THE CONTRIBUTION OF SHORT TERM INVESTMENT ON CREDIT MANAGEMENT OF COMMERCIAL BANKS IN UGANDA.
A CASE STUDY OF POST BANK MASAKA BRANCH- UGANDA

BY

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DECLARATION

I **MUSINGUZI ABERT** declare that this research dissertation presented to the College of Economics and Management of Kampala International University is my original work and has never been submitted to any institution for any award.

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APPROVAL

This research dissertation has been done under my supervision as a University Supervisor and submitted for examination with my approval to College of Economics and Management.

Signature : ....

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Date : 30th/06/2014

DEDICATION

This Dissertation is dedicated to my guardian, uncle Njari Godfrey and my mother miss Candari Provia for the great contribution they rendered to me in order to come up with it.

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First and foremost, I give honor and glory to the Almighty God who gave me good health, wisdom and knowledge to be able to write this dissertation.

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ABSTRACT

The study sought to establish the factors that determine the contribution of short term investment on credit management of commercial banks and was driven by three objectives. These were; to identify the extent to which short term investment affects the financial Performance of banks, to establish short term investment and credit management options of commercial banks and to analyze the management strategies put in place and source possible solutions.

The researcher sampled of fifty (50) respondents and the research was guided by three research questions; to what extent do short term investments affect the financial performance of Post bank?, What are the short term investment and credit management options administered by the commercial bank? and What are the management strategies put in place and their possible solutions?.The findings show that; Post bank has embarked on re-organization of its activities by incepting the brand program in an effort to change the image of the bank and offer its customers efficient services starting with branding for both savings, loan and of all its branches and the returns derived from investing in short term investment securities and bonds range between 15-30% as a percentage.

The recommendations to Post Bank were; the Bank should adopt a good short term investment management method; more fund managers should be employed to provide and direct investment management service and decision. These fund managers should first value short term investment at gross yield and then calculate and hence compare with marginal rate realized in its capital gains.

CHAPTER ONE

1.0 Introduction

This chapter to cover the background of the study, the statement of the problem, purpose of the study, the significance of the study and the conceptual framework.

1.1 Background of the study

Post bank Uganda limited was established in accordance with communications Act of 1997. It was incorporated in February 1998 as a limited liability company to take over operations of the former Post Office Savings which has been in existence since 1926.

Post Bank is owned 100% Government of Uganda. It is currently run by a Board of Directors headed by the Chairman and in its day to day operations guided by a management team headed by the Managing Director.

Post Bank Uganda has its separations in 29 branches and 13 mobile Banking Locations spread across 30 Districts countrywide. The bank serves 270,000 customers and has a deposit base of 41 Billions and a loans portfolio o 20 Billions.

The bank's operations are supervised by the bank of Uganda under financial institutions Act. The bank also subscribes to Depositors Insurance Scheme at bank of Uganda, meaning that in the unlikely of a bank failure, our customers are compensated for up to Shs. 2million Shillings.

The liberation of Uganda's economy has created a sound basis for credit management, Pandy (1993) observer that a credit management policy in emerging private sector (in developing countries). Should enable efficient loan management of loan portfolio. This is because individuals whose primary objective is to maximize profits do it immensely. Therefore credit management policy has to involve well stated credit terms credit standards and collection efforts.

Efficient and effective management of credit policy, credit standards should reflect the strength and credit worthiness of a customer. This is a basis for qualifying a customer for credit facility (Waiswa 1997). Banks should therefore initiate a process or procedures to make reasonable operational adjustments of each loan transactions to ensure operational consistency, uniform practice in order to serve their customers and communities. Spillenkite (1995) asserted that banking necessarily entails making business judgment about taking and pricing potential loss in interest in the lending process.

In terms of deposits, post bank is one of the largest in the country, holding 59% of the total commercial banks deposits and has 28% of all commercial banks branches. Its short term investments have demand because people have had confidence in it due to good economic base and always have moderate bid when it comes to treasury bills and bond.

The idea of short term financing decision is often described as working capital as it includes debt or credit that is scheduled for repayment within one year. Major sources of short term credit include trade credit, short term bank loans, overdraft, invoice, discounting, factoring, commercial papers, shares, debentures and other securities. When borrowing is relaxed, banks invest increasing amount of securities and when there is strong demand for funds, banks reduce their holdings of securities. Commercial banks also act as the trustee and executor of the property and the will of its customers. From an economic stand point, credit alone is not sufficient to allow borrowers to increase their productivity or commercial capacity and in turn incomes. No amount of credit can help borrowers to claw to higher level of income in absence of investment in an atmosphere of the investment environment that creates greater returns, potential and prosperity.

1.2 Statement of the problem

According to Mc Nauhton (1996) risk taking is central to banking and its profitable if the risk taken are reasonable, controlled and within the financial resources and credit as well

1.3 The purpose the study

The purpose of the study was to assess the contribution of short term investment on credit management of commercial banks.

1.4 Specific objectives

1. The study identified the extent to which short term investment affects the financial Performance of banks
2. The study established short term investment and credit management options of commercial banks.
3. The study analyzed the management strategies put in place and source possible solutions.

1.5 Research Questions

1. To what extent do short term investments affect the financial performance of Post bank?
2. What are the short term investment and credit management options administered by the commercial bank?
3. What are the management strategies put in place and their possible solutions?

1.6 Scope of the study

1.6.1 Geographical scope

The researcher based his study at Post bank Masaka town branch, in Masaka district.

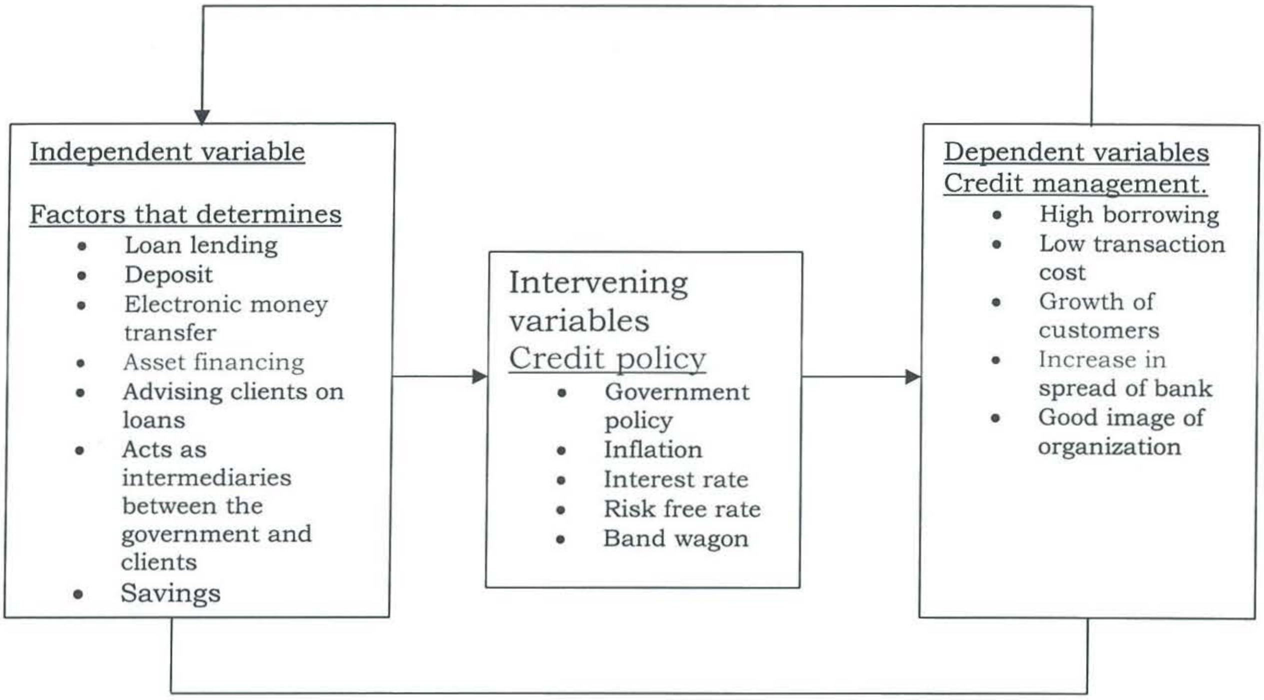
1.6.2 Content scope

The study will be based on the contribution of short term investment on credit management of commercial banks with a case study of post bank Masaka branch.

1.6.3 Time scope.

The study will be carried out for a period of three months from Macrh to June, 2014.

1.7 The conceptual framework.



Source; researcher's conceptualization, 2014

The above conceptual frame work represents the relationship between the independent variables and independent variables. The intervening variable indicates both positive and negative factors which affects the dependent variables respectively. The independent variables here are the factors that determine the contribution of short term investment and the dependent variables are the credit management. When there are proper short term investment systems direct , that is to say when management supervises the assessment and analysis of investment very well, the contribution made on credit management are properly accounted for, when there is core competencies among the bank authorities, plus the presence of other.

All these eventually lead to high performance of an organization and hence offer better services, reduction in losses. However when the financial records investment are poor in an organization, effects like losses, mistakes, Proper allocation of resources, Providing better financial services, Improves service delivery, Economic stabilization, Proper coordination among others.

However, when the short term investments are poor in an organization, effects like losses, Poor allocation of resources, weak commercial participation, poor accountability and poor truck of records are evident.

1.8 Significance of the study

After the completion of the study, the beneficiaries were as followed; the researcher, the bank and other organizations with similar organizational structure and the study benefited them in the following ways;

To the organization, the study was useful in finding out how well short term investment affect financial performance of Post bank-Masaka branch.

To the researcher, the research enabled him to acquire more knowledge about short term investment and credit management of commercial banks.

The study was useful in finding out how well management strategies put in place can effectively be administered on the people for better service delivery to the citizen.

The study helped to identify loopholes that exist in the credit management systems within Post bank Masaka-branch.

It provided up-to-date literature for academicians and chief financial advisors of the banks in the department of investment.

The research contributed to the researcher's part fulfillment of the requirement for the award of Bachelor's Degree in Business Administration.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Introduction

This chapter looked at a review of related literature to the variables under investigation; it presented the theoretical orientation of the study, and related literature. The related literature was presented with the objectives of the study and cited to suit the global changes in organizations. The researcher was to make a number of links that arise from the literature.

2.1 Defining short term investments.

A short term investment fund is a fund that earns you a return on your money in a short period of time, such as one to ten years. This is different than retirement investing, and it can be a challenge to find short term, high yield investments. Good short term investments will have a high interest rate, allowing you to earn substantial money immediately. Short term investment funds include cash, bank notes, corporate notes, government bills and various safe short-term debt instruments. These types of funds are usually used by investors who are temporarily parking funds before moving them to another investment that will provide higher returns. These funds traditionally have low management fees, usually well below 1% per year. Short term investment fund is a type of fund that invests in short-term investments of high quality and low risk. The goal of this type of fund is to protect capital with low-risk investments while achieving a return that beats a relevant benchmark such as a Treasury bill index.

2.2 Factors affecting short term investment.

Post bank in short term securities as they provide it with revenue. Its holdings of securities are an important income, which is most liquid. Short term investment is ranked highly as income source where loans and advances take the lead. They can be easily traded and converted to cash with low transaction cost to meet its strong demand for funds and provide insurance against highest cost of deposit outflow. These securities can be governmental securities or other securities.

Interest rate is the cost of borrowing, when the interest rates are high. Demand for bonds go up and vice-versa. When interest rates are high demand for stocks is very sensitive, stocks go down hence lower earnings. Cost of investments, which is subject to price changes, will vary either by increasing or reducing as the price fluctuates. It will definitely have an effect on the assets (securities) or liabilities and even the overall post bank profitability.

2.2.1 Credit management policy

Credit management policy is the most important responsibility of any financial institution that provides loan facility (Cochran 1989). This is because every lending institution aims at surviving in business by making returns on the loan transactions. Therefore, credit management policy is a policy exercised by mainly commercial banks. The policy sets decisions that include offer, credit standards and collection policy (Rouse 1992) explains credit policy management as managing a combination of three decisions variable stated as credit standards credit terms collection efforts on which the lending bank influence. Pandy (1995) however defines management policy while maximizing the benefit from it these are guidelines that are followed in managing credit banks, it further indicated that the management policy should have leading policies which commercial banks apply in their operational guidelines.

The guidelines provide basis for decision making process. Pandy (1993) described the term credit management policy used to refer to the combination of three decisions variable in credit standards; credit terms collection effort on which the financial manager has influence. According to Kakuru (1998) credit management policy is a set of policy actions designed to minimize costs associated with credit while minimizing the benefit from it. These are guidelines that are followed in managing credit in business.

2.2.2 Credit culture and risk profile

Understanding the credit culture and the risk profile of the bank is central to successful loan portfolio management, because of the significance of banks lending activities, the influence of the credit culture frequently extends to other bank activities. Staff members throughout the bank should understand the banks credit culture and risk profile. The knowledge should pass from the chief credit policy officer to account to administrative support. Directors and senior management should not only publicly endorse the credit standards that are a credit cultures backbone but should also employ them when formulating strategic plans overseeing portfolio management.

2.3 Conditions of credit policy

According to foundation of financial management 10th edition by Stanley B. Block and Geoffrey. A. Hirt, [2002] page 186-190. Once the decision to extend credit to customer is made then a decision regarding the conditions of credit follows.

Literature available indicates that for lending institutions to thrive profitability, they should ensure that they state conditions upon which they provide loan facility to their customers. It should be noted that banks should also know that they have powers over their loan customer obligations (kakuru 1998) using these powers, bank should place big emphasis on the conditions under credit is extended. These conditions should be more attractive to act as incentives to clients but they should incur unnecessary high level of bad debt risks. The length of the time for which credit is extended is important. This is because all customers are expected to repay their obligation in expected period. This loan period is popularly known as credit period the other credit development issue considered is the cash discount. This is offered to customer in form of a price reduction to induce them pay their commitments with an expected period. This is usually less than the normal credit policy.

2.4 Problems faced by short term investments

High interest rates dictated upon by the government through the central bank. This has effects on the demand for stock as they are very sensitive below levels of income limit the savings and investments in general. Actually 80% of the population is employed in the agriculture sector. Political unrest leads to loss of assets and sometimes loss of customer deposits. Securities are part of post bank assets and major source of its funds. High marginal propensity to consume of expensive products from developed countries due to demonstration effect has affected the level of savings.

2.4.1 Profitability analysis

This is most common measure of financial performance. The measures are used to assess how well management is investing and raising funds. Profitability is generally the most important to the firm's total shareholders. Profits serve as cushion against adverse conditions such as losses on loan, or losses caused by unexpected changes in interest rates. Consequently, creditors and regulators concerned about failure also look to profits to protect their interest although the measure ignores firm's risk. Profits depend on three primary structural aspects of financial institutions: financial leverage, net interest margin and non-portfolio income sources. Return on equity, and Return on Asset are the most commonly applied profitability ratios used to assess financial performance. Robinson and Wightman (1996)

2.4.2 Capital adequacy ratios

They relate to the firm's overall use of financial leverage. Generally firm with high financial leverage will experience more volatile earning behavior. Indicates that extent to which an institution's capital base covers the risks inherent in its operations. Important capital adequacy ratios include. Shareholders equity to total assets, shareholders equity to total loans, share holders to total customers deposits (gearing ratio).

2.4.3 Long term solvency

Solvency refers to the ability of an enterprise to survive over a long period of time. It's the same concept as liquidity except that it is for long term rather than short term. Ratios to assess long-term solvency are measures of company risk. There is no absolute ratio that has been put forward theoretically as the best measure of a good level of solvency. Total liabilities to total assets and shareholders' fund to total asset have been used in this study.

2.4.4 Earning and profit performance emphasis

The banking sector management have shifted their focus to profitability because of the recent development in the sector which include: the need for additional capital adequacy funds implying profits should be boosted as a main source, increased needs for provision of bad and doubtful debts, need for funds for expansions and modernization/ technological advancement to serve customers better and attain competitive advantage. This requires efficiency and intensive capital investment, high volatility of interest rates and exchange rates and intensive competition following liberalization of the sector are the factors considered Weston and Copeland (2007) concluded that profitability ratios are the most critical factors in a firm's ability to avoid failure.

2.4.5 Government securities

There are also money market instruments, they are portfolios of short term prime grade securities such as treasury bills, commercial papers, government bonds etc. these are government backed securities implying that they have a free rate that is zero variability and thus their return is high and certain. Money market instruments provide current income for post bank and safety of its principal in a highly liquid form. This enables post bank to meet its customer's demand and thus their return is high and certain. Money market instruments provide current income for post bank and safety of its principal in a highly liquid form. This enables post bank to meet its customer's demand and thus enhance its financial performance.

Bond is a department security that promises to make payments periodically for specified period of time. Post bank seeks to generate current income by investing in low and medium grade corporate and government bonds. The offer higher returns although at a greater risk of principal as compared to money market instruments. They are also liquid enabling post bank to meet its strong demands of funds. Using common stock post bank concentrates most of it short term investment, it emphasis is on growth stock which are expected to appreciate rapidly in price. Thus they offer increased income and profits for enabling it to meet its funds strong demand.

2.5 Banking Crisis

Following bank crisis however, the major challenges for the authorities has been to try and contain the crisis situations after realizing that a sound banking system is critical for both economic growth and stability. Uganda experienced financial crisis since 1970s, 1980s, which led to tightening of the regulatory framework by introducing changes in the banking act in [1995] aimed at enhancing efficient operations of the industry in conformity with the primary objectives of the international Balse committee on banking supervision. Swaibu kitozala (2000)

Banking crisis contributes to a substantial weakening of the macro-economic performance with major re-adjustment policies. It leads to increase in share of non-performing loans, increase in losses (due to foreign exchange exposure, interest rate mismatch, contingent liabilities) and decrease in value of investments causing solvency problems in the financial system. It is expected that viable restructured banks will have improved performance. Measures available in crisis situations depend on the country's legislative framework. Log-term measures include; liquidation, mergers, restructuring of activities, recapitalization, while short term emergency measures include, lender of last resort and central bank intervention in management of ailing institutions. However, measures undertaken should positively influence the performance of affected institutions any form of restructuring should aim at making the system sound, transparent and more efficient. The process of adopting the best practices continues especially after the Asian crisis. Cancace (1995).

2.5.1 Bank Restructuring

Systemic bank restructuring aims at improving bank performance restore solvency and profitability, improve the banking systems capacity to provide financial intermediation between savers and borrowers and restore public confidence. Governments began to restructure their public sectors mainly to create an enabling market environment and to rebuild investor confidence. Restoring financial institutions to viability means stopping accrual of unpaid interest, eliminating borrowers and refinancing on non-performing loans and making provisions for bad debts. In so doing, institutions that have no capital must be recapitalized, merged with health institutions, or closed if they have no further role to play in the financial system.

According to Sheng (2007), banks fail because of liquidity, insolvency, mismanagement, sudden shock to the economic system; such as violent fluctuations in interest rates or outright frauds. He observes that reasons for failure can be at micro or macroeconomic levels. Depending on the severity of the problem of the failing banks the remedial measures open to central bank vary. Furthermore the method used depends on a country's specific situation and the strength of the financial system. Claesens (2003) identifies two types of bank restructuring approaches; financial and operational restructuring. He argues that these approaches focus on policy and legislative clarity; competitive framework; interrelationship with capital markets, development of regulatory and supervisory structures and capacities and benchmarking of global standards and practices at macro-level restructuring refers to several related processes that is to say re-organizing financial losses; restructuring financial claims and operational restructuring of banks.

The main elements of sustainable corporate restructuring are broadly four bold; improving the enabling environment, developing the institutional and legal frame-work for restructuring; enhancing capacity for restructure and a greater role for capital markets.
Despite the positive encouraging developments in restructuring of financial systems; the stock market development and banking development in Africa are grossly incomplete. Severe informational problems have compounded this matter. The success of a country's resolution program; "fixing the roof while the sun shines" entails resolution or control of financial crisis using appropriate measures. It depends on the government's ability to clean up losses of distressed banks and restructure (that is recapitalize, merge, liquidate etc) insolvent banks.

Following bank crisis however, the major challenges for the authorities has been to trying and contain the crisis situation after realizing that a sound banking system is critical for both economic growth and stability. Uganda has experienced financial crises since 1970, and

1980, which led to tightening of the regulatory framework by introducing changes in the banking act aimed at enhancing efficient operations of the industry in conformity with the primary objectives of the international Balse committee on banking supervision.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discussed the research design was used ,area of study, population of the study, sample selection methods and size, data collection methods, validity and reliability, procedures of data collection and analysis methods used.

In this chapter, the researcher identified, specified and discussed all the possible methods which were applied in carrying out the study. Both qualitative and quantitative techniques of data collection and analysis were used since one research method can not yield an authentic report on the relationship between short term investment and credit management.

3.1 The Research design was a case study of Post bank- Masaka branch.

This study was cross-sectional, descriptive and analytical survey designed to show the extent to which investment relate to financial performance in Uganda. Samples of respondents were drawn from Post bank Masaka-branch, in addition to information expected to be generated from discussion, observations, and with the Post bank employees and management. The objective of descriptive research was to portray a profile of persons, situations or events (Saunders et al, 2000).

3.2 Area of Study

The study was carried out from the departments of financial services and human resource at post bank Masaka office, Uganda. This is located at the town center where many activities take place as regards to short term investment due to their expansion programme. Selected heads of department including the human resource departments were used as a source of information to the study.

3.3 The study population

The target population was post bank management, clients and employees who made a total population of 100 people. The people dominated this area were the Multi-ethnic. The heads of departments were used as informants on the challenges faced by the banking sector this was because they experienced an impact on these challenges as heads of sections which critically needed most of these challenges being investigated.

3.4. Sample design

This was a technique of data collection, whereby the researcher applied in drawing inferences based on the information collected about the target population. Under sample design, the researcher applied collection of data by using probability of simple random sample technique, with the collection of data from a sample of units (purposive/judgmental sample) that was selected from the target population with the intention that they were representatives of the population.

3.4.1 Sample method and procedures

The sampling method involved purposive random sampling since it was extensively used in the exploratory research stage and was very valuable in the making of a final questionnaire. This method also took care of non responses and accurate information obtained perfectly. Consequently, it gave the random size equal chance of participating and being selected. The sampling procedure involved a series of steps as shown here-under.

3.4.2 Sample Selection and size

The selections of respondents` employed both probability and non-probability sampling methodology. A both purposive and convenient sampling method was employed. A list of staff in the selected departments was used as a sampling frame. Then stratified sampling was used to ensure that both men and women participated equally. The picking of respondents made sure that the sample was sufficient enough. It was estimated that the survey received a total of ten (10) management members, ten (10) employees, and thirty (30) clients hence making a sample of fifty (50) respondents. The expectation was that the sample justifiably gave equal reliable and representative information.

Table (1) distribution of respondents

Department	No. of Respondents
Clients	30
Financial services department	10
Management	10
Total	**50**

Source: primary Data, 2014

3.5 Data collection methods and instruments`

The researcher used both qualitative and quantitative techniques of data collection such as; questionnaires and documentary review of data collection. These instruments ensured maximum credibility and validity of data that was collected and helped in organizing it into meaningful information regarding the subject of study.

3.5.1 Questionnaires

The questionnaires were self administered to individuals who were the respondents. The questionnaires included both structured and non-structured questions.

The respondents were approached and distributed with questionnaires which they filled with the answers of different views.

The researcher employed this instrument because it covered a large number of respondents relatively at a shorter time. Besides, questionnaires allowed the respondents to give free and independent opinions because they were not affected by the presence of the researcher. As well, respondents were expected to answer even sensitive questions since they were not identified by their names.

3.5.2. Interviews.

The research involved interpersonal talk between the researcher and different respondents in order to obtain useful information about the contributions of short investment on credit management of commercial banks taking a case study of Post bank Masaka- branch.

The researcher employed this method because interviews were easily administered for example they did not require respondents to have ability to read, write and handle complex documents or long questionnaires.

It created a right type of friendly atmosphere which was very conducive for obtaining desired data.

It was often perceived as a cooperative venture because personal contract gives emphasis.

Flexibility identified in the nature of interviews enabled the researcher to adjust the interviews to meet many diverse situations for example language barrier, physical disabilities and others.

It had control over time, data and venue because if an interview was to be held at the certain time for example, after the evening news or Sunday after service, arrangement can be made.

It allowed discussions of the meaning to the questions to eliminate ambiguity, provide an opportunity of correcting misunderstandings by the researcher and the respondents, which was not common with other forms of data collection.

Interviews gave a strong assurance and guarantee to the interviewee that the facts were properly used and safeguarded.

3.5.3 Observation.

This was conducted during the time of interview to observe state of workers and the real role in order to come with the report.

The researcher used this method because it employed relatively less complicated and less time consuming procedures of the selection.

It approached reality in its natural stricture and studied events as they value.

It showed collection of wide range of information even when this information was thought to be at the time of study, relevant and was also not relatively expensive.

It provided first hand information which was more valid than reported information obtained from questionnaires and interviewers.

3.5.4 Documentary review

In this, the researcher made a research by carefully studying written documents, or visual information from different libraries reviews of literature, related to the study basing on the objectives of the study. This data collection instrument had the following importance; related data gave direction when setting questionnaires, interviews and readers of this study who became suspicious of the data findings always referred to the literature review especially in chapter two. This was the basis for further studies in the same field by acting as a reference book.

3.5.5 Data sources

The sources of data collection were both primary and secondary. These included the following.

3.5.6 Primary data.

This was the first hand information that was collected from the field by the aid of techniques like interview guide, observation and reference to the secondary data.

3.5.7 Secondary data

Under secondary data, information was extracted from the text books and work of other scholars whether published magazines, written data source included published and un published documents agency reports, news papers articles, internet sources, proposal books,among others so as to obtain relevant information

3.6 Data processing and analysis

Audrey J. Roth (1991) argues that data processing is concerned with classifying response into meaningful categories called codes. Data processing starts by editing the schedules and coding the responses. Editing, Coding and Tabulation techniques are used in data processing exercise. Data processing is the link between data collection and analysis.

Nachmas` and Nichimas (2003) pointed out that it involves the transformation of data gathered from the field into systematic categories and the transformation of these categories into codes to enable quantitative analysis and tabulation; the data collected is classified into a meaningful manner for easy interpretation and understanding. This will involve preparing data collected into some useful, clear and understandable data. The whole exercise will involve editing, tabulation and analyzing the data statistically to enable the researcher draw conclusions in relation to the research variables.

3.7. Data analysis and presentations

This section dealt with the organization, interpretation of the collected data.

A researcher used data analysis to examine what was collected in a survey and made dedications references. Data collection was analyzed by use of quantitative techniques where a simple quantitative technique such as frequency distribution curves was used.

Histograms and tables were used to present findings. Data analyzed was presented in form of processed data that was from row data information when it became relevant to the problem identified by the researcher and his findings were presented as dissertation.

3.8 Ethical consideration

Before going to the field, the researcher began with getting authorization letter from the Dean of faculty of Business and Management then took it to the respondents and this enabled the researcher attain adequate information from the respondents. During the process of data collection, confirmation was given to the respondents in that the researcher assured the respondents that the reason for the research was for only academic purpose and that no information would be disclosed.

3.9. Limitations of the study.

The researcher finished the research successfully however, he faced the following challenges in the course of the study;

The time given to the researcher to complete research was too short since the maximum time for completing research report was only two months which did not give room for detailed study about the factors that determine the contribution of short term investment on credit management of commercial banks.
The researcher being a student faced the problem of financial constraints since lot of money was needed to pay for stationery, transport expenses, typing and photocopying and other costs related to the research.

Some respondents feared to disclose off some information which was crucial to the researcher since they were considered classified since they were secrets of the organization thinking that the information was going to be used for other purposes other than academic.

Unwillingness of the respondents to effectively respond to the questions was one of the most notable problems that the researcher faced while conducting the research. However, the researcher overcame this problem by convincing the respondents to get involved in the study.

Unwillingness of the respondents to effectively respond to the questions was one of the most notable problems that the researcher faced while conducting the research. However, the researcher

overcame this problem by convincing the respondents to get involved in the study.

Shyness of the respondents was also another limitation of the study. However, the researcher overcame this problem by giving the respondents the questionnaires and keeps himself away from the respondents so that they can fill in the questionnaires in his absence.

3.10. How the researcher overcome the limitations

On the problem of limited time, the researcher reshuffled his time table to suite with the time convenient to the respondents and obtained the information needed.

On the problem of financial constraints, there was strict adherence to the budget which was the way he overcome the problem of financial constraint. This enabled the researcher to use the available resources to make sure that the research was finished on time.

The problem of hostility by some respondents was overcome by humble talk with the respondents so that they could effectively answer the questions.

Shyness of the respondents by some respondents was overcame by giving the respondents the questionnaires and keeps himself away from the respondents so that they can fill in the questionnaires in his absence.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS

4.0 Introduction

This chapter of the study systematically presents the results that were obtained from the research that was conducted. The results are quantitatively presented. The analysis and interpretation follows tabular presentation at some stages and the interview results from the respondents are also presented to supplement the quantitative presentation.

The presentation of the study was guided by the research questions that guided the study.
The background information of the respondents however is also presented. Hence forth, the presentation is divided into two sections where one presents the background information of the respondents, while section two, and represents the results of the study according to the interview guide and the research questions that guided the collection. The presentation of the data follows in the following discussions.

4.1 Section one: Background information.

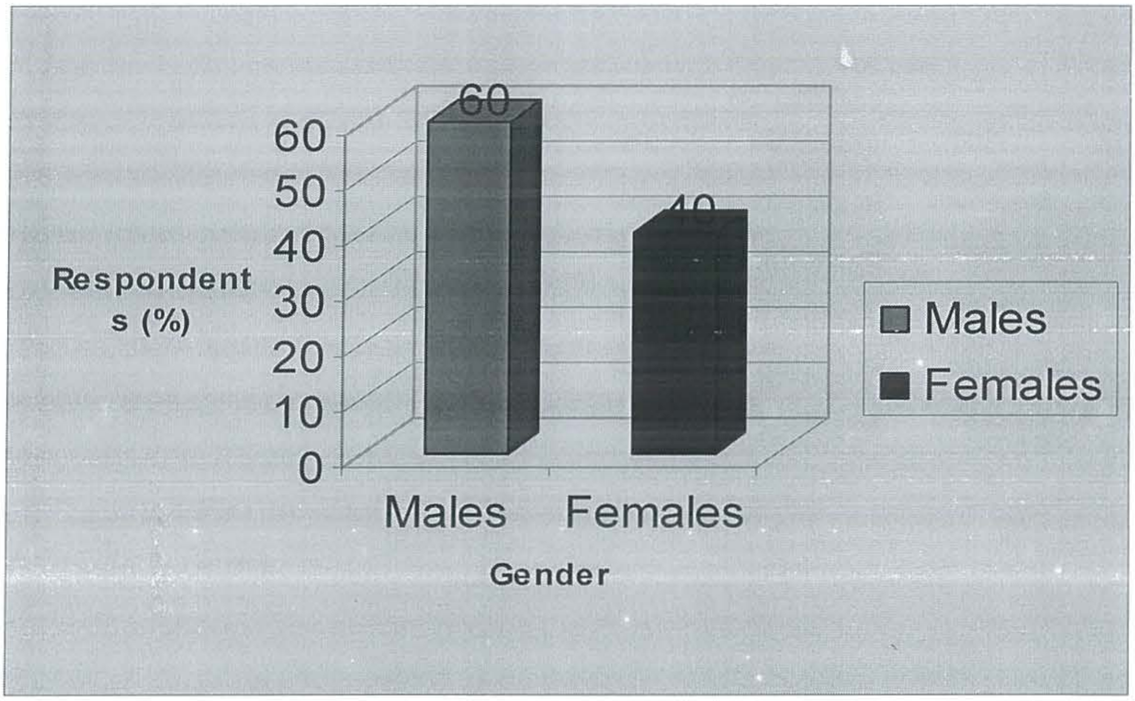
The presentation of this data as already pointed out is done in two sections. The current section presents the background information of the respondents. The researcher felt this information was important because the respondents' background with the organization determines the ability to posses the required information and subsequently determined the necessity of the researcher to probe for any detail and establish sufficient rapport with the respondents.
On the respondents' gender distribution, the researcher established the situation as presented in Table (2) below.

Table 2: Gender distribution of the respondents

Sex	Respondents (F)	Percentage
Males	30	60
Females	20	40
Total	50	100

Source: Primary data, 2014

Fig 1 shows the Gender of the respondents



Source: Primary data, 2014

As can be observed from Table (2), the majority of the respondents were males. That is; 30 (60%) of the total respondents as compared to 20 (40%) who were the females.

The results indicate that during the survey, the males were more accessible than the females. Even during the face-to-face interviews however, respondents expressed that in Post bank, the males in all the departments were more than the females. This made it possible for the researcher to interact with more males than he could with the females.

The distribution however indicates that there was adequate participation of both males and females in the study, which gave the researcher the opportunity to solicit varying views from both gender settings.

The researcher also endeavored to explore the level of education of the respondents. This variable was deemed worth establishing by the researcher because the education level of the respondents determines his/her ability to posses adequate information. The results on the levels of education of the respondents are presented in Table 3 below.

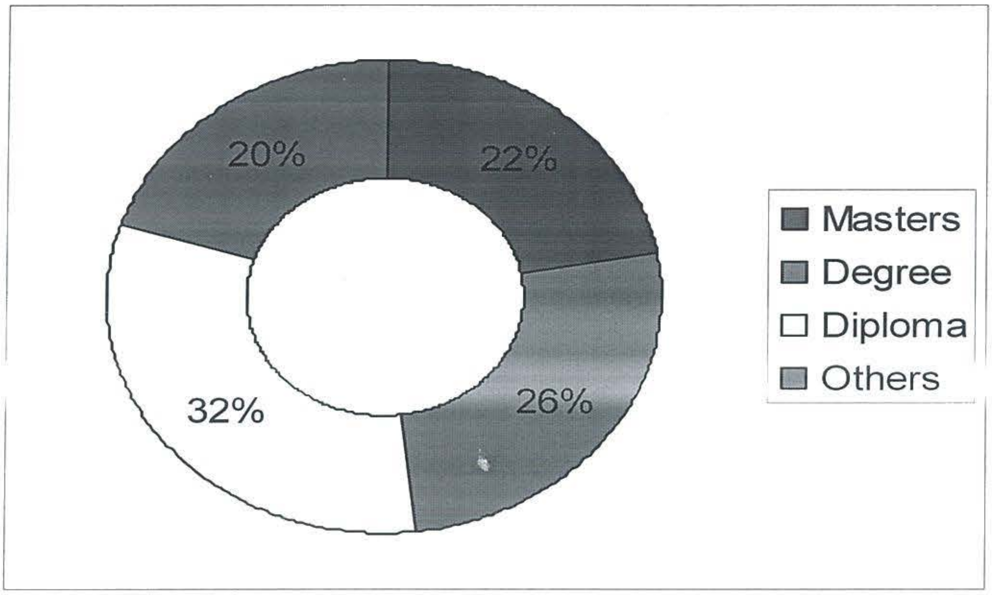
Table 3: The distribution of respondents by their levels of education

Level of education	**No of respondents (F)**	**Percentage (%)**
Masters	11	22
Degree	13	26
Diploma CPA (U)	16	32
Other certificates	10	20
Total	**50**	**100**

Source: HR Department, 2014

Table 3 above shows that the majority of the respondents were diploma holders with 16 (32%) of the respondents at different departments. There were also those who had all kinds of certificates 10 (20%) especially business related these were working as subordinate staff (drivers, secretaries). According to the table above, 13 (26%) of the respondents had completed degree level while 11 (22%) had completed the masters level. The distribution in Table 3 above however indicated to the researcher that the study involved respondents of various academic levels which gave him the opportunity to obtain information from different levels.

Fig 2 shows the levels of education of the respondents



Source: Primary data, 2014

The researcher also investigated the time the respondents had spent in their employment with Post bank. This information was regarded important by the researcher because the time spent in employment would incidentally relate to the respondents' ability to posses adequate and reliable information. The results are presented in Table 4 below.

Table 4: Distribution of the respondents' experience with the organization

Years of experience	Respondents	Percentage
1-3 years	19	38
4-7 years	11	22
7-10 years	12	24
Over 10 years	8	16
Total	**50**	**100**

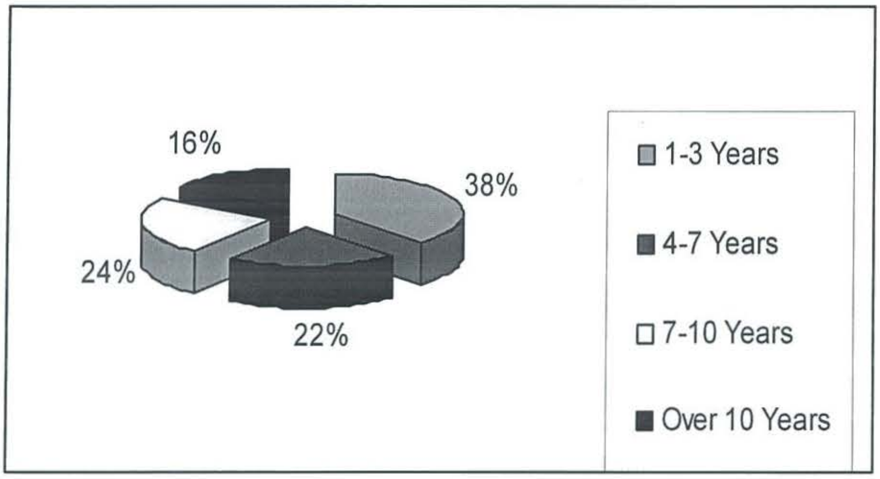
Source: HR Department, 2014

As expressed by Table 4 above, the respondents' experience with Post bank (Masaka) was evenly distributed. That is; 19 (38%) had spent a period of between 1-3 years as compared to 11 (22%) who had spent

4-7 years in employment. Those who had spent 7-10 years were 12 (24%) of the total participants. This distribution left 8 (16%) to have worked with Post bank-Masaka for a period of over 10 years. The results generally indicate that the respondents had varying experiences in the organization.

During the face-to-face interviews, most of the respondents indicated that it is not easy to spend more than 10 years with Post bank. The reasons expressed were that there are low payments as compared with other Banks.

Fig 3 shows the respondents' experience with Post bank



4.2 Section Two: Verification of Research Questions

This study was basically guided by three research questions from the specific objectives of the study. The verification of the Research Questions was guided by the conditions that described the data. After presentation of results of the Questions, the results from face-to-face interviews are also presented for clarity.

4.3 Research question one

The first Research Question of this study was derived from the first Research objective.

The Research Question sought to establish to what extent short term investments affected the financial performance of Post bank. In order to get answers to ascertain this research question, the researcher inquired from the respondents on a number of issues. These included; Post bank sources of revenue, Post bank investment options, and the effects of short term investments on financial performance of Post bank.

Descriptive statistics of the study were also analyzed and indicated results. For example the researcher was interested in investing Post bank source of revenue and the results are presented in the table below.

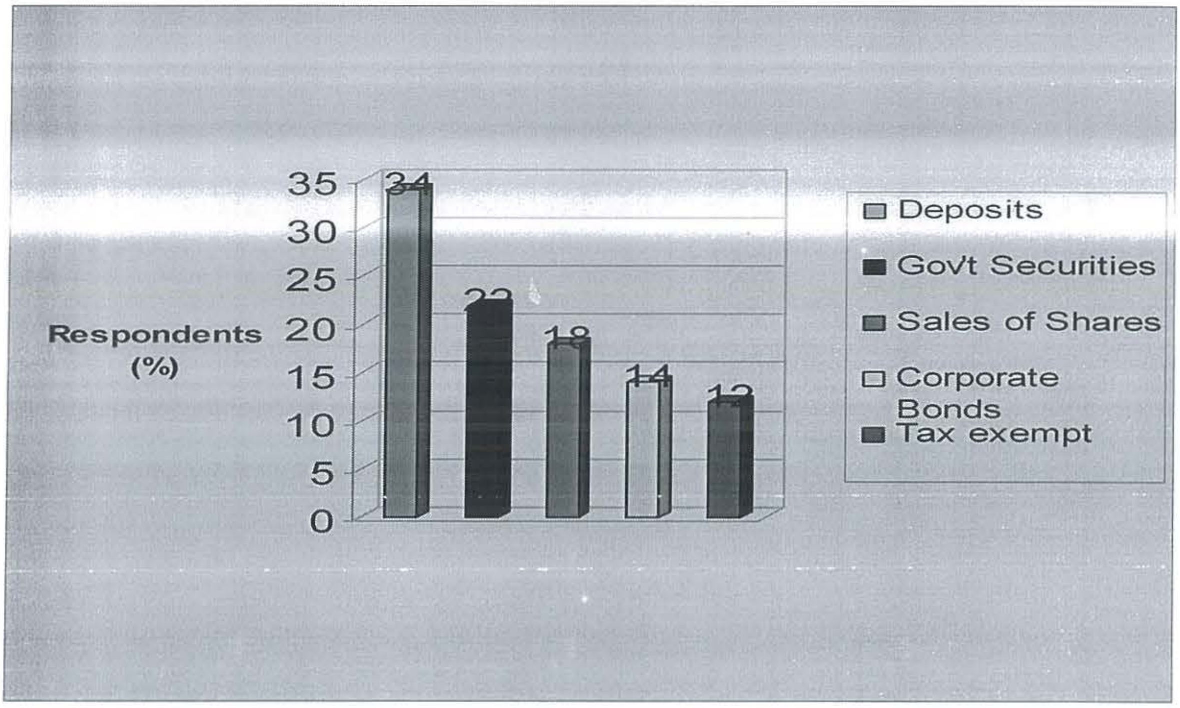
Table 5: Post bank sources of revenue

Sources of funds	Respondents	Percentage
Deposits	17	34
Government Securities	11	22
Sales of Shares	9	18
Corporate Bonds	7	14
Tax exempts	6	12

Source: Financial Service Department, 2014

According to the table above, it was observed from the respondents that deposits 17 (34%) were ranked as the first and highest source of funds for Post bank. Government securities at 11 (22%) were ranked as the second source of funds followed by sale of share at 9 (18%), corporate bonds at 7 (14%) and then tax exempt at 6 (12%). It was also discovered that deposit and government securities were the most liquid source of the income as they can be converted into cash easily with lower transaction costs. The researcher was enticed to inquire from respondents about Post bank options.

Fig 4 shows Post bank sources of revenue



Source: Secondary data, 2014

4.4 Research Question Two

From the second objective of the study, the researcher derived a research question. It was this research question which guided the study. In order to get appropriate answers to this research question, a number of elements were subjected to the respondents to solicit for their perception of the variables in question. For instance, the researcher solicited respondents' opinion on what are short term investment and credit management opinion administered by the commercial banks? Respondents were requested to mention the short term options. The results to this study were analyzed by generating tables and percentages which were used to make the comparison of the perceptions as the following presentation depicts.

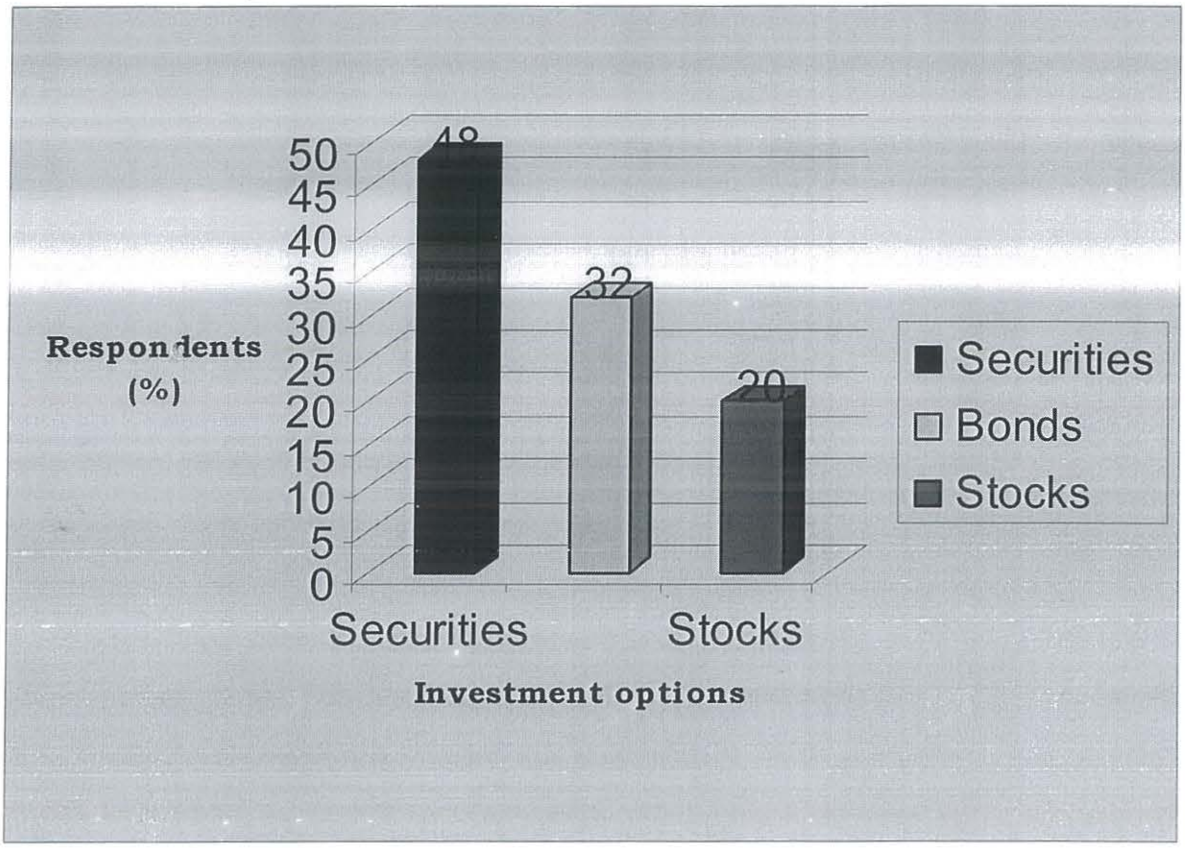
Table 6: Investment Options

Investment Options	Respondents	Percentage
Government Securities	24	48
Corporate Bonds	16	32
Common Stocks	10	20
Total	**50**	**100**

Source: secondary data, 2014

As indicated in Table 6 above, the majority of the respondents felt that short term investment option for Post bank were government securities at 24 (48%), corporate bonds at 16 (32%) and common stocks at 10 (20%). It was observed that the government securities at 48% yield the highest income for the bank followed by corporate bonds at 32% and then common stock at 20%. When the researcher met the respondents in the individual interview, majority of the respondents reported that these short terms investments were governed by investment policies put in place by the bank and they plated a major role on assets and liabilities. The researcher further inquired from the respondents on the effects of short term investments on financial performance of Post bank and the results are presented in Table 7 below.

Fig 5 shows the investment options of Post bank



Source: Secondary data, 2014

Table 7: Effects of short term investment on Credit management

	Respondents	**Percentage**
Government Securities	21	42
Corporate Bond	16	32
Common Stock	13	26
Total	**50**	**100**

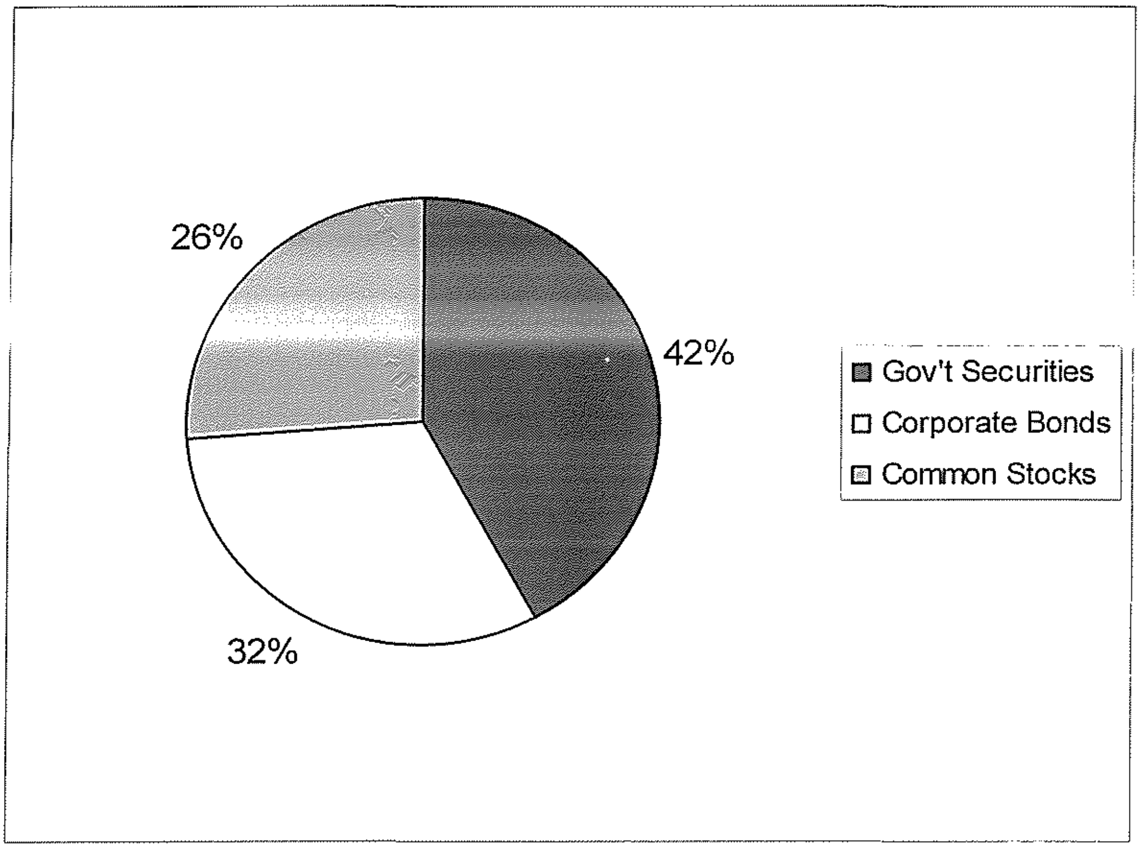
Table 7 indicates that there was a wide perception from the respondents 21 (42%) that government security investment adds to the bank's income/revenue to meet its demand for funds. When interviewed, they stated that it equally acts as insurance against highest cost of deposit outflow, are highly liquid and so the bank has current income always and it's a cheaper way of keeping capital.

On corporate bonds, it was observed by the respondents 16 (32%) that bonds add to the bank's revenue/income to meet its demand for funds and it also expose bank principal invested to greater financial risk. When interviewed, the respondents stated that corporate bonds act as insurance against highest cost of deposit outflow and involves a lot of cost, expenses which consumes a lot of bank's funds stating further that it was cheaper way of keeping capital.

When the respondents 13 (26%) were asked about Common stocks, they noted that stocks expose the bank's principal invested to greater financial risk. When interviewed, the respondents stated that common stocks involved a lot of transaction costs and expenses which consumed a lot of the bank's funds. However, they stated that it appreciates rapidly in price thus, offers bank increased income and profits.

The researcher inquired from the respondents on the factors affecting Post bank short term investments.

Fig 6 shows the effects of short term investment on credit management



Source: Secondary data, 2014

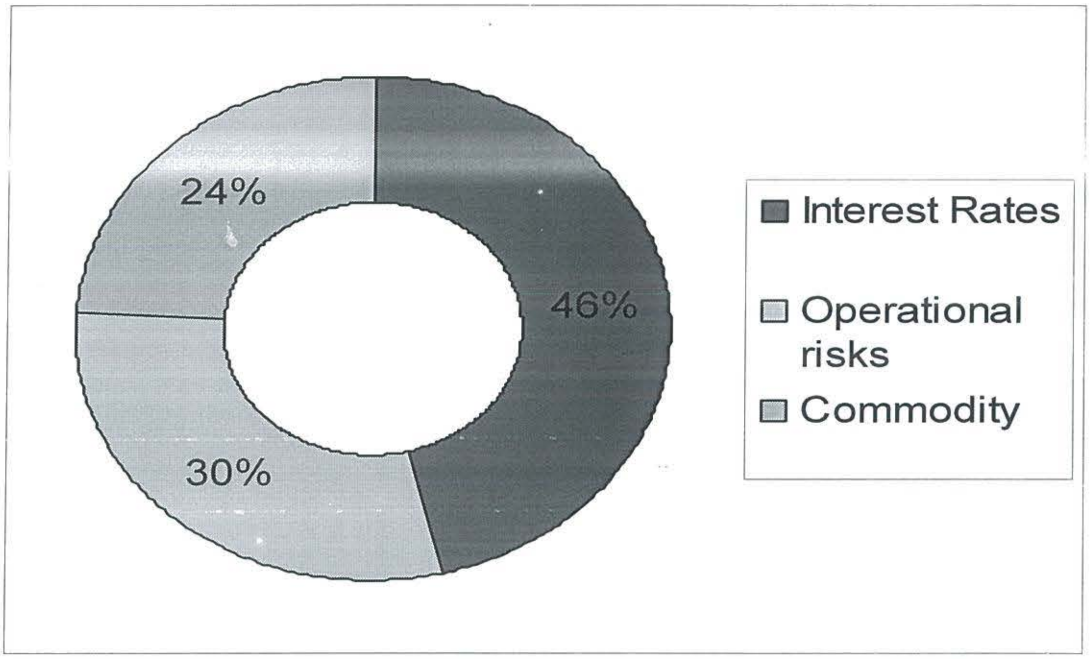
Table 8: Factors affecting Post bank short term investments on Credit management

Factor	**Respondents**	**Percentage**
Interest rate	23	46
Operational and capital risks	15	30
Commodity/service prices	12	24
Total	**50**	**100**

Source: Secondary data, 2014

Table 8 above shows the respondents' views as interest rate was at 23 (46%), operational and capital risks 15 (30%) and commodity/service prices 12 (24%) as affecting the short term investment of Post bank. The leading factor has been discovered to be the interest rates. When the respondents were interviewed, it was observed that these factors lead to short term investment problems.

Fig 7 shows factors affecting Post bank short term investment on Credit management



Source: Secondary data, 2014

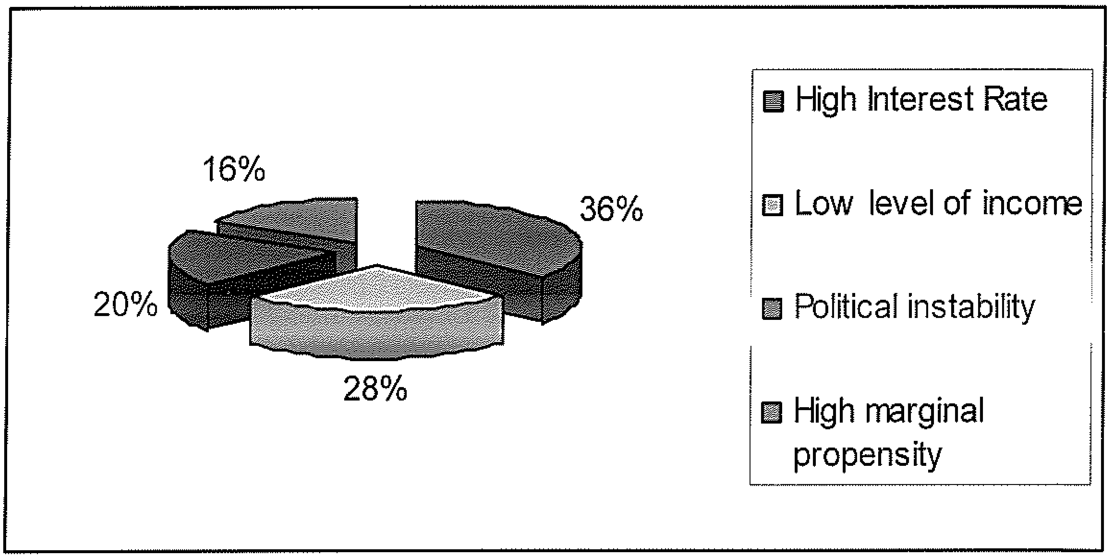
The researcher also inquired from the respondents about the problem faced by Post bank on short term investment. A number of views were raised by the respondents and are her represented in Table 9 below.

Table 9: Problems faced by Post bank on short term investment on credit management

Problems	**Respondents**	**Percentage**
High Interest rates	18	36
Low level of income	14	28
Political interest/instability	10	20
High marginal propensity	8	16
Total	**50**	**100**

Source: Financial service Department, 2014

Fig 8 shows the Problems faced by Post bank on short term investment on credit management



Source: Secondary data, 2014

Table 9 above shows that the respondents felt that Post bank is faced by problems such as high interest rate 18 (36%) dictated upon by government through central bank, political instability 10 (20%) which create low levels of income 14 (28%) limiting levels of savings and investments and 8 (16%) marginal propensity.

The respondents during the interview however emphasized that the major problems on Post bank short term investment were high interest rates and low levels of income. As such therefore, the researcher inquired from the respondents on the factors enhancing Post bank's financial performance and profitability to which results in Table 10 below were identified.

Table 10: Factors enhancing Post bank Credit management and profitability on credit management

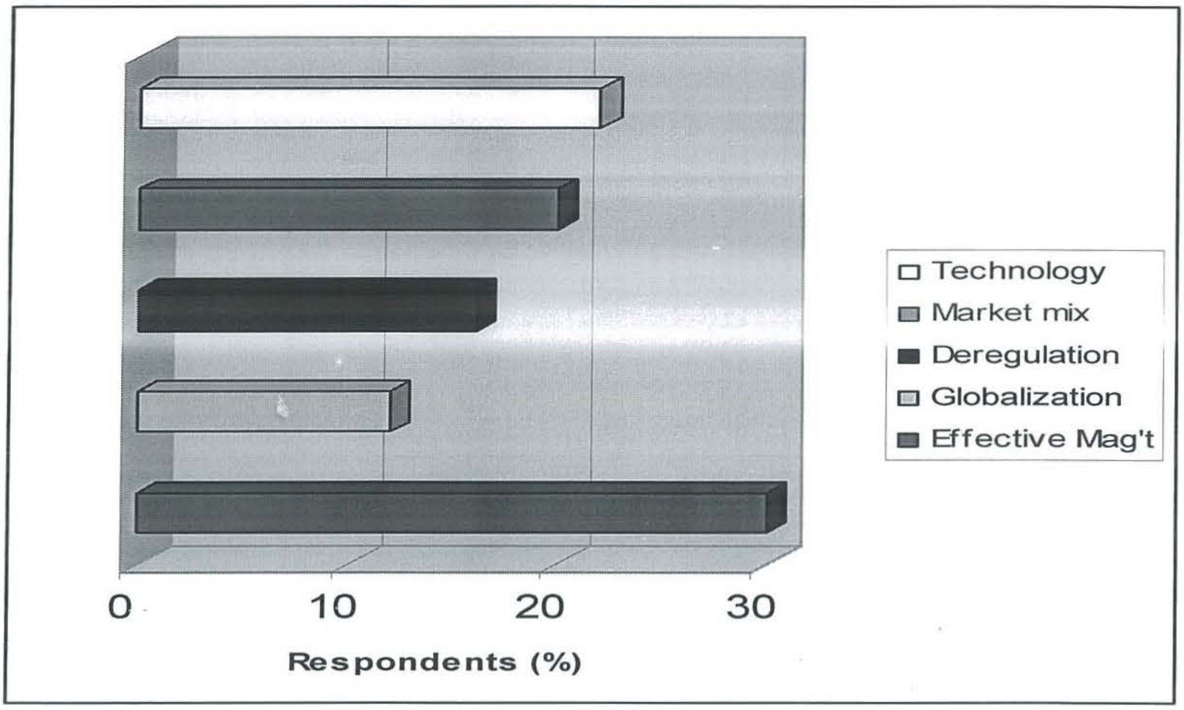
Factors	**Respondents**	**Percentage**
Effective management	15	30
Globalization	6	12
Deregulation	8	16
Market mix	10	20
Technology	11	22
Total	**50**	**100**

Source: Secondary data, 2014

According to the above table, the respondents indicated that all the above factors contribute to Post bank' credit management and profitability. 15 (30%) of the respondents believed that effective management was the most influencing or contributing factor, followed by technology at 11 (22%), marketing mix at 10 (20%), deregulation at 8 (16%) and then globalization at 6 (12%). When the respondents were interviewed it was observed that these factors are significant in influencing Post bank credit management and profitability.

The researcher inquired from the respondents on management strategies put in place for Post bank smooth operation and smooth trading in short term investment to which results in table 10 above were identified.

Fig 9 shows *Factors enhancing Post bank Credit management and profitability* on credit management



Source: Secondary data, 2014

4.5 Research Question Three

From the third objective of the study, the researcher derived research question three. It was this research question that guided the study in the bid to get answers towards its verification. The research question sought to find out what were the management strategies put in place and their possible solutions. The results to this study were analyzed by generating tables and percentages which were used to make the comparison of the perceptions as the following presentations depicts.

Table 11: Management strategies put in place for Post bank smooth operation and smooth trading in short term investment

Management strategies	F	%
Establishment of fund manager office and financial manager to ensure adequate liquidity and sufficient reserves.	15	30
Employment of professional managers to provide direct investment management services and decision hence, profitability.	6	12
Availability of financial reports that are accurate and reliable on time and on demand.	11	22
Carrying out thorough research on individual assets classes of assets and asset selection	10	20
Involvement and participation on decision making process of all parties concerned	8	16
Total	**50**	**100**

Source: Secondary data, 2014

From the above table, it was observed from the respondents that all the above management strategies were put in place for Post bank's smooth credit management and trading in short term investment. The leading strategy was discovered to be establishment of fund and financial managers at 15 (30%), followed by availability of financial reports at 11 (22%), employment of professional managers at 6 (12%), involvement and participation of all parties concerned in decision making process 8 (16%) and then carrying thorough research on asset 10 (20%).

During the interview, it was observed that all these strategies enhanced smooth financial operations and trading in short term investment.

CHAPTER FIVE

DISCUSSIONS AND SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The current chapter of this study presents the discussions of the results derived from the data presented in chapter four. The discussions lead into varying conclusions and a number of recommendations are subsequently derived.

5.1 Summary

According to the research, financial institutions of which commercial banks are part of are of great importance to the economy because they facilitate intermediation. It is evident that the goal of commercial banks trading in short term investment is to add value to its stockholder's wealth maximization of profits. This made Post bank to generate high gross yields and keep its cost down. The researcher found out that the factors like technology advancement, deregulation, globalization, political and legal factors all have impacted financial performance of Post bank and its short term investment. This has enabled Post bank withstand completion in the market.

Cochran (1989), states that there are conditions under which the firm grants credit to customers. These are incentives to clients and that the firm should try as much as possible to make these terms more attractive but they should not incur unnecessary high level of bad debts risks.

Compsey (1994) defines credit standards to mean the strength and credit worthiness a customer must exhibit to qualify for credit.

Kakuru (1998) defines credit standards as criteria which the firm follows in selecting customers for credit extension. It is short term investment and credit management options administered by the Commercial Bank. It should be noted that the ineffective credit administration can increase credit risk and is often force of deterioration in loan portfolio therefore, there should be well experienced financial managers who should be able to make reasonable judgment regarding the chances of default.

5.2 Conclusions

The research study shown that Post bank has embarked on re-organization of its activities by incepting the brand program in an effort to change the image of the bank and offer its customers efficient services starting with branding for both savings, loan and of all its branches. The findings show that the returns derived from investing in short term investment securities and bonds range between 15-30% as a percentage of the total interest income.

Furthermore, the research indicates that the total industry interest income from government securities has steadily risen over the last six years of an average of Ushs 175 million annually. The researcher also found out that the banking sector has undergone a major transformation during the point of its existence which has been from the nature of the institution, scale of operations and the number of customers.

Credit management policy also provides a frame work for the entire management process, set objectives, standards and parameters to guide these commercial banks. Banks should therefore have a clear understanding of the level of risk inherent in the borrowers and the projects they intend to invest in as well as managing the risks they have accepted.

Moreover, the research indicates the economic factors, political and legal factors and corporate governance are principal determinants of the success of sector such as that it affects all aspects of short term investment hence and credit management of Post bank. It is also viewed that interest rates, commodity and service prices and operational and capital risks affect the Post bank short term investment hence, its financial performance dictating the general profit reaped out. However, it is evident that Post bank is a well established bank doing generally well overcome competition by investing a lot of capital in short term investment thus acquiring a good market share. Actually with time, there will be a lot of short term investment adopted.

5.3 Recommendations

The researcher made some recommendations which commercial banks can adopt so as to trade best in short term investment that can enable them reap maximum returns. From the research, it was realized that short term investment are ranked as the second income of commercial banks. Thus, the researcher came up with various recommendations which the bank can consider to use in improving the financial performance.

1) The researcher recommends that the Bank should adopt a good short term investment management method; more fund managers should be employed to provide and direct investment management service and decision. These fund managers should first value short term investment at gross yield and then calculate and hence compare with marginal rate realized in its capital gains. The researcher further recommends that

commercial banks should ascertain their prospects of their industry before committing funds in short term investment.

2) The researcher recommends the bank to invest more in government securities so as to generate high return at lower rate of risks.

3) The researcher further recommends that commercial banks should adopt best marketing techniques; this will help them to produce the response of their target markets. They should use tools like service. It should know when to invest, where to invest and advice their customers on the right time to apply or request for short term.

4) The government through monetary and fiscal policies should take measures to control inflation, interest rates, which at times affect the commercial banks adversely in their financial and short term investment performance.

5) The department in charge of short term investment should carry out research of individual assets, classes of assets and asset selection and ongoing monitoring of the investment. It should also identify new opportunities for banks to venture into for higher profits at lower costs and risks or threats the banks are exposed to so as to eliminate them or reduce them considerably.

6) To prevent the commercial bank failure, the bank should hold excess reserve; secondary reserve and bank capital as they provide insurance against highest cost of deposit outflow. This should also ensure liquidity. The researcher feels that if the above is implemented, the financial performance of commercial banks and their short term investment would improve hence

higher profits leading to smooth operations and processes of the bank thus Post bank making difference.

7) Banks should ensure proper loan management so as an orderly repayment presumes systematic monitoring of the loan after it has been extended.

5.4 Areas for further research

- Further research needs to be done on the roles of short term investments on profitability of commercial banks
- Further research also needs to be done on credit culture and risk policies of commercial banks.

APPENDICES

APPENDIX 1- REFERENCES

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APPENDIX II-INSTRUMENTS

(A) RESEARCH QUESTIONNAIRES TO THE MANAGEMENT

Dear respondent(s), I am a bonafide student of Kampala International University pursuing a bachelor degree of business administration. I am conducting the research on the factors that determine the contributions of short term investment on credit management of commercial banks in Uganda, taking Post bank, Masaka branch as the case in point.

This research is purely for academic purpose, all the information given will be treated in utmost good faith with high confidentiality and privacy and the consent and anonymity of the respondent will be observed.

SECTION A

BACKGROUND INFORMATION

Please tick in the most appropriate box.

1. Age
   - a) 25-29 ☐
   - b) 30-34 ☐
   - c) 35-39 ☐
   - d) 40-44 ☐
   - e) 45-49 ☐
   - f) 50-54 ☐
2. Sex
   - a) Male ☐
   - b) Female ☐

3 Level of education qualification
   - a) Primary level ☐
   - b) Secondary ☐
   - c) Tertiary ☐
   - d) Others ☐

4. Number of years in the organization
   - a) 2-5 ☐
   - b) 5-10 ☐
   - c) 10 above ☐

SECTION B

1. How does Post bank raise its revenue for meeting its expenditures and strong demand for funds?
   a) Deposits ☐
   b) Security investments ☐
   c) Corporate bonds ☐
   d) Sales of shares ☐
   e) Tax exempts ☐
2. What is of the above sources of funds is the most liquid that is: can be converted into cash easily with lower transaction costs?

   ....

3 What are the short term investment and credit management options available for Post bank?

a) Government securities ☐ b) Common stock ☐

c) Bonds ☐ (d) others specify ....

4 How do these short term investment and credit management options affect the financial performance of Post bank?

a) Add to the bank incomes/revenue to meet its demand for funds

Securities ☐ Stocks ☐ Bonds ☐

b) Expose bank principal invested to great financial risk

Securities ☐

Stocks ☐ Bonds ☐

c) Act as insurance against highest cost of deposit outflow

Securities ☐

Stocks ☐

Bonds ☐

d) Involves a lot of transaction cost expenses which consumes a lot of bank's funds

Securities ☐

Stocks ☐

Bonds ☐

e) Are highly liquid and so the bank has current incomes always/

a) Securities ☐ b) Stocks ☐ c) Bonds ☐

f) Appreciates rapidly in price thus offers bank increased income and Profits

a) Securities ☐ b) Stocks ☐ c) Bonds ☐

g) Cheap way of custodian capital

a) Securities ☐ b) Stocks ☐ c) Bonds ☐

2.3.1 According to your answers above, in which short term investment what should the bank invest in to generate high returns at lower rate of risk?

3.0 What are the factors that affect Pos bank short term investment?

3.1 Does the following factors below contribute to the problems faced by Post bank on short term investment?

a) High interest income ☐

b) Low levels of income ☐

c) Political instability ☐

d) High marginal propensity to consume ☐

e) Others specify...

2.0 How did you know about Post bank?

a) Colleague ☐
b) News papers ☐
c) Seminar/work shop ☐
d) Other specify...

2.1 Are there any policies put in place that govern your short term investments on credit management?

a) Yes ☐

b) No ☐

2.2 Do short term investments play any major role in your investment structure?

a) Yes ☐

b) No ☐

If yes, how

....

...

3.0 Please suggest measures that can be taken to improve short term investment and credit dispensation...

4.0 Suggest possible ways I which services can be improved for you...

.....

THANK YOU.

(B) INTERVIEW GUIDE FOR THE HEADS OF SECTIONS- POST BANK

(1) To what extent do short term investment funds affect the financial performance of commercial banks?

(2) What measures does Post bank enforce in managing smooth operations with regards to short term investment and credit management?

3) What extent does Post bank invests their surplus funds on short term investment?

4) Do you feel there are solutions that can help increase short term investment?

5) What are the factors affecting the financial performance of Post bank, enhancing its financial performance and profitability?

a) Technology

b) Globalization

c) Effective management

d) Deregulation

e) Marketing mix

6 How would you rate the contribution of the above factors to Pos bank financial performance and profitability?

1. Poor 2. Fair 3. Good 4. Excellent

7. What are the management strategies put in place for smooth financial operation of Post bank and its trading in short term investment?

THANK YOU

TIME SCHEDULE

Proposal writing	March, 2014
Data collection	April, 2014
Report writing	May, 2014
Submitting	June, 2014

RESEARCH BUDGET

ITEM	AMOUNT IN UG SHILLING (USH)
Typing and Printing	200,000
Literature collection	100,000
Data collection	100,000
Transport	100,000
Miscellaneous	100,000
TOTAL	**600,000**