and as such, resembles the business model innovation according to Muhammad *et al.* (2010). In this study the researcher makes analysis of this social business model, the lessons from it and how it can be applied to successful management of micro loans found in Micro finance Institutions and SACCOs.

1.1.3 Conceptual Perspective

According to the guidelines given in the "Controler's Hand Book", April 1998, loan management (LM) can be defined as the process by which risks that are inherent in the credit process are managed and controlled (Administrator of National Banks and Comptroller of the Currency, 1998).The process of LM is a primary supervisory activity (Administrator of National Banks and Comptroller of the Currency, 1998) which is among the key functions of management. This process (of LM) involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. It also involves identification and management of risks among groups of loans before they occur. Good loan managers concentrated most of their effort on prudently approving loans and carefully monitoring loan performance.

It is indicated in the controller's hand book (April, 1998) that effective loan management begins with oversight of the risk in individual loans. At this stage, prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential. But better technology and information systems have opened the door to better management methods. A loan manager can now obtain early indications of increasing risk by taking a more comprehensive view of the loan portfolio.

To manage their loans, SACCO managers must understand not only the risk posed by each loan but also how the risks of individual loans are interrelated.

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Loan management practices are many and vary from one institution to another, depending on size and other factors. In 1997, the OCC's Advisory Letter 97-3 encouraged banks to view risk management in terms of the entire loan portfolio (Administrator of National Banks and Comptroller of the Currency, 1998). This letter identified nine elements that should be part of the loan management process. These elements complement such other fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls. The nine elements are: 1) Assessment of the credit culture; 2) Portfolio objectives and risk tolerance limits; 3) Management information systems; 4) Portfolio segmentation and risk diversification objectives; 5) Analysis of loans originated by other lenders; 6) Aggregate policy and underwriting exception systems; 7) Stress testing portfolios; 8) Independent and effective control functions; and 9) Analysis of portfolio risk/reward tradeoffs.

Financial performance (in financial institutions) refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats (Stoner, 2003) and it is measured by how efficient the enterprise is in use of resources in achieving its objectives. In this study, financial performance will be measured using five elements namely profitability, financial sustainability, liquidity efficiency, financial efficiency and operational efficiency.

1.1.4 Contextual Perspective

In Uganda, SACCOs are a type of microfinance institutions (MFIs) which are not regulated by the Central Bank and are locally managed. Members purchase shares of stock and make a commitment to save at least once a month. Such savings become the loan base; from which members can access credit (Dan, 2008). Saving and credit cooperation

society (SACCOs) have now become a panacea to poverty alleviation in Uganda, like it is in many developing countries. As advanced by Park *et al.* (2000), SACCOs are instrumental in mobilizing the poor masses for action against poverty as well as resources for distribution in form of loans. However, the SACCOs in Uganda are facing a serious challenge in their struggle to deliver the financial services as expected.

As noted by Sekajja (2007), SACCOs in Uganda experience many problems, including those related to credit activities, indicated by low margin business. Their interest rates are un favourable to members in many cases. For example, Share an Opportunity Microfinance Ltd. (SAO) loans to SACCOs at 1% interest rate per month and the SACCOs loans to members at 3% per month rate, using the spread to cover operating costs. The loans are small, so Share an Opportunity was perennially short of funds with which to grow, an indicator of poor performance. On the other hand, there is a conflicting interest; holding other factors constant, the higher the interest rate charged, the lower the demand for loans. This is because at high interest rates, the returns from an activity must be high enough to enable the investor to retain a profit after paying the loan plus interest. This therefore means that SACCOs have to rely more on the resources generated through purchase of shares by members and membership deposits. Mpuga (2004) had earlier noted that government schemes such as "Entandikwa" were plagued with a culture of default and the presence of political interest. One of the reasons for the failure or at least poor performance of these forms of credit was that they were not adapted to the demand for services by the poor households and communities were not properly sensitized or trained on how the program should be sustainable.

In Uganda, microfinance services are provided by three types of institutions; formal institutions, such as rural banks, saving and credit

cooperative societies (SACCOs); semiformal institutions, such as nongovernment organizations; and informal sources such as money lenders and shopkeepers, however their service delivery systems hardly address customer needs so as to improve institutions of financial performance.

According to UBOS (2010) many Ugandan SACCOs lack competitive norms and that is why their performance is still low. This problem is largely reflected in the various measures of performance which includes market share, sales growth and profitability of these institutions. According to UBOS (2010) the number of active clients in SACCOs reduced from 558,142 in 2007 to 535, 700 in 2008 and to 513, 908 in 2009, active borrowers reduced to 210,000 in 2009. Based on these few facts, financial performance of SACCOs remains challenged as they registered 81% achievement of profit targets in 2007, 76% in 2008 and 80% in 2009. Majority SACCOs (almost 60%) in Uganda do not have proper functioning systems of loans management; complaints take long to be handled, with a lot of procedures for one to get a service especially loans, sometimes these institutions do not have enough money to give to clients and are rarely offer simple after sales services. The researcher wanted to establish whether the loan management practices of these SACCOs is affecting their financial performance in case of Kampala.

1.2 Statement of the problem

According to UBOS (2010) SACCOS in Kampala have had several failures in their operations. For example, UBOS (2010) indicates that SACCOS in Uganda have failed to meet their profit targets by 100% and have been rotating between 70-80%, have experienced decline in savers, reduction in active borrowers and poor loan performance. In Kampala where they are largely concentrated, SACCOs exhibit lack of or no after sales services, failure to understand the actual needs of

customers, delayed service delivery, poor or lack of customer care, lengthy time to clear customer complaints.

Most of the foregoing failures are related to finance and management. The problems mentioned above if not solved may result into failure of these SACCOs to deliver as expected, failure to reduce poverty and loss of much money they currently hold, unfortunately for many poor people. All these problems lead us to ask a question of whether the SACCOS's screening criteria are efficient in screening credit worthy borrowers, determining the appropriate loan size, terms and conditions that take into account the repayment capacity of the borrower.

While there are many possible causes, the researcher in this study found it necessary to make an empirical investigation on the factors behind the poor financial performance of these SACCOs, concentrating on the loan management factor, since no empirical study was found on how loan management influences financial performance in Kampala SACCOs.

1.3 Purpose of the study

This study investigated the relationship between loans management and financial performance of selected SACCOs in Kampala Uganda.

1.4 Research Objectives

The research was guided by the following objectives:

a) To determine the extent of loan management in the selected SACCOs in Kampala District

b) To determine the level of financial performance of selected SACCOs in Kampala District.

c) To establish if there is a significant relationship between the extent of loans management and level of financial performance of the selected SACCOs in Kampala District.

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1.5 Research Questions

To achieve the above research objectives, the researcher was guided by the questions below:

a) What is the extent of loan management in the selected SACCOs in Kampala District?

b) What is the level of financial performance of selected SACCOs in Kampala District?

c) Is there a significant relationship between the extent of loans management and level of financial performance of the selected SACCOs in Kampala District?

1.6 Hypothesis

There is no significant relationship between the extent of loans management and level of financial performance of the selected SACCOs in Kampala District.

1.7 Scope

Geographical Scope

The study was conducted in two selected SACCOs in Kampala Capital City Authority, which are New Vision SACCO and Toyota Uganda SACCO. Kampala was chosen because there are many micro institutions in Kampala district competing for the same customers therefore they try to relax their loan giving and acquisition requirements, which has sometimes brought them financial problems. The researcher therefore investigated how loan management has affected financial performance of the SACCOs in Kampala, where competition is high.

Content Scope

The study examined loan management by examining several loan management practices exercised by the selected SACCOs in Kampala, limited to the way they assess the creditworthiness of their clients,

determining the loan repayment period, repayment discounts, decision to grant a loan, securities and penalties. Financial performance of SACCOs in Kampala was investigated using five elements namely profitability, financial sustainability, liquidity efficiency, financial efficiency and operational efficiency.

Theoretical Scope

The study was based on the social business model, proposed by Muhammad Yunus, the founder of the Grameen bank in 1976 (Muhammad, *et al.*, 2010). This model requires new value propositions, value constellations and profit equations and new loan management approaches. In this study the researcher makes analysis of this social business model, in form of new lessons from it that can be applied to successful management of micro loans found in SACCOs.

1.8 Significance of the study

The findings of this study can be utilized by the following groups of people in a number of ways.

Policy makers: As individuals charged with formulating policies, their understanding of the role of having appropriate loan management practices and procedure remain a key task to them in order to improve the performance of these financial institutions that are addressing the problems of the poor. Therefore, findings from this study may help them in formulation of better policies. The policy makers may review their decisions on how best they can involve necessary bodies in the struggle to improve service delivery among financial institutions.

Managers of SACCOs; The study assists the management of SACCOs to appreciate loan management practices and its impact on financial performance. Management will also have opportunity to review their loan management practices as well as their impact on financial performance.

Government agencies; The study also assists government agencies in developing regulatory and legislative framework that will assist SACCOs in developing and adopting sound loan management practices in Kampala.

Students and academicians/researchers; Findings of this study contribute to the existing literature that can be used by academicians who may wish to carry out further studies on a related subject matter.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

This chapter shows the conceptual review, theoretical review and review of related studies from different researchers on study variables.

2.1 Theoretical Review

Effective loans management determines the business cash flow and thereby the liquidity of the operation (Drever & Armstrong, 2005). Failure to effectively manage loans sees SACCOs experiencing late payments to their creditors and a breakdown in the financial flow chain which then affects their ability to service their debtors. There are various models or theories which explain the operation of the money lending business.

Many of those models explain the conventional banking principles, based on profit maximization and the use of collateral securities. All these conventional business/ financial institutions' management models do not explain the micro loans management aspect. This made the researcher to adopt the use of the social business model, initiated by Muhammad Yunus, the founder of the Grameen bank in 1976 (Muhammad, *et al.*, 2010). This model according to Muhammad *et al.* (2010) requires new value propositions, value constellations and profit equations and as such, resembles the business model innovation according to Muhammad *et al.* (2010). In this study the researcher makes analysis of this social business model, the lessons from it and how it can be applied to successful management of micro loans found in Micro finance Institutions and SACCOs.

2.2 Conceptual Framework and Review

2.2.1 Conceptual Framework

Independent Variable	Dependent Variable
Loan Management characterized by the Extent of: ◆ Assessing the credit worthiness of clients ◆ Managing debt repayment periods ◆ Managing cash discounts ◆ Institution of securities and penalties ◆ Making decisions to grant credit	**Financial Performance** characterized by the Degree of: ◆ Profitability ◆ Financial sustainability ◆ Liquidity efficiency ◆ Financial efficiency ◆ Operational efficiency

Source: Developed by the researcher

Figure 1: Conceptual Framework relating Loan Management and Financial Performance.

As indicated in the above framework, Loan Management is the Independent Variable (IV) while Financial Performance is the Dependent Variable (DV). Loan Management is determined by the extent of: assessing the credit worthiness of clients; managing debt repayment periods; managing cash discounts; institution of securities and penalties; and making decisions to grant credit. On the other hand, Financial Performance (of SACCOs) is determined by the degree of: profitability; financial sustainability; liquidity efficiency; financial efficiency; and operational efficiency.

In determining the relationship between Loan Management and Financial Performance of the selected SACCOs, two types of relationships are possible. First is where there is a significant relationship (denoted by a straight line arrow as shown above). This

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would imply that 'there is a significant relationship between the extent of Loan Management and the degree of Financial Performance of the selected SACCOs. On the other hand, the second type of relationship is where there is a less/no significant relationship (which is denoted by the indented/dotted straight line arrow). This would imply that 'there is a less or no significant relationship between the extent of Loan Management and the degree of Financial Performance of the selected SACCOs. This study, therefore, was carried out to determine which of the foregoing types of relationship exists between extent of Loan Management and the degree of Financial Performance of the selected SACCOs.

2.2.2 Conceptual Review

Loan Management

Like other functions, loan management is a management function, although it is defined differently by different writers. Loan management can be defined as the guidelines and procedures SACCOs use to issue out loans to their applying clients and the process of monitoring their timely collection. Samuels (2006), argues that the loan management function involves planning, controlling and effective utilization of loan fund. Various studies have been conducted on loan management, but most of them did not go deep into the details of loan management process.

This study examined loan management as one of the functions of credit management. Loan management may also be known as loan control, which is the process by which management attempts to ensure that the organization's direction and the activities of its people are in line with its plans. Several control activities are put in place and exercised or carried out by the concerned individuals to achieve desired objectives of the enterprise. Loan management activities are the specific policies and procedures designed and implemented by

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management to minimize the risks associated with dealing in credit transactions.

For small companies like SACCOs, efficient loan management is a vital component of success and survival (Peel & Wilson, 1996). Managing the loans also involves managing cash-flows to ensure that the business has enough cash to run its day today activities. Managing cash-flows and the cash conversion cycle, is a critical component of overall financial management for all firms (Dodge *et al.,* 1994) and particularly small firms who are often more reliant on short-term sources of finance (Cosh & Hughes, 1994). Chakraborty (2008) has indicated that enforcing credit terms can be a problem, particularly for smaller firms. Indeed, the late payment of loans has often been cited as a factor that precipitates financial distress and/or constrains growth amongst smaller SACCOs (Chakraborty, 2008).

The "Controler's Hand Book", April 1998, indicates that loan management (LM) is a process by which risks that are inherent in the credit process are managed and controlled (Administrator of National Banks and Comptroller of the Currency, 1998). It is further indicated that the process of LM is a primary supervisory activity (Administrator of National Banks and Comptroller of the Currency, 1998) which is among the key functions of management. This process (of LM) involves a number of activities but the most common one is the activity of evaluating the steps loan managers take to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. It also involves identification and management of risks among groups of loans before they occur. Good loan managers concentrate most of their effort on prudently approving loans and carefully monitoring loan performance.

The controller's hand book (April, 1998) indicates that effective loan management begins with oversight of the risk in individual loans. At this stage, prudent risk selection is vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of loans continues to be essential.

To manage their loans, SACCO managers must understand not only the risk posed by each loan but also how the risks of different loans are interrelated. Loan management activities are many and vary from one institution to another, depending on size and other factors. In 1997, the OCC's Advisory Letter 97-3 encouraged banks to view risk management in terms of the entire loan portfolio (Administrator of National Banks and Comptroller of the Currency, 1998). This letter identified nine elements that should be part of the loan management process. These elements complement such other fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls. The nine elements are: 1) Assessment of the credit culture; 2) Portfolio objectives and risk tolerance limits; 3) Management information systems; 4) Portfolio segmentation and risk diversification objectives; 5) Analysis of loans originated by other lenders; 6) Aggregate policy and underwriting exception systems; 7) Stress testing portfolios; 8) Independent and effective control functions; and 9) Analysis of portfolio risk/reward tradeoffs. This study reviewed five elements out of the nine and finally examined how they are managed in the two SACCOs studied. The five elements are discussed here under;

Assessing the Credit Worthiness of Clients

Credit costs time and resources. SACCO managers can reduce the cost or default rates by getting small loans started quickly with a 'Fast Start

Limit' for any new accounts with no checking (Bana, 2012). Bana says that there is a cost in assessing the credit worth of a customer, but it may not hurt as compared to if the money is completely lost. He continues to say that further orders need proper checks. The credit manager should try to identify some few accounts which take most of the loans (list accounts in descending order of value of the total), then give them a full credit check and only brief checks on smaller ones. Loan managers check clients by size of loan, not alphabetical order, so one never suffer a large bad debt through lack of time (Finlay, 2009).

The QFinance (undated) gives some concept guidelines regarding loan/credit controls. They indicate that credit control should be given priorities in all small businesses, including SACCOs. They highlight that SACCO managers should put in place a detailed credit control system that allows them to identify whether a loan account has been created, notifications for payment are sent to clients, and/or paid, or needs chasing up. Managers should do credit checks on clients, especially when the requested loan amounts are large. They should try to get them to put down collateral as a sign of good faith. If a customer does not want to put collateral or secure guarantee from more members, it may be an indication that they should be avoided. With big loans, managers should allow for stage payments, as large orders that are payable only at the end of a given period can ruin the SACCOs' cash flows.

Finlay (2009) as well as many other credit experts give a number of guidelines managers should use to evaluate the creditworthiness of a customer. Some of these include; using a customer's bank, through a current bank statement, using information from other sellers or suppliers, asking other credit agencies, checking a customer's account records in that particular firm, if he has ever acquired a loan, but this requires that particular SACCO to keep records of customers' financial

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transactions with it all the time; visiting the customer's home by the credit staff, use of credit insurance and so on.

Debt Repayment Period

In trying to properly manage the loans, SACCOs decide on their general payment terms, including payment dates (Sardakis *et al.*, 2007). Firms always have a "payable by" clause on invoices and make sure that it is unambiguously linked to a date on the invoice. New customers are always given only a short time in which to pay. Terms are printed clearly on the invoice and the staffs go through them with customers. The QFinance (undated) argues that it is better not to offer a discount for early payment, that most people will just take advantage of it and still pay late.

The period for which credit is granted to a customer duly brings about increase or decrease in amount of debt receivables (Sardakis *et al.*, 2007). The shorter the credit period, the lesser is the amount of receivables. Short term loans tie the funds for a short period only. Therefore, a company does not require holding unnecessary investment by way of receivables.

Another important credit control guide put up by the The QFinance (undated), which is also related the credit period is prompt invoicing. They indicated that small business managers should ensure that they send out invoices the day after the goods are delivered. They also advocate for an automatic reminder system that flags overdue invoices so that they can be chased up. Other controls are, setting up a detailed credit control system. A good system is an essential part of any SACCOs accounting procedures, and getting control of invoicing is essential if success is to be achieved.

A detailed credit control system allows managers to identify whether a loan account has been created, sent to clients, and paid, or needs

chasing up, helps to maintain cash flows, avoid bad debt, and minimize late payments, contributing to the smooth running of the enterprise. SACCO managers should also try to find out whether their level of credit control is better than those of other SACCOs; ask clients to sign a loan request form, agreeing what they want, and when and how they will pay; the loan request should also contain terms and conditions that cover areas such as modification from the original requirement, quality standards and so on; the loan account should always be accurate in every detail and to the penny when quoting amounts, as inaccuracy gives customers an excuse to query and delay payment. Managers usually keep a data base of their customers and on the basis of a credit check, they give a customer a credit limit if necessary and they do not let them exceed it.

Kakuru, (2000) argues that every organization must establish credit management policies or credit control guidelines to ensure that it has optimal management of funds and the entire business at any one time. This can be achieved by implementing the following credit management policies. The organization must ensure that it speeds up funds inflows through efficient credit policy. For example timely preparation and delivering of customer invoices, making customers to pay their outstanding loans by allowing funds discounts. This will enable the firm to keep in a liquid position and carry on its operations efficiently.

Lending institutions such as SACCOs make money by lending out funds that have been deposited with them. So the larger their deposits, the better the SACCO profit position. If a SACCO is providing services to a customer, it generally requires the customer to leave a minimum balance on deposit to help offset the cost of providing the service Campsey (2005). While offering loan services to their clients, the SACCO managers need not to ruin their financial resources for meeting

daily cash requirements. It is on this point that for them to succeed and remain in business, SACCOs, like any other financial institution, have to put up and follow some loan management practices. Funds balances are necessary in the SACCO operations because payments for customer cash needs must be made from cash deposited in their funds account. These funds balances are associated with routine payments and collections are known as transaction balances (Knott, 2008).

The primary loan management activities are performed jointly by the SACCO managers and its main staff, but the loan manager (if available) is responsible for the effectiveness of the loan management programs (Knott, 2008). One way, in which a firm can keep its credit controls efficient, would simply be by offering short term and partial loans. Loan approval centralization permits the loan manager to evaluate the credibility of a customer, payment coming, one for the entire firm and to schedule payments to meet the needs of the company wide basis. Centralizing disbursements also permits more efficient monitoring of payables and float balances (Van, 2000). It also ensures that all transactions are properly recorded by one person, who captures cash and credit transactions. This can allow financial checks and balances to smoothly go on and be able to balance and see the financial status before the situation worsens.

Cash discounts

A cash discount is a reduction in the amount of an invoice that the seller allows the buyer, in exchange for paying the invoice earlier than the normal payment date of the invoice (Borde & McCarty, 1998). There are two reasons why the seller might make this offer: a) to obtain earlier use of cash, which may be necessary if the seller is short of cash; or b) to offer a discount for an immediate cash payment in order to entirely avoid the effort of billing the customer. The amount of

the cash discount is usually a percentage of the total amount of the invoice, but it is sometimes stated as a fixed amount.

For example, if the seller is offering a reduction of 2% of the amount of an invoice if it is paid within 10 days, or normal terms if paid within 30 days, this information would appear on the invoice in the following format of 2% 10 / Net 30, meaning that if the buyer pays within 10 days he or she is given a 10% reduction in the total amount of the invoice, but if he or she pays within 30 days after sale, he will pay the full amount of the invoice. Therefore, a cash discount is used as a credit control tool in many business enterprises including financial institutions like SACCOs.

There are many variations on cash discount terms, which tend to be standardized within business firms. To record a payment from the buyer to the seller that involves a cash discount, one would debit the cash account for the amount paid, debit a sales discounts expense account for the amount of the discount, and credit the account receivable for the full amount of the invoice being paid. For example, if the buyer is paying UGX 980,000 on a UGX1, 000,000 invoice, with the UGX20,000 difference being a cash discount for early repayment, then you would record a debit of UGX 980,000 to the cash account, UGX20,000 to the sales discounts expense account, and a credit of UGX1,000,000 to the accounts receivable account. A seller uses cash discounts if he wants faster access to cash from buyers, which may be critical if the seller has little cash on hand, or is simply trying to reduce his working capital investment in accounts receivable. A buyer accepts a cash discount if doing so carries an implied interest rate that is higher than the buyer would otherwise earn on normal investments, and if there is sufficient cash available to do so.

Decision to grant credit

The QFinance (undated) put out that in efficient loan management, the following practices are very important; 1) establishing detailed policies and understanding consumer protection laws before extending loans to customers; 2) determining to whom to extend a loan such as individual customers or other businesses. This involves running credit checks on all customers before extending credit to them; 3) developing clear and consistent repayment guidelines. The bills should indicate when payment is due, when it will be considered delinquent, and who to contact with questions; 4) determining how to bill customers. Will employees mail requests for payment, or another company will be hired to handle invoicing; 5) creating a plan for collecting late or defaulted payments. Regardless of the type of application or documents used for credit transactions, loan managers have to be sure to get all of customers' information in writing. In return, customers are provided with a copy of the loan repayment policy, which spells out how penalties will be applied to late repayments and how to handle unpaid loans. It is important to have this documentation in case a fraudulent or delinquent credit transaction occurs; 6) establishing a creditors file. This will help to establish a business's credit history and to monitor the business credits.

Securities and penalties

Collateral is a pledge by a borrower of specific property to a lender, to assure or secure repayment of a loan (Sullivan & Sheffrin, 2003). The collateral security serves as protection for a lender against a borrower's default, that is, if any borrower fails to pay the principle and interest under the terms of a loan obligation. If a borrower does default on a loan, that borrower forfeits (gives up) the property pledged as collateral—and the lender then becomes the owner of the collateral. Should the buyer fail to pay the loan under the loan

agreement, the ownership of the property pledged is transferred to the lender as a penalty. The item used as collateral provides security to the lender, letting them know that they will get their money back whether or not a customer is able to satisfactorily repay the loan. If the borrower stops making the promised loan repayments, the lender can seize the collateral to recoup the losses. Because collateral offers some security to the lender in case the borrower fails to pay back the loan, loans that are secured by collateral typically have lower interest rates than unsecured loans. A lender's claim to a borrower's collateral is called a lien. The collateral should be evaluated as being easily marketable, safe or free from any claims and it is the last thing to consider in credit evaluation (Kakuru, 2003).

Financial Performance

Financial performance (in financial institutions) refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats (Bald, 2000) and it is measured by how efficient the enterprise is in use of resources in achieving its objectives. In this study, financial performance is measured using different elements such as profitability, financial sustainability, liquidity efficiency, financial efficiency and operational efficiency.

Profitability

Most people use profitability as one of the most common indicators of business growth and financial health; the more profits a business realizes, the more it is assumed to be growing and financially sound. A growing company tends to have very profitable reinvestment opportunities for its own retained earnings. One of the most popular objectives of most firms is profit. Many researchers consider profitability as one of the indicators of business success. For example, Adhikary *et al* (1999) in Nieman *et al* (2003) defined successful

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enterprises as a business serving for longer than two years, and making a profit and expanding in terms of infrastructure and growth.

Many researchers have identified various indicators of venture growth; for example Newton (2001) considered increased productivity, competitiveness, market share, profit and opening branches; while to Emeric (1998) growth can be measured subjectively using perceptions of enterprise founders and objectively using economic performance indicators such as efficiency, profit, size, liquidity, market share and leverage.

A Profit is financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. Profitability in SACCOs is simply the difference between total revenue and total cost (Carpenter, 2000). Thus, the factors which affect financial institutions profitability would be those which affect institutions' revenue and costs. In analysing how well any given bank is performing, it is often useful to contemplate on the return on assets and the return on equity as used by Haning (2002).

The choice of the profitability ratio depends on the objective of the profitability measure. The return on assets is primarily an indicator of managerial efficiency. A bank's revenue is basically generated from its assets. However, it is worth nothing that not all assets generate revenue. Thus, the assets of a bank can basically be classified as income or revenue generating and non-income generating (Kaplan, 2004).

Profitability measured as determined by Pandey, (2006) included Profitability in relation to sales and profitability in relation to investment. The profitability in relation to sales is measured by; Net Profit Margin which can be obtained when operating expenses, interest

and 'taxes are subtracted from the gross profit. The ratio obtained therefore establishes a relationship between net profits and sales and-also indicates management's efficiency in manufacturing, administration and selling of company products. The general rule is for the ratio to turn every cash invested in the business into profits (Marsh, 2002).

Financial sustainability

The concept of financial sustainability is used interchangeably with other concepts such as profitability, self sufficiency, financial self sufficiency, self sustainability, financial sustainability, financial efficiency, institutional sustainability and financial viability. The World Commission on Environment and Development (WCED) (2002) defines sustainability as the ability of the organization to meet the cost of operations and build enough reserves for capitalization. Robinson (2004) defines sustainability as the ability to break even in an accounting period while compensating all factors of production at their opportunity cost. Robinson argues that in most discussions, sustainability is taken to mean full cost recovery or profit making and is associated with the aim of building business that can last into the future without continued reliance on government subsidies or donor funds.

According to Evans (1995), financial sustainability refers to the ability of an organization to continue with its operations for over a long period. It is used synonymous with the accounting concept — Going concern, which assumes that a business will continue to operate for an indefinitely long period, Cerepak (1971). For financial sustainability to occur, there should be profitability, financial prudence and purpose driven management (Nakazibwe, 2010). With financial sustainability, a SACCO meets its operational expenses and generates reserve funds from its operating income to enable it continue in existence for the

foreseeable future. Operating income refers to the money or other assets received periodically from one's investment. Income includes accounts receivable, interest incomes from loan repayment, etc. Operating expenses are costs incurred in doing a business such as paying salaries, purchasing stationary, etc (Dyckman *et al.*, 2001).

To be financially sustainable, the organization should have sources of financing to finance its operations in a way where the income from it is sufficient to pay the providers of the service in a satisfactory manner and the people running the organization are paid a living income. According to Adongo *et al.* (2005), a financially sustainable microfinance institution or SACCO needs to cover all its costs and risk provisions from the interest income it generates. Meyer (2002) stated that financial unsustainability in the Microfinance Institutions (MFIs) arises due to low repayment rate or un-materialization of funds promised by donors or government. Patricia (2001) notes that financial sustainability enables organizations like SACCOs to cover their administrative costs and to prioritize their activities so as to accomplish their missions. She gives the six essential requirements for achieving financial sustainability in an organization as long-term commitment, leadership, investment of time and money, business plan, effective management team and team work.

According to Meryer (2002), there are two kinds of sustainability that we could observe in assessing MFIs performance: operational self-sustainability and financial self-sustainability. Operational sustainability is when the operating income is sufficient enough to cover operational costs like salaries, supplies, loans losses and other administrative costs. Financial self-sustainability is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market value. However Meryer adds that measuring financial sustainability requires that MFJs maintain good financial records and

follow recognized accounting practices that provide full transparency for income, expenses, loan recovery and potential losses.

Liquidity efficiency

The liquidity efficiency of a SACCO is analyzed with the help the three ratios namely; Cash in hand and at bank to borrowed funds, investment to deposits and spread to total assets (Muhwezi, 2008). Cash is kept to meet the demands of the depositors. The higher the cash maintained in the business the higher will be the liquidity and vice - versa. However, the higher the cash maintained in the business the less will be the profitability and vice versa. Investment to deposits indicates the relationship between investment made by the Small Scale Industries and the deposits received by the Small Scale Industries (Michaelas *et al.,* 1999).

Financial efficiency

The financial efficiency of the SACCOs is always examined with the help of the profitability ratios (Muhwezi, 2008). These ratios are; total expenses to total income, net profit to working capital, interest paid to interest received and non-interest expense to non-interest income (Marsh, 2002). The net profit to working capital ratio represents the firm's efficiency in making higher returns out of the working capital, but net profit should be enough to provide optimum returns on the working capital. The non-interest expense to non-interest income ratio is worked out to find out the firm's expenses and income other than the interest paid and interest received (Marsh, 2002).

Operational efficiency

Operational efficiency refers to the most efficient use of resources so as to generate optimum returns (Marsh, 2002). The operational efficiency of the SACCOs can be analyzed with the help of the following ratios; (i) owned funds to borrowed funds (ii) borrowed funds to

working capital (iii) credit to deposits ratio and (iv) outstanding of loans to working capital. The ratio of borrowings to working capital indicates the proportion of borrowings to working capital (Ramirez, 1991).

2.3 Relationship between Loan Management and Financial Performance of SACCOs

This section presents the empirical studies that have been conducted by the previous researchers which relate loan management and financial performance of SACCOs.

Assessing Credit worthiness of customers and Financial Performance of SACCOs

Chakraborty (2008) and Mallik *et al.* (2005) carried out a study on the relationship between working capital and profitability with reference to selected companies in the pharmaceutical industry and noticed that the joint influence of the liquidity, inventory management and credit management on the profitability were statistically very significant in nine out of 17 pharmaceutical companies selected for the study. In such countries, firms with better access to credit may redistribute capital via trade credit to financially weaker customers. Profitable firms may therefore consciously financially support their customers by investing in working capital.

Matovu (2006), in his study on credit management issues in Uganda's Microfinance sector using the central region as a case study, reported that there is a weak positive relationship between credit appraisal and approval procedures and performance of enterprises due to lack of proper credit vetting procedures especially for new clients, insufficient information for credit applicants as well as limited reference bureaus in the country. Ross & Westerfield, (1998), argued that client screening before credit appraisal is best done using the credit scoring guidelines

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using the 5Cs (character, capacity, capital, collateral and condition). This is line with Hampton (2003), who argued that care should be taken to asses both the existing and potential capacity of the applicant to finance the future credit obligations because current capacity may be misleading. Nalwanga, (2010), in her study on credit management and financial performance of Media Houses in Uganda, found that in order to ensure proper credit vetting and follow up, the credit control and sales and marketing teams work hand in hand, sometimes they move together to the field to check on clients, more so before credit approval consultation is made from both teams.

Burges (2001), found that the best time to manage credit risks and control delinquency is when evaluating a credit applicant or when performing updates on active customers which determines the enterprises' performance in terms of growth, sustainability and harvest stages. It was also indicated by Schmidt (2003) that one of the leading causes of failure in many small enterprises is inability to make correct assessment of loan applicant's character. Matovu (2006) conducted a study on credit management issues in Uganda's Microfinance sector using the central region as a case study. His findings revealed a weak but positive relationship between credit appraisal as well as approval procedures and performance of enterprises. He explains that due to lack of proper credit vetting procedures especially for new clients, managers have insufficient information regarding the loan applicant's worth, adding the limited reference bureaus in the country, as factors limiting the ability of credit managers to make correct decisions for proper loan management.

Hampton (2003)'s argument that care should be taken to asses both the existing and potential capacity of the applicant to finance the future loan obligations because current capacity may be misleading is in line with these findings. Nalwanga (2010) revealed that in order to

ensure proper credit vetting and follow up, loan managers and their loan officers must work hand in hand, sometimes they move together to the field to check on clients, more so before credit approval consultation is made from both teams.

Debt Repayment Period and financial Performance of SACCOs

According to Bana (2012), both credit policy from suppliers and credit period granted to customers have an impact on profitability. Shin & Soenen (1998) argued that firms can have larger sales with a generous credit policy, which extends the cash cycle. In this case, the longer the cash conversion cycle may result in higher profitability. However, the traditional view of the relationship between the cash conversion cycle and firms' profitability is that, ceteris paribus, a longer cash conversion cycle hurts the profitability of a firm.

Burges (2001), found that the best time to manage credit risk and control delinquency is when evaluating a credit applicant's or when performing updates on active customers which determines the firm's performance in terms of growth, sustainability and harvest stages. Schmidt (2003)'s ideas also is in support of this particular findings.

A number of other solutions to the problem of late repayment have been put forward. For example it has been argued that loan management is a neglected function in many organisations with a focus on collection rather than the front-end activities of negotiating, risk screening, using credit information and establishing clear credit policies (Nakazibwe, 2010). Wilson *et al* (1995) identified poor credit management practices as one of the underlying causes of late payment. In addition to poor credit management practices, causes were considered to include over reliance on trade credit and short term finance and consequently an increased sensitivity to late payments. The Bank of England report on finance for small firms (BOE, 1996)

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observed a similar occurrence of ad hoc credit management which was viewed as being inefficient. They concluded that this was due to the inherent lack of administrative resources in the small firm sector.

Cash discounts and Financial Performance of SACCOs

Van Horne (2002) noted that there exists a direct relationship between credit appraisal and financial performance. He argued that the enterprise choice of credit policy between stringent and lenient is a function of both the competitive business environment and the company's strategic business goals and objectives while Refuse, (1996), found that the more liberal and well defined the credit appraisal and approval procedures, the higher the likely hood the level of receivables because more customers are willing to take credit and vice versa.

Decision to grant loans and Financial Performance of SACCOs

Overall, research suggests that poor or careless financial management is a major cause of business failure (Berryman, 1983; Richardson, Nwankwo and Richardson, 1994). The fact that rapid growth often consumes cash, rather than generating it, has often caused financial difficulties for financially unsophisticated small firms like SACCOs. Indeed, Peel & Wilson (1996) reported the results of research which indicated that 81% of small business failures in Norfolk and Waveney were linked to poor financial management, and that, in response, a major UK clearing bank was offering discounted finance to small business owners in the locality who attended financial management training courses.

Nayak & Greenfield (1994) also report evidence that a small but worrying number of micro firms lack signs of any systematic controls: 9% of their respondents had no cash books, 16% of those with debtors kept no debtor records and 45% did not keep creditor records. Only

34% of firms surveyed produced budgets, and only 45% of these compared budgets to performance on a monthly or more frequent basis. All these showed lack of efficient credit controls. Several studies have found similar results for small firms in other countries indicating that lack of attention to loan management is not specific to SACCOs in Kampala (Holmes & Nicholls, 1988). Reasons given include the lack of time, resources and skills of small business managers who appear to prefer to expend their efforts in satisfying the requirements of external parties.

Securities and penalties and Financial Performance of SACCOs

Several researchers have attempted to study credit controls and financial performance of financial institutions like SACCOs; for example Pandey, (2004), asserts that good credit controls ensure that firms offer credit to the financially strong and most reliable clients with well laid down credit terms. Van Horne, (2002) found out a direct relationship between credit appraisal and financial performance. He argued that the firms' choice of credit policy between stringent and lenient is a function of both the competitive business environment and the company's strategic business goals and objectives. On the other hand Refuse (1996) found that the more liberal and well defined the credit appraisal and approval procedures, the higher the likely hood the level of receivables because more customers are willing to take credit and vice versa.

It is argued that policies which emphasize the provision of financial and credit management training for smaller businesses would have a beneficial impact. This may also raise awareness of the services and potential benefits of credit insurance and factoring (Bana, 2012) and the returns to investments in information technology. Other measures which have been proposed or implemented include voluntary codes of practice; establishment of the 'Better Payment Practice Group'; the

compulsory disclosure of payment policies in company accounts; and the streamlining of legal procedures for the recovery of debt. Michael *et al.* (1999) found out that statutory penalties for late payment, affected small businesses adversely.

2.4 Gaps identified in the Literature

The literature reviewed above revealed a number of gaps which are noteworthy here. To begin with, while several studies have been conducted on issues related to credit management, for example: Matovu (2006), Credit Management Issues in Uganda's Microfinance Sector using the Central Region as a Case Study; Nalwanga's (2010) Credit Management and Financial Performance of Media Houses in Uganda; and others, no single study was found specifically done on loan management.

Second, although Loan Management is an element of Credit Management, no single study examined loan management as an element within a given study. Third, despite several studies having been done among small firms in other countries indicating that lack of attention to loan management affected financial performance of organizations, they were not specific to SACCOs. Relatedly, while several studies were done on loan management, they were not specific to Kampala SACCOs.

CHAPTER THREE

METHODOLOGY

This chapter elaborates the entire design of the study and how it was carried out. It also explains how the study was conducted, the study population, sample size and sampling techniques. It also indicates the data collection instruments, how the data was collected and analyzed as well as the ethical considerations and limitations of the study.

3.1 Research Design

The designs to be used for this study included the descriptive correlation and cross sectional survey designs. The descriptive correlational design was used to establish the relationship between loan management and financial performance of the SACCOs in Kampala. On the other hand, the cross sectional survey research design was used to collect data at once from the sampled respondents who were the managers, loans officers as well as other employees of the two SACCOs in Kampala. A cross sectional survey research design was used because the respondents were drawn from a cross section of two SACCO members (managers, loans officers, and other employees).

3.2 Study population

The target population of this study comprised of the managers and employees in the two selected SACCOs in Kampala district, that is Toyota Uganda Savings and Credit Cooperative Society and New Vision Savings and Credit Cooperative Society. The staffs involved in the study were only those involved in service provision and those in accounts sections. According to the records of the two SACCOs, Toyota Uganda Savings and Credit Cooperative Society has 142 employees and New Vision Savings and Credit Cooperative Society has 164 employees. Therefore the total population of this study was 306 SACCO employees and it is from these that the sample was selected.

3.3 Sample Size

The sample size of this study comprised of 173 respondents calculated using Slovene's formula shown below:

$$n = \frac{N}{1 + N(e^2)}$$, Where; n = the required sample size; N = the known population size; and e = level of significance = 0.05. The sample size was therefore calculated as follows;

$$n = \frac{N}{1 + N(e^2)}$$

$$= \frac{306}{1 + 306(0.5^2)}$$

$$= \frac{306}{1 + 306(0.0025)}$$

$$= \frac{306}{1 + 0.765}$$

$$= \frac{306}{1.765}$$

$$\underline{= 173}$$

Given this sample size, the proportionate sample sizes from the two selected SACCOs were; 80 respondents from Toyota SACCO and 93 respondents from New Vision SACCO.

3.4 Sampling procedure

Stratified, systematic random and purposive sampling techniques were used to select respondents. For stratified technique, respondents were classified according to their positions and then samples were taken from each. This was done to ensure that the respondents included in the sample represented all the various groups and positions of employees in the SACCOs. For purposive sampling, respondents to be selected must have been in that SACCO for at least one year. This was done to ensure that only those respondents with the required

information were included in the study sample. For systematic random sampling, the researcher obtained a list of qualified staff from each SACCO, and then made sure that every second respondent was selected in both cases of Toyota SACCO and New Vision. This was done to avoid confusion and disorganization in sample selection.

3.5 Data collection instruments

Data was collected by the use of questionnaires as the main data collection instrument. The questionnaire had three parts namely; part one for questions on profile characteristics of respondents, with four questions only; part two for questions on loan management practices of SACCOs, with 23 questions and part three for questions on financial performance of the SACCOs, with 29 questions. The questionnaire was used because it helps to collect primary data collection quickly and cost effectively, since the researcher did not have much time and money. A comprehensive researcher made questionnaire was administered to the concerned respondents. This questionnaire helped to gather data on the key variables of the study, which include management and financial performance. Most of the questions in the questionnaire were closed ended questions and based on a four point Likert scale with the following response modes; 4 = Strongly Agree; 3 = Agree; 2= Disagree; and 1=Strongly Disagree.

3.6 Validity and Reliability of the Instrument

To ensure the validity of the instrument, the researcher presented it to two academic experts to judge whether the questions in it were relevant. A Content Validity Index (CVI) was then computed using the following formula and results of which are indicated in table 1;

$$CVI = \frac{\text{Number of items rated as relevant}}{\text{Total number of items rated in the questionnaire}}$$

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Table 1: Determination of Validity of Instrument

Experts	Relevant items		Not relevant items		Total		CVI	
	IV	DV	IV	DV	IV	DV	IV	DV
Expert 1	18	25	5	4	23	29	0.78	0.86
Expert 2	20	23	3	2	23	29	0.87	0.79
Overall CVI							0.83	0.83

According to Amin (2005), for the instrument to be accepted as valid, the CVI should be 0.70 or above. So based on this, the two sets of instruments were declared content valid, since their CVI were greater than 0.70.

Reliability of the instruments was tested using the Cronbach alpha computed using SPSS. A Cronbach alpha of 0.70 was used to declare the instrument reliable. Results of Cronbach tests are indicated in table 2.

Table 2: Reliability Test Results

Variable	No of Items	Cronbach's Alpha
Loan management	23	0.768
Financial performance	29	0.905

From the results of Table 2 is observed that the computed Cronbach alphas for the two instruments were all above 0.70 and so the instruments were considered reliable.

3.7 Data Collection Procedure

Before to Data Collection

Before data collection, an introductory letter was obtained from the College of Higher Degree and Researcher (CHDR) of Kampala International University. This letter introduced the researcher and

research intention to the authorities at the offices of the two SACCOs in Kampala. List of employees were then sought such that sampling process could begin. All the selected employees were met physically by the researcher and her research assistants during the time of data collection.

During Data Gathering

Data collection involved distribution of self-administered questionnaires to respondents. The researcher together with the research assistants got involved in this process such that data collection could be done faster. Respondents were kindly requested to answer the questionnaires within at most two days. The researcher visited the selected SACCOs every day to ensure that respondents quicken the process of filling in the questionnaires. Questionnaires that were filled in were immediately collected and while collecting research instrument, verification on whether respondents finished answering all the questions or not was done there and then. This ensured that respondents answered all the questions.

After Data Gathering

After data collection, data processing began immediately. The researcher began tallying responses, coded them using SPSS (Statistical Package for Social Sciences) so that Pearson's product moment correlation and multiple regression analysis could be established. Tables were then used to present the data and data analysis together with its discussion was done. The final work was presented to the supervisor so that errors being made could be rectified. The fair copy at the end of it all was presented for approval and defended before the viva voce.

3.8 Data Analysis

Frequency counts and percentage distribution were used to analyze data on the profile characteristics of the respondents. Means and ranks

were used to determine the extent of loans management and the level of financial performance of the selected SACCOs. The following mean ranges were used to interpret the means of the individual items;

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly Agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very low

The Pearson's Linear Correlation Coefficient and Multiple Linear Regression Analysis were used to establish the relationship between loan management and financial performance in the selected SACCOs.

3.9 Ethical Consideration

To ensure the utmost confidentiality of the respondents and the information given by them as well as to reflect ethics practiced in this study, the following ethical considerations were applied:

a) All questionnaires were coded to provide secrecy of the respondents.

b) The respondents were requested to sign the informed consent.

c) Authors quoted in this study were acknowledged through proper citations and referencing.

d) Presentation of findings was done in a generalized manner.

3.10 Limitations of the Study

The following were the anticipated threats to validity of this study's findings;

1) Testing; differences in conditions and time when data was obtained from the respondents by different persons in different days at different hours. This was minimized by employing,

orienting and briefing the research assistants on sampling techniques and data gathering procedures.

2) Honesty of respondents; personal biases, make the findings of this study not 100% usable, since the instruments used depended only on opinions of respondents, which may have some biases.

3) Study area coverage; this study was only conducted within two SACCOs, so the findings may or may not fully represent other SACCOs.

4) Response rate; the calculated number of respondents was not reached considering the fact that some questionnaires were not returned due to circumstances within the respondents and beyond the control of the researcher. The researcher attempted to attain the appropriate number of respondents for reasons of representativeness.

5) Intervening and extraneous variables; other conditions/variables over which the researcher did not have to control. The researcher claimed the allowed (0.05 level of significance) 5% margin of error to cater for such factors.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter shows data presentation, analysis and interpretation. It begins with profile of respondents and presents the research findings objective by objective.

4.1 Profile of Respondents

Respondents in this study were members of the employees of the two selected SACCOs in Kampala. Using four closed ended questions in the questionnaire (Part A, see Appendix I), respondents were asked to provide their personal information, to ensure their easy categorization. Their responses were summarized using frequencies and percentage distributions as shown in table 3 to 7. Table 3 shows respondents by SACCO.

Table 3: Profile of Respondents

Name of SACCO	Frequency	Percent
New Vision	74	46.0
Toyota Uganda	87	54.0
Total	**161**	**100.0**

The results in table 3 indicate that majority of the respondents in the study sample came from Toyota Uganda (54.0%) while 46% came from New Vision Uganda, an indication that more respondents from Toyota SACCO returned the questionnaires as compared to those from New Vision. On the overall, out of the 173 questionnaires expected as per the sample, 161 (over 93%) returned the questionnaire, a response rate which is acceptable according to Amin (2005), where it is stated that a response rate of above 75% is adequate to make further analysis. Table 4 shows the distribution of respondents according to their age group.

Table 4: Distribution of SACCO employees according to age

Age	Frequency	Percent
20 – 29	56	34.8
30 – 39	75	46.6
40 – 50	20	12.4
Above 50	10	6.2
Total	161	100.0

The results in table 4 indicate that most of the respondents in the study sample were aged between 30-39 years (46.6%) followed by those between 20-29 years (34.8%). These results indicate that less than 20% of the sample SACCO employees were 40 years and above. This indicates that most of the respondents in the sample were in their early adulthood age (20 - 39). Such young people are energetic, innovative and progressive and highly needed in contemporary business such as SACCOs, which explains why SACCO management prefers them. Table 5 shows the description of respondents by sex.

Table 5: Distribution of respondents by sex

Sex	Frequency	Percent
Male	102	63.4
Female	59	36.6
Total	161	100.0

According to the results in Table 5, most respondents (63.4%) were males as compared to females who were only 36.6%. This suggests that as per this study's sample SACCOs employ more males as compared to the females. Table 6 shows distribution of respondents by education level.

Table 6: Distribution of SACCO employees by education level

Education level	Frequency	Percent
Primary	1	.6
O-level	4	2.5
A-level	3	1.9
Certificate	4	2.5
Diploma	26	16.1
Bachelors Degree	95	59.0
Master's	28	17.4
Total	**161**	**100.0**

With respect to education level of the respondents, results in Table 6 indicated that, most respondents (59.0%) were graduates, followed by 17.4% who were Masters holders and 16.1% who were Diploma holders. These results imply that almost 80% of the sampled SACCO staff were at least graduates, an indication of high levels of qualification among the SACCO staff. Table 7 shows distribution of respondents by years of working experience.

Table 7: Distribution of SACCO staff by experience

Experience	Frequency	Percent
Below 1 year	3	1.9
1–3years	35	21.7
4–6 years	52	32.3
7 – 9 years	26	16.1
10 years and above	45	28.0
Total	**161**	**100.0**

The findings in Table 7 indicated that, most of the respondents (32.3%) had worked for 4 – 6 years followed by those who had worked

for 10 and more years (28.0%) and then those of 1 – 3 years (21.7%). These results further indicate that more than 76% of the SACCO staff had an experience of at least four and more years. This implies that most of the sampled SACCO staff are well experienced.

4.2 Extent of Loan Management in New Vision and Toyota SACCOs Kampala

The independent variable in this study was loan management and the first objective of was to measure the extent to which loan management in the two SACCOs was satisfactory. To achieve this objective, 23 questions were asked in the questionnaire about the indicators of good loan management practices in any given SACCO. Each of these questions was Likert scaled based on a four points ranging between one to four, where 1= strongly disagree (meaning very unsatisfactory); 2=disagree (meaning unsatisfactory); 3=agree (meaning satisfactory) and 4= strongly agree (meaning very satisfactory). For each question, respondents were asked to rate the extent to which the loan management practices in their SACCO were satisfactory by ticking a number from the four options. Their responses were analysed using means and ranks computed using SPSS as indicated in table 8.

Table 8: Means and ranks on extent of loan management practices in SACCOs

Assessing the Credit Worthiness of Clients	Mean	Interpreta-tion	Rank
You always carry out credit checks before giving credit to a client	3.49	Very satisfactory	1
Clients with big debts are not given more debts till they clear the first	3.48	Very satisfactory	2
You always keep customers' debt payment records	3.40	Very satisfactory	3
Clients have to make some deposits on the money taken on credit	3.02	Satisfactory	4

SACCO officers usually visit client homes to prove credit worthiness	2.68	Satisfactory	5
Average Mean	**3.19**	**Satisfactory**	
Debt Repayment Period			
Clients given loans are provided with loan cards showing dates for paying back.	3.35	Very satisfactory	1
Clients given loans are sent reminders when their due dates near	3.29	Very satisfactory	2
All clients given loans are given a time limit to repay	3.14	Satisfactory	3
Employees explain terms of payment to clients before granting loans	2.63	Satisfactory	4
New clients are always given short-term loans.	2.25	Unsatisfactory	5
Clients given loans are usually called to clear debts on due dates	2.23	Unsatisfactory	6
Clients given loans are given a specific date of (re)payment	1.65	Very unsatisfactory	7
Average Mean	**2.65**	**Satisfactory**	
Repayment Discounts			
Clients who pay their loans in time are given discounts/incentives	2.59	Satisfactory	1
There is a policy on repayment discounts & well known to all staff	1.82	Unsatisfactory	2
Clients who repay their loans before expiry dates are given discounts	1.74	Very unsatisfactory	3
Average Mean	**2.04**	**Unsatisfactory**	
Decision to Grant Loans			
You and other staff know who qualifies to receive a loan	3.34	Very satisfactory	1
You have well-established creditors files with automatic reminders	3.33	Very satisfactory	2
You have a loans/credit policy with clear and consistent guidelines	3.25	Satisfactory	3
Only the loans manager makes final decision to grant loans to clients	2.28	Unsatisfactory	4
You have a clear credit/loans policy in this SACCO	1.87	Unsatisfactory	5
Average Mean	**2.80**	**Satisfactory**	
Securities and penalties			

Clients given credit services are required to leave a collateral security	2.44 Unsatisfactory	1
Your loan policy spell out penalties of late payment & how they apply	2.43 Unsatisfactory	2
Clients are provided with a copy of the credit payment policy	2.22 Unsatisfactory	3
Average mean	**2.39 Unsatisfactory**	
Overall mean	**2.57 Satisfactory**	

For interpretation of means in Table 8, the following key was used;

Mean Range	Response Mode	Interpretation
3.26-4.00	Strong agree	Very satisfactory
2.51-3.25	Agree	Satisfactory
1.76-2.50	Disagree	Unsatisfactory
1.00-1.75	Strongly disagree	Very unsatisfactory

The findings in Table 8 indicate that SACCO employees rated their loan management practices as generally satisfactory and this is indicated by the overall mean score of 2.57 that corresponds with satisfactory on the interpretation scale above. The two SACCOs' loan management practices were rated best on assessing the credit worthiness of clients with a satisfactory average mean of 3.19, indicating that on average the two SACCOs do the needful as far as checking for credit worthiness of a client is concerned before they grant a loan. This can greatly help in loan recovery.

Concerning debt repayment period granted to clients, most respondents rated their SACCOs' practices as satisfactory (average mean=2.65). As far as debt repayment practices are concerned, the two SACCOs were rated best on giving clients loans loan cards which show dates for paying back the loans (mean=3.35), which helps them to remember and to be well aware of when they are required to pay back; this was followed the practice of sending clients reminders when their due dates for paying back the loans are near (mean=3.29). This helps them to remember in case they had lost their cards and also puts

them on pressure to pay. This practice of debt repayment period granted to clients was rated lowest on the activity of giving clients specific dates of repayment (mean=1.65), which may make them reluctant from paying in time.

About the practice of offering discounts to encourage early loan repayment, the two SACCOs' practices were rated unsatisfactory, with an average mean of 2.04. This implies that SACCOs give fewer incentives to encourage clients pay their debts in time. The findings however indicated that sometimes these SACCOs give some clients who pay their loans in time some discounts/incentives (mean=2.59=satisfactory). However, the policy was found to be very weak and so may not help SACCOs improve their financial performance through quick/early loan recovery.

When respondents were asked on who gives the final decision to grant a loan to a client, results indicated that this practice is very well managed with an average mean of 2.80, which corresponds with satisfactory on the interpretation guide. Regarding this practice, SACCOs were rated best on two points, that is; on the fact that most staff know who qualifies to receive a loan (mean=3.34) and having well-established creditors' files with automatic reminders (mean=3.33). These two best decision making practices implied that the two SACCOs under investigation have proper and well developed capacities as well as records that can enable them to make good decisions on who to grant a loan.

Finally, the two SACCOs' loan management practices were rated worst regarding securities and penalties (average mean=2.39, interpreted as unsatisfactory), which is very bad because, without putting up strict measures to recover loans, SACCOs may lose a lot of money. The results in Table 8 indicated that all the three items (practices) on

securities and penalties were perceived as unsatisfactory by the respondents. It is indicated that there is no strict rule that requires clients to leave a collateral security before they are granted a loan, which implies that if such fail to pay the SACCO is most likely to lose the money. Despite some elements like these ones, the SACCOs loan management practices were perceived by their staff to be generally satisfactory as indicated by the overall mean, although there are some areas where they have to improve.

4.3 Level of Financial Performance in New Vision and Toyota SACCOs

The dependent variable in this study was financial performance and the second objective of was to measure its level in the two SACCOs. To achieve this objective, 29 Likert scaled questions were asked in the questionnaire about the indicators of financial performance in any given SACCO and other financial institutions. Each of these questions was based on a four points scale, where 1= strongly disagree (meaning very low); 2=disagree (meaning low); 3=agree (meaning high) and 4= strongly agree (meaning very high). For each question or item, respondents were asked to rate the performance of their SACCO by ticking a number from the four options that best describes their perceptions. The qualitative form of measurement was used because most financial institutions and SACCOs in particular were reluctant in providing secondary data regarding their financial performance such as providing their financial statements, weekly deposits and withdrawals, monthly profits and annual profit margins and so on, which the researcher wanted in order to anlyse their financial performance quantitatively. The responses from the qualitative questions were later quantified and mean scores as well as a numerical mean index was obtained using SPSS as indicated in table 9.

To interpret the individual means as well as the mean index in Table 9, the following interpretation guide was used;

Mean Range	Response Mode	Interpretation
3.26-4.00	Strong agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very low

Table 9: Means and ranks on level of Financial Performance in SACCOs

Indicators of Financial Performance	Mean	Interpretation	Rank
In this SACCO, the number of borrowers generally high	3.43	Very high	1
This SACCO's retained-earnings are high & are expected to continue increasing	3.39	Very high	2
This SACCO uses less borrowed funds to finance its operations	3.38	Very high	3
In this SACCO, there has been an increase in number of savers	3.37	Very high	4
In this SACCO, the loan installment payment frequency is high	3.23	High	5
In this SACCO, there are no or less problems of liquidity	3.16	High	6
This SACCO has favourable leverage ratios	3.10	High	7
The number of shareholders in this SACCO has increased	3.10	High	8
This SACCO has favourable operating profit margins & net profit	3.08	High	9
In this SACCO, fees collected on services offered have increased	3.05	High	10
This SACCO is able to meet all its short-term obligations	3.03	High	11
In this SACCO, there are no or less cases of financial fraud	3.02	High	12
In this SACCO, internal & external auditing are done by neutral experts	2.99	High	13
This SACCO has favourable gross profit margins	2.99	High	14

In this SACCO, there are no or less loan defaulters	2.97	High	15
This SACCO has favourable profitability ratios	2.95	High	16
This SACCO has favourable efficiency ratios	2.91	High	17
This SACCO has favourable liquidity ratios	2.88	High	18
This SACCO has cash for investing in long term projects	2.87	High	19
In this SACCO, financial reports and statements are usually presented on time	2.83	High	20
This SACCO has invested in non-current assets	2.82	High	21
This SACCO has a set minimum cash balance	2.75	High	22
In this SACCO, proper accountability is done by all people who get loans	2.74	High	23
This SACCO has never gone below set minimum cash balances	2.71	High	24
In this SACCO, the number of securities collected has increased	2.63	High	25
This SACCO has internally-generated cash sources only	2.59	High	26
The capital base of this SACCO has increased	2.47	Low	27
This SACCO has investments in shares on the stock exchange	2.44	Low	28
In this SACCO, the number of defaulters is generally low	2.41	Low	29
Average mean	**2.90**	High	

According to the findings in Table 9, SACCO employees rated the financial performance of their institutions to be high on some items and low on others. For example, employees rated their SACCOs' financial performance highest on four items, that is performance in terms of number of borrowers (mean=3.43), retained-earnings (mean=3.39), using less borrowed funds to finance operations (mean=3.38) and number of savers (mean=3.37). This means that the two SACCOs have many customers who save with and borrow from them and so they are more able to finance their daily operations

without much borrowing. These results are so because the two SACCOs involved in this study were formulated by members of powerful organisations, who have monthly salary and other payments, so they can use their salary as source of savings and at the same time as security to acquire loans. The other point is that such reputable organisations like New Vision may themselves work as security for members, hence the good performance.

The two SACCOs were rated high on most of the remaining indicators of financial performance, for example loan installment repayment (mean=3.23), level of liquidity (mean=3.16), leverage ratios (mean=3.10), number of shareholders (mean=3.10), operating profit margins and net profit (mean=3.08) fees collected on services offered (mean=3.05), control of financial fraud (mean =3.02), internal and external auditing practices (mean=2.99) and most financial indicators were rated high such as gross profit margins, profitability ratios, efficiency ratios and liquidity ratios among others. Despite the weakness of these attitudinal measures, it would be valid for us to generally believe that the two SACCOs studied were financially performing well, since most of the most important financial indicators (financial ratios) were perceived to be favourable. And since these employees and professionals, we can to a high extent trust their perceptions, since we expect that it is based on their technical knowledge.

On the other hand however, SACCOs' financial performance was found to be low on three important indicators and if they do not improve them, their performance on the previous indicators may be undermined; these include SACCOs' capital base (mean=2.47), investing in shares on the stock exchange (mean=2.44) and lowering the number of defaulters (mean=2.41). To get the overall picture on how SACCOs were rated on financial performance, an average mean

was computed from all the 29 items on financial performance, which gave a mean index of 2.90, corresponding with high on the interpretation scale, suggesting that responding employees rated their SACCOs' financial performance to be generally high.

4.4 Relationship between Extent of Loan management and Level of Financial Performance of the selected SACCOs

In the last objective of this study, the researcher established the relationship between the extent of loan management and level of financial performance in the two selected SACCOs. To achieve this objective, the researcher correlated results on extent of loan management (Table 8) with those on level of financial performance (Table 9) using the Pearson's Linear Correlation coefficient and Linear regression. In doing so, the researcher tested a null hypothesis that; the two numerical indices (LOANMGT and FinPERF) are not significantly correlated. The findings regarding this test are presented in Table 10 and 11.

Table 10: Pearson Correlations on Relationship between Extent of Loan management and Level of Financial Performance of the selected SACCOs

Variables correlated	r-value	Sig.	Interpretation	Decision on H_o
Credit Worthiness Vs FinPERF	.505**	.000	Significant correlation	Rejected
Credit Period Vs FinPERF	.571**	.000	Significant correlation	Rejected
Repayment Discounts Vs FinPERF	-.073	.419	Insignificant correlation	Accepted
Decision to Grant a Loan Vs FinPERF	.601**	.000	Significant correlation	Rejected
Securities and Penalties Vs FinPERF	.296**	.001	Significant correlation	Rejected
Loan Management Vs. Financial Performance	.619**	.000	Significant correlation	Rejected

The results in Table 10 indicated that all indicators of loan management practices used in this study (with exception of one; repayment discounts) were found to be positively and significantly correlated with the financial performance index (FinPERF). This is because all the corresponding sig. values were far less than the 0.05 level of significance most popular in social science researches. Based on these results as summarised by the overall loan management index (LOANMGT), the null hypothesis was rejected leading to a conclusion that proper or satisfactory loan management can help to enhance financial performance in SACCOs as per this study's sample.

To get a clearer picture on how each element of loan management affects the financial performance of the two SACCOs under study, the researcher regressed the financial performance index (FinPERF) with all the five elements of loan management index, results of which are indicated in table 11;

Table 11: Regression analysis results for Financial Performance and elements of Loan Management

Variables Regressed	Adjusted R^2	F	Sig.	Interpreta-tion	Decision on H_o
LOANMGT Vs FinPERF	0.605	32.862	.000	Significant effect	Rejected
Coefficients	**Beta**	**t**	**Sig.**		
(Constant)	.566	2.616	.010	Significant effect	Rejected
Credit Worthiness	.217	2.907	.005	Significant effect	Rejected
Credit Period	.372	4.702	.000	Significant effect	Rejected
Repayment Discounts	-.213	-3.030	.003	Significant effect	Rejected
Decision to Grant a Loan	.429	6.309	.000	Significant effect	Rejected
Securities and Penalties	.095	1.434	.155	Insignificant effect	Accepted

From the results of the regression analysis in Table 11 the researcher tested the following regression model;

$$FinPERF = \alpha + \beta_1 CW + \beta_2 CP - \beta_3 RD + \beta_4 DGL + \beta_5 S\&P \dots\dots\dots 1$$

Where α is the constant that shows the level of financial performance of a SACCO, when all loan management practices are assumed to be zero; CW, CP, RD, DGL and S&P refer to the five elements of loans management of Credit Worthiness, Credit Period, Repayment Discounts, Decision to Grant a Loan and Securities and Penalties; while β_1, β_2, β_3, β_4 and β_5 are the coefficients used to estimate the various components of loan management. From the results of Table 11, the estimated form of equation 1 was;

$$FinPERF = 0.566 + .217(CW) + .372(CP) - .213(RD) + .429(DGL) + .095(S\&P) \dots\dots\dots 2$$

First and foremost, the findings in Table 11 indicate that all the five components of loan management practices included in the regression model, significantly affect SACCOs' financial performance ($F=32.862$, Sig. $= 0.000$). Results from Table 11 indicate that all loan management practices taken together contribute over 60.5% towards variations in financial performance of SACCOs (Adjusted $R^2 = 0.605$). These results suggest that an improvement in loan management practices is expected to significant affect SACCOs' financial performance and vice versa. Put differently, the adjusted R^2 value of 0.605 indicates that only 60.5% of the variations in SACCOs' financial performance can be attributed to the five elements of loan management considered in this study. The remaining percentage (39.5%) is attributed to other factors which were not included in this study.

The regression model (equation 2) indicates that while all the five elements of loan management practices when taken together significantly influence SACCOs' financial performance, not all of them

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are individually significant and not all of them have equal effect or predictive strength. For example results indicate that of the five loan management practices, only four can significantly predict financial performance, only excluding the last element whose Beta value is very small and whose sig. value above 0.05. Again of the four elements with a significant effect on financial performance, the decision to grant a loan (Beta =.429, sig. =.000) and the credit period (Beta =.372, sig. =.000) proved to be exerting the biggest influence towards variations in financial performance as compared to the rest.

Thus from the estimated regression model (equation 2), a one unit increase or improvement in decision to grant a loan is likely to increase a SACCO's financial performance by 0.429, considering other factors constant. But a one unit increase or improvement in credit periods within which clients are required to repay, is likely to increase financial performance by 0.372, considering other factors constant. One other important finding from this regression model is that repayment discounts have a negative effect on financial performance of a SACCO, because of a negative beta value (Beta = -.213) and this effect is statistically significant (sig. = 0.003), therefore it is advisable that SACCOs managers should not focus attention on enticing clients to repay the loans by offering early repayment discounts.

ensure that institutional funds are tied for a short period only. Tying funds for a long time may bring financial crisis in a SACCO and it may lose its reputation when depositors fail to get their cash requests on a daily basis. This indicates that SACCOs must look at their credit payment periods with much care to avoid problems.

This study's findings on repayment discounts (mean=2.04= unsatisfactory) implied that managers believe in what is recommended by QFinance (undated) that it is better not to offer a discount for early payment as it may be misused by many people and may still pay late, while the institution is losing significant amounts both ways.

Finally the findings of this study indicated that there is an unsatisfactory way of handling securities and penalties (mean=2.39). This implied that SACCOs do not have strict measures to recover their money in case one defaults, in which case they lose much money. For example, collateral securities are not emphasized, yet most institutions require such to be safe in case a person defaults (Sullivan & Sheffrin, 2003). This indicates that the SACCOs are not implementing recommendations of financial experts like Kakuru (2003) for having secured loans. It indicated that SACCOs have unsecured loans. This may be because the two SACCOs investigated upon were all formed by strong organisations. But this may not mean violating financial principles, because any institution of that kind may wish to expand beyond the members of the founding organisation. But if they expand with such, it may become a big problem in future.

5.1.2 Level of Financial Performance in New Vision and Toyota SACCOs

The findings revealed that the level of financial performance was generally high (average mean=2.90). Most of the financial indicators were favourable, for example number of borrowers (3.43), retained-earnings (3.39), number of savers (3.37), level of liquidity (3.16), leverage ratios (3.10), number of shareholders (3.10), operating profit margins and net profit (3.08), fees collection on services offered (3.05) and others like gross profit margins, profitability ratios, efficiency ratios and liquidity ratios among others. We derived several implications from such findings; for example, performance of a SACCO depends on the members' composition. For SACCOs like Toyota and New Vision, members are a bit financially stable and secured, so it is possible that their savings are heavy and their ability to pay back the loans is high. In line with Nieman *et al* (2003), the two SACCOs can correctly be taken to be successful financially, which is also in line with Carpenter (2000), Haning (2002) as well as Pandey (2006) who indicated that firms with favourable financial ratios are performing well. And according to Nakazibwe (2010) such SACCOs are financially sustainable. According to Adongo *et al.* (2005), a financially sustainable SACCO is able to cover all its costs from the interest income it generates; this was found true in the two SACCOs.

5.1.3 Relationship between Extent of Loan management and Level of Financial Performance

The findings of this study revealed a positive significant relationship between the extent of loan management practices and financial performance of the two SACCOs (r=0.619, sig. = 0.000). The findings implied that an improvement in the loan management practices of a SACCO is likely to increase its financial performance indicators. Regression analysis results suggested that loan management practices

account for 60.5% towards variations in the financial performance of SACCOs, with decision to grant a loan (Beta=0.429) and credit period (0.372) taking a lion's share in influencing the financial health of the SACCO. These findings implied that decision making is very crucial in a SACCO and so the process must be made clear. Giving loans as indicated by Pandey (2006) involves a risk and so the decision to give it must be reached in a scientific process.

This study's findings are in agreement with those of Chakraborty (2008) and Mallik *et al.* (2005), who found a significant relationship between assessing credit worthiness of a customer and financial performance of firms, although theirs were in pharmaceutical industry. The findings however partly disagree with those of Matovu (2006) who found a weak positive relationship between credit appraisal and approval procedures and performance of enterprises, explaining that there is lack of proper credit vetting procedures especially for new clients, insufficient information for credit applicants as well as limited reference bureaus in the country. All these reduce the ability of an institution to properly or correctly assess the credit worthiness of a prospective client. This however may not remove the need for this practice and may not remove the principle that good assessment of creditors may help improve the financial position of the enterprise. This is line with Hampton (2003), who argued that there must be care taken to asses both the existing and potential capacity of the applicant to finance the future credit obligations since the current capacity may be misleading. Burges (2001) adds that the best time to reduce credit risks and defaults, is when evaluating a credit applicant, which Nalwanga (2010) said should be a joint effort of all loans staff.

This study' finding on the significant correlation between debt repayment period and financial performance is in line with those of Bana (2012) who indicated that the credit period granted to customers

has an impact on profitability of a company. This is also in line with Burges (2001), Schmidt (2003) and Nakazibwe (2010). The findings on relationship between cash discounts and financial performance of SACCOs disagree with those of Van Horne (2002) who revealed a direct relationship between the two. The findings however agree with QFinance (undated) that discounts for early payment may be misused bringing a negative impact on the firm. This is exactly what this study reveled that there is a negative relationship between loan repayment discounts and financial performance of SACCOs. As indicated by the QFinance (undated), offering discounts to encourage early repayment may have a double loss to the company; first, the customers may miss use it, where by even those who would pay early may withhold the money if no anticipated discounts are offered and at the same time, the discount reduces the profit a company would have got.

Securities and penalties are a form of credit control according to Pandey (2004), adding that good credit controls ensure that firms offer credit to the financially strong and most reliable clients with well laid down credit terms, which results into financial sustainability. The findings of this study are in line with Van Horne (2002) who found a direct relationship between credit appraisal and financial performance. Good credit policy outlines the clear procedures followed to grant a loan and implies proper assessment and involvement of different stake holders. So if one officer has inadequate information about the prospective client, another may alert him/her, leading to efficiency. It is therefore here by indicated that the better the loan management practices of a SACCO, the better will be the financial performance on most of the indicators and vice versa.

5.2 Conclusions arising from the study

This section presents the conclusions from the study findings based on objectives as discussed in the previous section.

5.2.1 Extent of Loan Management in New Vision and Toyota SACCOs Kampala

The extent of loans management in the two SACCOs is generally satisfactory. The SACCOs' loan management practices are best of assessing credit worthiness of customers, where managers do their best to check potential clients, avoid big loans, keep payment records and always visit their clients' homes. The SACCOs also have satisfactory loan management practices on debt repayment periods and the decision process to grant a loan. As such there are indicators of professionalism in the two SACCOs. It is believed that the mother organisations influence or help a lot in loan management efficiency in these two SACCOs. This is because they borrow a leaf from the management systems already existing in the mother organisations. There are some areas however which are still weak and so require improvements and these include securities and penalties and streamlining the discount policy.

5.2.2 Level of Financial Performance in New Vision and Toyota SACCOs

The two SACCOs' financial performance is generally satisfactory. The two SACCOs are performing well on the major indicators of financial health in any financial institutions. The SACCOs are performing best on four indicators which include number of borrowers, retained-earnings, number of savers and liquidity levels; but they also perform well on, leverage ratios, number of shareholders and all operating profit/financial ratios. The implication is that the employing organisations influence the composition of members and the financial health of the SACCOs. However, though the two SACCOs generally

perform well financially, their performance is low or poor on some indicators which include capital base, investment in shares on stock exchange and reducing the number of defaulters.

5.2.3 Relationship between Extent of Loan management and Level of Financial Performance

Based on the findings of this study, we infer that the loan management practices of a SACCO significantly affect its financial performance and financial health. We also conclude that proper assessment of the credit worthiness of clients, credit period, decision to grant a loan and securities and penalties significantly enhance the financial health of a SACCO. However, offering incentives in form of discounts to encourage early repayment may worsen the financial performance of SACCOs.

5.3   Recommendations

In this section, the researcher presents major recommendations from the study findings based on objectives. The researcher recommends that if SACCOs want to improve their financial performance, they should do the following;

a) The loans officers/managers should make sure that they give clients a specific date of repayment. For example, instead of giving a period which is general, the client should be informed of the date when he should not exceed before clearing the debt. They should also make sure that when the due date nears, the officers in charge of a specific loan give a call to remind the client to pay back the debt. The management should ensure that new clients are given shorter period loans until their ability to pay is ascertained.

b) The management should also ensure that they streamline the policy on repayment discounts. More import, SACCO management need to look for other avenues of incentives to encourage their clients pay

predictive strength towards financial performance compared to other practices of loan management.

5.4 Areas for further research

This study delved into the relationship between loans management and financial performance of selected SACCOs in Kampala District. Nevertheless, it dealt with only two SACCOs, that is to say, New Vision and Toyota Uganda SACCOs; yet the findings from these two SACCOs may not be adequately generalized to all SACCOs in Kampala. A more comprehensive study, therefore, which may look at a variety of other SACCOs may be vital to bring out more comprehensive and representative findings.

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENT

A QUESTIONNAIRE ON LOAN MANAGEMENT AND FINANCIAL PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVES IN KAMPALA DISTRICT, UGANDA

Dear respondent,

I am a Postgraduate student at Kampala International University. I am carrying out a research study on the topic 'Loan Management and Financial Performance of Selected SACCOs in Kampala, Uganda. This research is needed as a partial requirement for me to fulfill the requirements for acquisition of a Master of Business Administration (MBA). I therefore humbly seek for your opinions and views on the issues in the Questionnaire to facilitate my study. Rest assured your opinions will be kept confidential and will be used for academic purposes only.

Thank you very much in advance

Norah Kwizera

PART 1: PERSONAL DATA

Please tick the option that applies to you.

1. Your age;   Below 20 ☐   20 – 29 ☐   30 – 39 ☐   40 – 50 ☐
   50+ ☐

2. Your sex;   Male ☐   Female ☐

3. Your education level;   Primary ☐ O-level ☐   A-level ☐ Certificate ☐
Diploma ☐   Bachelors Degree ☐ Master's ☐   Ph.D ☐

4. Your experience; Below 1 year ☐   1–3years ☐ 4–6 years ☐ 7 – 9 years ☐

   10 years+ ☐

PART 2: QUESTIONNAIRE ON LOAN MANAGEMENT

Direction: The following items indicate the characteristics of good Loans Management System. Please show the extent to which each of them is true for the case of your SACCO. Do this by ticking the box with a number of your best choice. Kindly try to be as honest as possible showing how truly you see the situation at this SACCO. Note that all answers are correct. Kindly use the scoring system below;

Rating   **Response Mode**

4   Strongly Agree

3   Agree

2   Disagree

1   Strongly disagree

Assessing the Credit Worthiness of Clients	Scores			
You always carry out credit checks before a credit is given to a customer	1	2	3	4
You always keep customers' debt payment records	1	2	3	4
Clients with big debts are not given more debts until they clear the first debts	1	2	3	4
Clients have to make some deposits on the money taken on credit	1	2	3	4
SACCO officers usually visit Clients' homes to prove their credit worthiness	1	2	3	4
Debt Repayment Period	1	2	3	4
Clients given loans are given a specific date of (re)payment	1	2	3	4
Clients given loans are provided with loan cards showing dates for paying back.	1	2	3	4
New clients are always given short-term loans.	1	2	3	4
Employees always explain terms of payment to clients before giving them loans	1	2	3	4
All clients given loans are given a time limit to repay	1	2	3	4
Clients given loans are sent reminders when their due dates near	1	2	3	4
Clients given loans are usually called to clear debts on their due dates	1	2	3	4
Repayment Discounts				
Clients who pay their loans in time are given discounts/incentives	1	2	3	4
Clients who pay back their loans before expiry dates are given some discounts	1	2	3	4
There is a policy on early repayment discounts and it is well known to all staff	1	2	3	4
Decision to Grant Loans				
You have a clear credit/loans policy in this SACCO	1	2	3	4
You and other staff know who qualifies to receive a loan	1	2	3	4
You have a loans/credit policy with clear and consistent guidelines	1	2	3	4
You have well-established creditors files with automatic reminders	1	2	3	4
Only the loans manager makes the final decision to grant a loan to a client	1	2	3	4
Securities and penalties				
Clients given credit services are required to leave a collateral security	1	2	3	4
Clients are provided with a copy of the credit payment policy	1	2	3	4
Your loans policy spells out penalties for late payments & how to apply them	1	2	3	4

PART 3: QUESTIONNAIRE ON FINANCIAL PERFORMANCE

Direction: The following items indicate the characteristics of a business/SACCO that experiences indicators of good financial performance. Please show the extent to which your SACCO has each item, by ticking the box with a number of your best opinion. Kindly use the guide below;

Rating **Response Mode**
4   Strongly Agree
3   Agree
2   Disagree
1   Strongly disagree

Assessing the Financial Performance of SACCOs	Scores			
The capital base of this SACCO has increased	1	2	3	4
This SACCO uses less borrowed funds to finance its operations	1	2	3	4
The number of shareholders in this SACCO has increased	1	2	3	4
This SACCO's retained-earnings are high & are expected to continue increasing	1	2	3	4
In this SACCO, there has been an increase in the number of savers	1	2	3	4
In this SACCO, there is an increase in the number of borrowers	1	2	3	4
In this SACCO, the frequency of loan installment payment has increased	1	2	3	4
In this SACCO, the fees collected on services offered have increased	1	2	3	4
In this SACCO, the number of securities collected has increased	1	2	3	4
In this SACCO, the number of defaulters is generally low	1	2	3	4
In this SACCO, proper accountability is done by all people who get loans	1	2	3	4
In this SACCO, financial reports and statements are usually presented on time	1	2	3	4
In this SACCO, internal & external auditing are done by neutral experts	1	2	3	4
In this SACCO, there are no or less cases of financial fraud	1	2	3	4
In this SACCO, there are no or less problems of liquidity	1	2	3	4
In this SACCO, there are no or less loan defaulters	1	2	3	4
This SACCO has a set minimum cash balance	1	2	3	4
This SACCO has never gone below the set minimum cash balance	1	2	3	4
This SACCO has cash for investing in long term projects	1	2	3	4
This SACCO has invested in non-current assets	1	2	3	4
This SACCO has investments in shares on the stock exchange	1	2	3	4
This SACCO has internally-generated cash sources only	1	2	3	4
This SACCO has favourable profitability ratios	1	2	3	4
This SACCO has favourable liquidity ratios	1	2	3	4
This SACCO has favourable efficiency ratios	1	2	3	4
This SACCO has favourable leverage ratios	1	2	3	4
This SACCO has favourable gross profit margins	1	2	3	4
This SACCO has favourable operating profit margins and net profit	1	2	3	4
This SACCO is able to meet all its short-term obligations	1	2	3	4

Thank you very much for your Time and Responses.