CREDIT RISK MANAGEMENTAND FINANCIAL PERFORMANCE OF SACCOS IN BUSHENYI, UGANDA: A CASE STUDY OF BUSHENYI PEOPLES' SACCO.

By

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

MARCH, 2019

DECLARATION

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

Signature: _____

Date: ___28th. 03.19___

APPROVAL

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

Signed: _____

Supervisor's Name: Mrs. Turabiirwe Lovence

Date: _28/03/2019_

DEDICATION

I dedicate this research report to my parents; Mr. Bangirana Augustine and Mrs. Tumuhaise Scovia who supported me through my education career.

ACKNOWLEDGEMENT

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ABSTRACT

The purpose of this study was to investigate the effect of credit risk management and financial performance of Bushenyi Peoples' SACCO in Uganda. The study was based on the following 4 objectives; (i) to assess the effect of credit terms on financial performance of Bushenyi Peoples' SACCO in Uganda, (ii) to determine the effect of credit standards on financial performance of Bushenyi Peoples' SACCO in Uganda, (iii) to determine the relationship between credit policy and financial performance of Bushenyi Peoples' SACCO in Uganda and (iv) to establish the effect of collection policy on financial performance of Bushenyi Peoples' SACCO in Uganda. The study adopted descriptive survey design and a sample size of 113 respondents were used for this study. The findings revealed that; credit terms is positively ($\beta=0.538$) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO; credit standards is negatively ($\beta=-0.001$) and does not statistically and significantly (p-value=0.990) affect financial performance of Bushenyi Peoples' SACCO; credit policy is positively ($\beta=0.773$) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO and credit collection policy is positively ($\beta=0.307$) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. The study concluded that; credit terms have a positive significant effect on financial performance of Bushenyi Peoples' SACCO; credit standards have a negative significant effect on financial performance of Bushenyi Peoples' SACCO; credit policy have a positive significant effect on financial performance of Bushenyi Peoples' SACCO and credit collection policy have a positive significant effect on financial performance of Bushenyi Peoples' SACCO. The study recommended that; Bushenyi Peoples' SACCO should normally assess credit history and income of the customer before giving credit to them, always analyse past borrowers; have effective penalties put on default and late repayment; use auctioneers to recover loans and should normally sale of the property to recover loans and Bushenyi Peoples' SACCO should normally assess market conditions risk of a borrower to limit loan.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter includes background to the study, the problem statement, the purpose of the study, research objectives, the research questions, the scope and the significance of the study.

1.1 Background to the study

According to Asiedu-Mante (2011) credit risk management involves establishing formal legitimate policies and procedures that will ensure that proper authorities grant credit, the credit goes to the right people, the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. Financial performance of an enterprise is the ability to leverage operational and investment decisions and strategies to achieve a business' financial stability. It is the measure of an enterprise's achievement of its financial goals guided by its financial objectives and benchmarks (Doliente, 2003).

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

In the process, a new world of finance has emerged which is demand-led and savings driven and conforms to sound criteria of effective financial intermediation. According to Pronchnow (2001) credit allocation is the process of granting credit or loan to a borrower for a given economic undertaking. This is achieved after evaluation of the borrower's credit worthiness based on the bank's lending policy, credit standards, credit terms, the credit collection terms and credit reference reporting. The process of credit allocation is a two-step process. The first is to evaluate the credit allocation, which involves identifying the leading variables influencing credit allocation. The second is to devise methods to quantify the credit using mathematical models, in order to understand the profile of the instrument. Commercial banks while in the process of providing financial services, assume various kinds of financial risks. Hence, it is necessary that banks have in place a comprehensive management tool. At some institutions, a dual system is in place where both the borrower and the credit facility are rated. In the latter, attention centers on collateral and covenants, while in the former, the general credit worthiness of the borrower is measured. Some banks prefer such a dual system, while others argue that it obscures the issue of recovery to separate the facility from the borrower in such a manner.

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

According to Nyagah (2011), the different maturity levels of the various credit markets in Africa do not lend themselves to a one-size-fits-all credit risk management strategy. According to Nzuve (2013), credit risk management models include the systems, procedures and control which a company has in place to ensure the efficient collection of customer payments and the risk of non-payment. The high level of non-performing loans is a challenge to many commercial banks in Uganda, which is evidence that commercial banks are faced by a big risk of their credit. Lending in commercial banks is the main source of profit making hence the need for

efficient credit risk management practices within the industry. Although the credit risk management is technical and consumes a lot of time the employees are trained regularly and manual used to create awareness. Different measures or models are employed in credit risk management like the quantitative method to check the client's ability to repay the loan as well as credit worthiness, terms of payment and interest to be charged, consequences in case of default, customer's character, deposit and collateral. The researchers recommends that credit risk management should be implemented in the Ugandan commercial banks as its useful in helping reduce the risk that is involved while lending to the customers.

1.2 Statement to the problem

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

1.3 Purpose of the study

The purpose of the study was to investigate the effect of credit risk management on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda.

1.4 Research objectives

1.4.1 General objective

To establish the relationship between credit risk management and financial performance of SACCOs in Bushenyi district.

1.4.2 Specific objectives

(i) To assess the effect of credit terms on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda.

(ii) To determine the effect of credit standards on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda.

(iii) To determine the effect of credit policy on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda.

(iv) To establish the effect of collection policy on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda.

1.5 Research questions

(i) What is the effect of credit terms on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda?

(ii) What is the effect of credit standards on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda?

(iii) What is the effect of credit policy on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda?

(iv) What is effect of collection policy on financial performance of Bushenyi Peoples' SACCO in Bushenyi district, Uganda?

1.6 Scope of study

1.6.1 Geographical scope

The study was carried out in Bushenyi's SACCOs, Bushenyi district, Uganda.

1.6.2 Content scope

In terms of content, credit risk management (independent variable) was conceptualized in terms of credit terms, credit standards, credit policy and credit collection policy. Dependent variable (financial performance) was measured in terms of loan default and low returns on loan interest.

1.6.3 Time scope

This study was conducted from December 2018 to April, 2019, whereby proposal writing took place from December 2018 to February 2019, data collection and analysis was done in March 2019, and then the final report was written and submitted in April 2019.

1.7 Significance of the study

The study is of importance to:

Credit managers

The study will help the credit managers of emerging financial institutions particularly SACCOs to develop sound credit risk policies that will help them come up with efficient tools of measuring, controlling and evaluating credit risk in their loan portfolio so as to realise their financial performance.

Government and other regulatory authorities

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

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

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

Savings cooperation

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

1.8 Conceptual framework

The relationship between the elements associated with the linkage between credit risk management and financial performance was outlined in Figure 1.1.

Figure 1.1: Conceptual framework of credit risk management and financial performance

Credit risk management (IV)   **Financial performance (DV)**

Credit terms

Credit standards

- Return on assets
- Return on equity

Credit policy
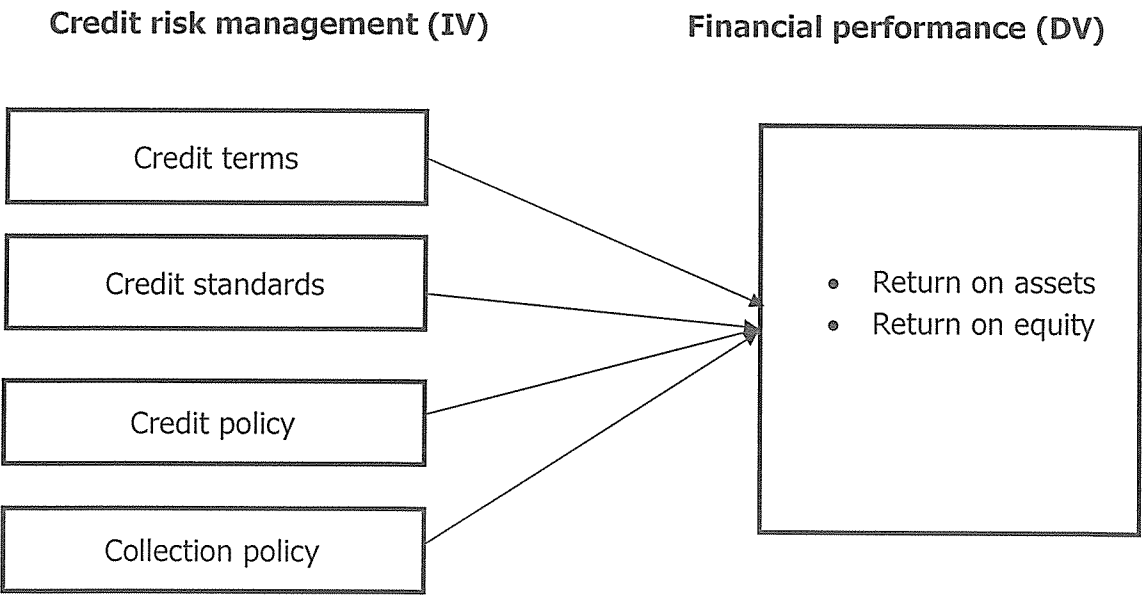
Collection policy

Source: Pandey (2010)

The conceptual framework indicates that credit terms, credit standards, credit policy and credit collection policy constitute the independent variables. On the other hand, return on assets and return on equity constitute the dependent variable. The study is guided by the assumption that both credit terms, credit standards, credit policy and credit collection policy influence financial performance in SACCOs in Uganda.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presented different subjects that included theoretical review, concept of credit risk management, conceptual framework, financial performance and literature review.

2.1 Definition of key terms

2.1.1 Credit

Credit is the trust which allows one party to provide money or resources to another party wherein the second party does not reimburse the first party immediately (thereby generating a debt), but promises either to repay or return those resources (or other materials of equal value) at a later date (Credit (def. 2c). In other words, credit is a method of making reciprocity formal, legally enforceable, and extensible to a large group of unrelated people (Simkovic, Michael, 2016)

2.1.2 Risk management

Risk management is the identification, evaluation, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events[1] or to maximize the realization of opportunities. Arena, Arnaboldi and Azzone (2010) contend that risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters. IT security threats and data-related risks, and the risk management strategies to alleviate them, have become a top priority for digitized companies. As a result, a risk management plan increasingly includes companies' processes for identifying and controlling threats to its digital assets,

including proprietary corporate data, a customer's personally identifiable information and intellectual property.

2.1.3 Credit risk management

Credit risk management is a function that must be performed by a commercial bank in order to ensure that loans it advances to its clients are orderly repaid back. The basis of a sound credit risk management is the identification of the existing and potential risks inherent in the leading activities (Kiff, 2013).

According to Tracy (2012) credit risk management is the support, control systems and other practices necessary to manage the outstanding risk assets, normal repayment and to monitor business risk properly.

Credit risk management is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Early, 1996; Coyle, 2000).

Credit risk management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2003) describe credit risk management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management.

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

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

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

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

2.1.3.1 Credit terms

A credit term is a contractual stipulation under which a firm grants credit to customers furthermore these terms give the credit period and the credit limit. According to Kibor, Ngahu & Kwasira (2015), credit term is the period of credit allowed to a customer before payment becomes due which may be short term or long term, depending on the type of loans; secured, unsecured or mortgage. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. Credit term may also include any discount terms which may be offered as an incentive for prompt payment to reduce the risk of non-payment or grace period before starting the repayment.

2.1.3.2 Credit standards

There are various credit standards that an organization should put in place to ensure that credit risk management is done effectively. Traditionally most banks have relied on subjective judgment to assess the credit risk of a corporate borrower. Essentially, bankers used information on various borrower characteristics – such as character (reputation), capital (leverage), capacity (volatility of earnings), conditions (purpose of the loan), and collateral-in deciding whether or not to make a given loan. These characteristics are commonly referred to as the 5 Cs. Commercial banks use the 5Cs theoretical model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help Commercial banks to increase financial performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition. Character basically is a tool that provides weighting values for various characteristics of a credit applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers and Forgy, 2005). This is the personal impression the client makes on the potential lender. The factors that influence a client can be categorized into personal, cultural, social and economic factors (Psillaki, Tsolas & Margaritis, 2010). The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment.

Commercial banks consider this factor by observing and learning about the individual. In most cases it is not considered on first application of credit by an applicant but from the second time.

2.1.3.3 Credit policy

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

2.1.3.4 Collection effort/policy

There are various policies that lenders put in place to ensure that credit administration is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firms bills in time. Rauf, Lebbe & Mulafara (2018) argue that credit collection policies are the systems and procedures which a bank has in place to secure payment from its customers when payment becomes due. These systems are set out to follow up any late payment by employing procedures such as letter, telephone calls or personal visit. They will come into operation only when a customer's account becomes overdue. Rajedom (2010), defines a collection effort as the procedure an institution follows to collect past due account. Collection policy refers to the procedures micro finance institutions use to collect due accounts. The collection process can be rather expensive in terms of both product expenditure and lost good will. Methods used by commercial banks could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements (Anderson, Williams & Sweeney, 2009).

2.1.4 Financial performance

It is a measure of how well firm use assets from its primary mode of business to generate revenues. It measures the financial health of an organisation. The common indicators of financial performance are; profits, return on investment, return on

assets, value added and margins among others. Financial performance guides management on the strategies and policies to adopt to improve sustainability of the organization (Almazari, 2011)

Financial performance of an enterprise is the ability to leverage operational and investment decisions and strategies to achieve a business' financial stability. It is the measure of an enterprise's achievement of its financial goals guided by its financial objectives and benchmarks. Banks, as the critical part of financial system, play an important role in contributing to a country's economic development. If the banking industry does not perform well, the effect to the economy could be huge and broad. Studies on performance of banking institutions are plenty. Results of these studies strongly suggest that bank profitability determinants vary across countries and also among regions of the world (Doliente, 2003). In accordance with the study of Grier (2007), profitability ratios are often used in a high esteem as the indicators of credit analysis in banks, since profitability is associated with the results of management performance.

Bank performance indicates bank's capacity to generate sustainable profits. Banks protect the profitability against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. A bank that persistently makes a loss will ultimately deplete its capital base, which in turn puts equity and debt holders at risk. In order to create shareholder value, bank's return on equity (ROE) needs to be greater than its cost of equity.

Return on equity, ROE, and return on assets, ROA, are the most commonly used ratios, and the quality level of ROE is between 15% and 30%, for ROA is at least 1%. *Wong etal.,* (2008) indicated that the efficiency of banks can be measured by using the ROE which illustrates to what extent banks use reinvested income to generate future profits.

2.1.4.1 Return on assets

According to Gadoiu (2014), return on assets (ROA) is a measure frequently used to evaluate the performance of an enterprise and results by reporting the net profit (various forms) of a company to the value of assets used to generate that profit. Thomsen & Pedersen (2000) postulate that Return on Assets (ROA) ratio shows the relationship between earnings and asset base of the company. The higher the ratio, the better it is. This is because a higher ratio would indicate that the company can produce relatively higher earnings in comparison to its asset base i.e. more capital efficiency.

According to Stice *et al.* (2004) Return on assets (ROA) is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is commonly defined as net income divided by total assets. Net income is derived from the income statement of the company and is the profit after taxes. Baker and Powell (2009) further posited that the assets are read from the balance sheet and include cash and cash-equivalent items such as receivables, inventories, land, capital equipment as depreciated, and the value of intellectual property such as patents.

2.1.4.2 Return on equity

ROE is a measure of how well a company uses shareholders' funds to generate a profit (Kijewska, 2016). According to Higgins (2012), Return on equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity. The formula for ROE is: ROE = Net Income/Shareholders' Equity. ROE is sometimes called "return on net worth." Dao (2016), Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. Dao (2016) stated that ROE is expressed as a percentage and calculated as: Return on Equity = Net Income/Shareholder's Equity. Dao (2016) noted that net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock). Shareholder's equity does not include preferred shares.

2.2 Empirical literature review

2.2.1 Effect of credit terms on financial performance

Credit terms refer to the conditions under which microfinance advances credit to its customers. The credit terms will specify the credit period and interest rates. Credit period refers to the period of time in which the credit is granted. The length of the credit period is influenced by collateral value, credit risk, the size of the account and market competition (Ross, Westerfield & Jordan, 2008). Debt in a particular class will have its own interest rate in accordance with the theory of term structure. The interest rates charged is a cost on borrowed funds and may affect the financial performance. Riach (2010), observed that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

2.2.2 Effect of credit standards on financial performance

Kakuru (1998) noted that it is important that credit standards are based on the individual credit application by considering character assessment, capacity, condition, and collateral and security capital. Tight credit standards make a firm lose a big number of customers and when credit standards are loose, firms gets an increased number of clients but at a risk of loss through bad debts, hence lack of credit standards increases bad debts recovery. Credit standards are often created after careful analysis of past borrowers and market conditions, and are designed to limit the risk of a borrower not making credit payments or defaulting on loaned money. The set of standards that a company or bank uses to determine whether to extend a loan or line of credit to an applicant. Credit standards may include having a recent good credit history and a certain income.

2.2.3 Effect of credit policy on financial performance

Banks have credit policies that guide them in the process of awarding credit. The policy sets the rules on who should access credit, when and why one should obtain the credit including repayment arrangements and necessary collaterals. The method

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

2.2.4 Effect of collection effort/policy on financial performance

Padilla and Pagano (2000), stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions. This policy ensures that all customers pay the firms bills in time. Some customers are slow payers while some are non-payers. When customers are slow to pay or default in payment the microfinance losses funds which could affect its financial performance. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010). Rajan (1995), asserts that collection policy is a guide that ensures prompt payment and regular collections. The collection policy specifies clear-cut collection procedures and hence dissuades conflicts arising from loan repayment periods, amounts and loan structure (Pandey, 2004). Rajan (1995) stressed that the rationale is that not all clients meet their obligations, some just take it for granted, others simply forget while others just don't have a culture of paying until persuaded to do so. Thus, collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits. However, caution should be taken against stringent

steps especially on permanent clients because harsh measures may cause them to shift to competitors. Kibor, Ngahu & Kwasira (2015) argued, the major concern of any lender while advancing credit is how they will get their money back. Credit risk emanates from the probability that borrowers will default on terms of debt, subsequently leading to high levels of non-performing loans.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter described the procedures that were followed in conducting the study. These included research design, target population, sample size, sample techniques, data sources, data collection procedure, data presentation and analysis and ethical considerations.

3.1 Research design

Research design is essentially the blue print of conducting the entire study (Ngechu, 2006). The study will adopt descriptive survey design as it enables to respond to requisite questions which this study sought to address and will describe the relationship existing between the variables while the correlation design will be used to measure the strength of the relationship between independent and the dependent variable.

3.2 Target population

The target population is the population to which the study findings are generalized (Kothari, 2008). The study will be limited to top level credit managers, middle level credit officers and low-level credit officers of SACCOs in Bushenyi, Uganda. Hence, the target population of this study will comprise of 100 personnel drawn as respondents from the 7 SACCOs in Bushenyi, Uganda.

3.3 Sample size

The researcher used Krejcie & Morgan (1970) formula in determining the minimum sample size. According to this formula, the sample size was obtained using

$$s = X^2 \ NP \ (1-P) \div d^2 \ (N-1) + X^2 \ P \ (1-P).$$

Where;

s = required sample size;

X^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size;

P = the population proportion (assumed to be .50 since this would provide the maximum sample size);

d = the degree of accuracy expressed as a proportion (.05).

$s = X^2 \, NP \, (1-P) \div d^2 \, (N-1) + X^2 \, P \, (1-P)$

$s = 3.841*160*0.5 \, (1-0.5) \div 0.05^2 \, (160-1) + 3.841* \, 0.5 \, (1-0.5)$

$s = 3.841*160*0.5 \, (0.5) \div 0.05^2 \, (159) + 3.841* \, 0.5 \, (0.5)$

$s = 153.64 \div 0.3975 + 0.96025$

$s = 153.64 \div 1.35775 = 113$

Therefore, 113 respondents was selected for the study.

3.4 Sampling procedure

In addition, a stratified random sampling technique will be employed to draw the sampled respondents from the target population. The sampled size of credit officers will be drawn from the target population by use of stratified random sampling from the 7 SACCOs in Bushenyi, Uganda. Each SACCO will constitute a stratum. This will reduce sampling bias since different SACCOs will form part of the study and credit officers from each SACCO will have an equal chance of being selected to take part in the study.

3.5 Data collection instrument

A structured questionnaire will be used to collect data from the sampled respondents. The questionnaire will capture data relative to respondents' background and data with regard to both the independent and dependent variables. The questionnaire further will capture data on a Likert for effective analysis.

3.6 Pilot test

A pilot test will be carried out before the main study. The study will involve about 10 per cent (16 of the respondents) of the target population. There will be sixteen respondents who will participate in the pilot test. These respondents will be randomly selected and participants of the pilot study will be excluded from the main study in order to avoid compromising the study findings of the main study. The rationale for pilot testing will be to establish any potential weaknesses in the research instrument. This is to be achieved by determining both the reliability and validity of the research instrument.

3.6.1 Reliability of the research instrument

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

3.6.2 Validity of the research instrument

This is the extent to which a concept, conclusions or measurement is well founded and clearly corresponds precisely to the real world that is the validity of a measurement tool. It is said to be the degree to which the tool measures what it

claims to measure (Mugenda & Mugenda, 2009). The study will seek to describe the content validity of the research instrument. Given that the content validity cannot statistically be determined, the researcher will seek the expert opinion from the university supervisor.

3.7 Data analysis

The collected data will undergo cleaning to ensure only adequately and appropriately questionnaires are to be considered, this will be done to get rid of non-responses and extreme outliers. The cleaned data will then be coded and analyzed using both the descriptive and inferential statistics with the aid of statistical packages for social sciences (SPSS). Descriptive analysis will involve frequencies and percentages for bio data. As part of descriptive analysis, means and standard deviations will be employed across all variables (independent and dependent). On the other hand, inferential analysis in the form of Pearson's correlation will be employed. The study findings will be presented in form of tables that will reflect both descriptive and inferential statistics.

3.8 Ethical considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the researcher will obtain an introductory letter from the college of economics and management of Kampala International University that will introduce her to the concerned respondents for permission to collect data for this study. The researcher will acknowledge the authors quoted in this study through citations and referencing and the researcher will present the findings in a generalized manner.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

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

4.1 Bio data of respondents

The bio data of both female and male respondents were considered to be significant in terms of evaluating the effect of credit risk management on financial performance of Bushenyi Peoples' SACCO. The bio data consisted of age, gender, marital status, highest educational level attained, working experience, type of business, number of employees and position in the firm.

Table 4.1: Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	26-30	3	2.7	2.7	2.7
	31-35	79	69.9	69.9	72.6
	36-40	11	9.7	9.7	82.3
	41-45	13	11.5	11.5	93.8
	Above 46	7	6.2	6.2	100.0
	Total	113	100.0	100.0	

Source: Primary Data, 2019

From table 4.1 above, it is indicated that out that the biggest percentage of respondents were in age bracket of 31–35 years as shown by 69.9%. 11.5% were of 41–45 years, 9.7% were of 36-40 years, 6.2% were of above 46 years and only

2.7% was of 26-30 years. This implies that respondents in age bracket of 31–35 years actively participated in the study. This implies that the group have relevant ideas on answering the questionnaire presented to them well.

Table 4.2: Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	Male	74	65.5	65.5	65.5
Valid	Female	39	34.5	34.5	100.0
	Total	**113**	**100.0**	**100.0**	

Source: Primary Data, 2019

From table 4.2, it was found out that the biggest percentage of respondents were males as shown by 65.5% whereas 34.5% of respondents were females, implying that males were the ones who actively participated in the study.

Table 4.3: Marital status of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	Single	12	10.6	10.6	10.6
	Married	80	70.8	70.8	81.4
Valid	Divorced	15	13.3	13.3	94.7
	Widowed	6	5.3	5.3	100.0
	Total	**113**	**100.0**	**100.0**	

Source: Primary Data, 2019

From table 4.3, it can be seen that 70.8% of respondents were married, followed by 13.3% of respondents who were divorced whereas 10.6% of respondents were single. Therefore, it was indicated that respondents who were married actively participated in the study.

Table 4.4: Highest education level of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	Diploma	13	11.5	11.5	11.5
	Bachelor's degree	24	21.2	21.2	32.7
Valid	Masters	68	60.2	60.2	92.9
	PhD	8	7.1	7.1	100.0
	Total	**113**	**100.0**	**100.0**	

Source: Primary Data, 2019

From table 4.4, it was indicated that the biggest percentage of respondents were masters holders as it was revealed by 60.2% of the respondents. This was followed by 21.2% of respondents who were bachelor holders, then 11.5% of the respondents were diploma holders, 7.1% of respondents were PhD holders. This implied that information provided by the respondents was valid for the study.

Table 4.5: Working experience of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	1-3	39	34.5	34.5	34.5
Valid	4-9	61	54.0	54.0	88.5
	10 and above	13	11.5	11.5	100.0
	Total	**113**	**100.0**	**100.0**	

Source: Primary Data, 2019

From table 4.5, it was found out that 54% of respondents have worked at the SACCO for 4-9 years. This was followed by 34.5% of respondents who had a working experience of 1-3 years, followed by 11.5% for 10 and above years. This implies that majority of respondents were of working experience of 4-9 years.

The next section, that is, the quantitative analysis of the data will provide greater insight into the responses to the questionnaires administered to respondents.

4.2 Descriptive statistics on research variables

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

4.2.1 Descriptive statistics on credit terms

Table 4.6: Descriptive statistics on credit terms

	N	Mean	Std. Deviation	Interpretation
The SACCO has more attractive credit terms to act as an incentive to clients	113	3.82	.406	High
Lack of credit terms lead to unnecessary high levels of bad debts and increasing organizations risk	113	3.77	.551	High
The interest rate for loan repayment and credit worthiness accelerate timely collection to cut back on the amount of doubtful debts and associated costs	113	3.27	.695	Moderate
SACCO has clear method of calculating interest and loan repayment installments while determining the credit period	113	3.47	.568	High
Valid N (listwise)	113			

Source: Primary Data, 2019

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From table 4.6, results indicated that credit terms affect financial performance of Bushenyi Peoples' SACCO. With respect to The SACCO has more attractive credit terms to act as an incentive to clients, was rated high with average mean (mean = 3.82), implying that the SACCO has more attractive credit terms to act as an incentive to clients. With respect to Lack of credit terms lead to unnecessary high levels of bad debts and increasing organizations risk, was rated high with average mean (mean = 3.77), implying that lack of credit terms lead to unnecessary high levels of bad debts and increasing organizations risk. Results indicated that The interest rate for loan repayment and credit worthiness accelerate timely collection to cut back on the amount of doubtful debts and associated costs. This was rated moderately high with an average mean (mean = 3.27). This implies that the interest rate for loan repayment and credit worthiness accelerate timely collection to cut back on the amount of doubtful debts and associated costs. Results indicated that the interest rate for loan repayment and credit worthiness accelerate timely collection to cut back on the amount of doubtful debts and associated costs, this was rated high with average mean of 3.47, implying that the interest rate for loan repayment and credit worthiness accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

4.2.2 Descriptive statistics on credit standards

Table 4.7: Descriptive statistics on credit standards

	N	Mean	Std. Deviation	Interpretation
There are set of standards that a SACCO uses to determine whether to extend a loan or line of credit to an applicant	113	3.39	.490	Moderate
SACCO normally assesses client characters before giving loan	113	3.27	.535	Moderate
Before giving loan to customers, the SACCO normally determines client	113	3.38	.587	Moderate

creditworthiness				
Aspects of collaterals are considered while coming up with credit risk management	113	3.89	.386	High
SACCO normally assesses credit history and income of the customer before giving credit to them	113	2.59	.997	Low
Analysis of past borrowers and market conditions limit the risk of a borrower not making credit payments or defaulting on loaned money	113	1.86	.742	Low
The SACCO normally assess market conditions risk of a borrower to limit loan	113	2.04	.784	Low
Valid N (listwise)	113			

From table 4.7, results indicated that credit standards affect financial performance of Bushenyi Peoples' SACCO. Results indicated that there are set of standards that a SACCO uses to determine whether to extend a loan or line of credit to an applicant. This was rated moderately high with average mean (mean = 3.39). This implies that there are set of standards that a SACCO uses to determine whether to extend a loan or line of credit to an applicant.

Results further indicated that SACCO normally assesses client characters before giving loan. This was rated moderately high with average mean (mean = 3.27) which implied that SACCO normally assesses client characters before giving loan. Also results indicated that before giving loan to customers, the SACCO normally determines client creditworthiness. This was rated moderately high at average mean (mean = 3.38). This implies that before giving loan to customers, the SACCO normally determines client creditworthiness.

The results indicated that aspects of collaterals are considered while coming up with credit risk management, this was rated high with average mean (mean = 3.89). This

highly implied that aspects of collaterals are considered while coming up with credit risk management. Results also indicated that SACCO normally assesses credit history and income of the customer before giving credit to them. This was rated low by average mean (mean = 2.59). This implied that SACCO does not normally assesses credit history and income of the customer before giving credit to them.

Results further indicated that analysis of past borrowers and market conditions limit the risk of a borrower not making credit payments or defaulting on loaned money. This was rated low and indicated by average mean (mean = 1.86). This implied that analysis of past borrowers and market conditions does not limit the risk of a borrower not making credit payments or defaulting on loaned money. Finally results indicated that the SACCO normally assess market conditions risk of a borrower to limit loan. This was rated low and indicated by an average mean of 2.04. This implies that the SACCO does not normally assess market conditions risk of a borrower to limit loan.

4.2.3 Descriptive statistics on credit policy

Table 4.8: Descriptive statistics on credit policy

	N	Mean	Std. Deviation	Interpretation
SACCO has developed appropriate credit policies to ensure that credit administration is done effectively	113	3.71	.608	High
Credit policy helps to mitigate risks to prevent financial losses	113	3.66	.592	High
Credit policy enhances cross-functional cooperation especially between the credit and sales departments	113	2.37	.746	Low
Comprehensive credit policy communicates a consistent	113	2.84	.576	Moderate

standard to SACCO customers				
Credit policy enable the SACCO to assess the risk of losses associated with credit extended to customers, financial investments and counterparty risks	113	3.09	.413	Moderate
Valid N (listwise)	113			

Source: Primary Data, 2019

From table 4.8, results indicated that credit policy affect financial performance of Bushenyi Peoples' SACCO. Results indicated that SACCO has developed appropriate credit policies to ensure that credit administration is done effectively. This was rated high and was indicated by average mean (mean = 3.71). This implies that SACCO has developed appropriate credit policies to ensure that credit administration is done effectively. Results indicated that credit policy helps to mitigate risks to prevent financial losses. This was rated high and indicated by average mean (mean = 3.66). This implies that credit policy helps to mitigate risks to prevent financial losses. Results further indicated that credit policy enhances cross-functional cooperation especially between the credit and sales departments. This was rated low with average mean (mean = 2.37). This implied that credit policy does not enhance cross-functional cooperation especially between the credit and sales departments.

It was also indicated that comprehensive credit policy communicates a consistent standard to SACCO customers. This was rated moderately high at average mean (mean = 2.84). This implied that comprehensive credit policy communicates a consistent standard to SACCO customers. Further, results indicated that credit policy enable the SACCO to assess the risk of losses associated with credit extended to customers, financial investments and counterparty risks. This was rated moderately high at average mean (mean = 3.09). This implied that credit policy enable the SACCO to assess the risk of losses associated with credit extended to customers, financial investments and counterparty risks.

4.2.4 Descriptive statistics on credit collection policy

Table 4.9: Descriptive statistics on credit collection policy

	N	Mean	Std. Deviation	Interpretation
The SACCO consistently and continuously review active borrowers files	113	3.27	.695	Moderate
SACCO has effective penalties to be put on default and late repayment and are well known to the borrower the SACCO often charge penalties in case of delayed loan payments	113	2.37	.746	Low
SACCO normally send prompt notification to the borrower in event of late loan payments or default	113	3.27	.535	Moderate
The SACCO has strict debts collection deadlines and are clear to the borrower	113	3.38	.587	Moderate
The SACCO usually make prompt notification to guarantors in event of delayed loan payments or default	113	3.89	.386	High
The SACCO use auctioneers to recover loans	113	2.59	.997	Low
SACCO sale of the property to recover loans	113	1.86	.742	Low
The SACCO normally leave the defaulters to pay at their own free will	113	3.66	.592	High
The SACCO usually write the debt off and account it as bad debts	113	3.09	.413	Moderate
Usually the SACCO write off interest and allow the customers to pay the principle	113	2.04	.784	Low
Valid N (listwise)	113			

Source: Primary Data, 2019

From table 4.9, results indicated that credit policy affect financial performance of Bushenyi Peoples' SACCO. Results indicated that the SACCO consistently and continuously review active borrowers files. This was rated moderately high and was indicated by average mean (mean = 3.27). This implies the SACCO consistently and continuously review active borrowers files. Results indicated that SACCO has effective penalties to be put on default and late repayment and are well known to the borrower the SACCO often charge penalties in case of delayed loan payments. This was rated low and indicated by average mean (mean = 2.37). This implies that SACCO does not have effective penalties to be put on default and late repayment and are well known to the borrower the SACCO often charge penalties in case of delayed loan payments. Results further indicated that SACCO normally send prompt notification to the borrower in event of late loan payments or default. This was rated moderately high with average mean (mean = 3.27). This implied that SACCO normally send prompt notification to the borrower in event of late loan payments or default.

It was also indicated that the SACCO has strict debts collection deadlines and are clear to the borrower. This was rated moderately high at average mean (mean = 3.38). This implied that the SACCO has strict debts collection deadlines and are clear to the borrower. Further, results indicated that the SACCO usually make prompt notification to guarantors in event of delayed loan payments or default. This was rated high at average mean (mean = 3.89). This implied that the SACCO usually make prompt notification to guarantors in event of delayed loan payments or default.

Results indicated that the SACCO use auctioneers to recover loans. This was rated low and was indicated by average mean (mean = 2.59). This implies that the SACCO does not use auctioneers to recover loans. Results indicated that SACCO sale of the property to recover loans. This was rated low and indicated by average mean (mean = 1.86). This implies that SACCO does not sale of the property to recover loans. Results further indicated that the SACCO normally leave the defaulters to pay at their own free will. This was rated high with average mean (mean = 3.66). This implied that the SACCO normally leave the defaulters to pay at their own free will.

It was also indicated that the SACCO usually write the debt off and account it as bad debts. This was rated moderately high at average mean (mean = 3.09). This implied that the SACCO usually write the debt off and account it as bad debts. Further, results indicated that usually the SACCO write off interest and allow the customers to pay the principle. This was rated low at average mean (mean = 2.04). This implied that usually the SACCO does not write off interest and allow the customers to pay the principle.

4.2.5 Descriptive statistics on financial performance of Bushenyi Peoples' SACCO

Table 4.10: Descriptive statistics on financial performance of Bushenyi Peoples' SACCO

	N	Mean	Std. Deviation	Interpretation
Credit policy enhances cross-functional cooperation especially between the credit and sales departments	113	2.37	.746	Low
Credit policy helps to mitigate risks to prevent financial losses	113	3.66	.592	High
There are many cases of loan defaults	113	3.66	.592	High
Credit policy helps to mitigate risks to prevent financial losses	113	3.66	.592	High
The SACCO normally assess market conditions risk of a borrower to limit loan	113	2.04	.784	Low
Valid N (listwise)	113			

Source: Primary Data, 2019

From table 4.10, results indicated that the level of financial performance of Bushenyi Peoples' SACCO. Results indicated that credit policy enhances cross-functional cooperation especially between the credit and sales departments, which was low and was indicated by average mean (mean=2.37). This implies that credit policy does

not enhance cross-functional cooperation especially between the credit and sales departments. Results indicated that credit policy helps to mitigate risks to prevent financial losses, this was high and was indicated by average mean (mean=3.66). This implies that credit policy helps to mitigate risks to prevent financial losses. Further, results indicated that there are many cases of loan defaults and was high by average mean (mean=3.66), and this implied that there are many cases of loan defaults. Results indicated that credit policy helps to mitigate risks to prevent financial losses which was high by average mean (mean=3.66). This implies that credit policy helps to mitigate risks to prevent financial losses. Finally, results indicated that the SACCO normally assess market conditions risk of a borrower to limit loan and this was rated low with an average mean (mean = 2.04). This implies that the SACCO does not normally assess market conditions risk of a borrower to limit loan.

4.3 Effect of credit terms on financial performance of Bushenyi Peoples' SACCO

The regression results on credit terms and financial performance of Bushenyi Peoples' SACCO were as follows;

Table 4.11A: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.403[a]	.162	.155	1.62822

a. Predictors: (Constant), Credit terms

From table 4.11A, results indicate that R^2 = 0.403, therefore, credit terms contribute towards financial performance of Bushenyi Peoples' SACCO by 40.3% (0.403*100).

Table 4.11 B: Analysis Of Variance (ANOVA^a)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.002	1	57.002	21.501	.000^b
	Residual	294.272	111	2.651		
	Total	351.274	112			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit terms

From table 4.11B, results indicated that the sig-value of credit terms is 0.000. This value is less than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit terms statistically and significantly affect financial performance of Bushenyi Peoples' SACCO.

Table 4.11 C: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.698	1.670		4.611	.000
	Credit terms	.538	.116	.403	4.637	.000

a. Dependent Variable: Financial performance

The results in table 4.11C, indicated that credit terms is positively (β=0.538) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. The sig. value of credit terms is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit terms significantly affect Bushenyi Peoples' SACCO's financial performance. This indicates that an increase in credit terms increases financial performance of Bushenyi Peoples' SACCO and a decrease in credit terms decreases financial performance of Bushenyi Peoples' SACCO.

4.4 Effect of credit standards on financial performance of Bushenyi Peoples' SACCO

The regression results on credit standards and financial performance of Bushenyi Peoples' SACCO were as follows;

Table 4.12 A: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.001[a]	.000	-.009	1.77894

a. Predictors: (Constant), Credit standards

From table 4.12A, results indicate that R^2 = 0.001, therefore, credit standards contribute towards financial performance of Bushenyi Peoples' SACCO by 0.1% (0.001*100).

Table 4.13 B: Analysis Of Variance (ANOVA[a])

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.000	1	.000	.000	.990[b]
1	Residual	351.274	111	3.165		
	Total	351.274	112			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit standards

From table 4.12B, results indicated that the sig-value of credit standards is 0.990. This value is greater than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit standards does not statistically and significantly affect financial performance of Bushenyi Peoples' SACCO.

Table 4.14 C: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.425	1.481		10.415	.000
	Credit standards	-.001	.072	-.001	-.012	.990

a. Dependent Variable: Financial performance

The results in table 4.12C, indicated that credit standards is negatively (β=-0.001) and does not statistically and significantly (p-value=0.990) affect financial performance of Bushenyi Peoples' SACCO. The sig. value of credit standards is 0.990 and this is greater than the level of statistical significance value of 0.05 and this implies that credit standards does not significantly affect Bushenyi Peoples' SACCO's financial performance. This indicates that an increase in credit standards decreases financial performance of Bushenyi Peoples' SACCO and a decrease in credit standards increases financial performance of Bushenyi Peoples' SACCO.

4.5 Effect of credit policy on financial performance of Bushenyi Peoples' SACCO

The regression results on credit policy and financial performance of Bushenyi Peoples' SACCO were as follows;

Table 4.13 A: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743[a]	.552	.548	1.19028

a. Predictors: (Constant), Credit policy

From table 4.13A, results indicate that R^2 = 0.743, therefore, credit policy contribute towards financial performance of Bushenyi Peoples' SACCO by 74.3% (0.743*100).

Table 4.13 B: Analysis Of Variance (ANOVA^a)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	194.014	1	194.014	136.941	.000^b
	Residual	157.261	111	1.417		
	Total	351.274	112			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit policy

From table 4.13B, results indicated that the sig-value of credit policy is 0.000. This value is less than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit policy statistically and significantly affect financial performance of Bushenyi Peoples' SACCO.

Table 4.13 C: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.296	1.041		3.166	.002
	Credit policy	.773	.066	.743	11.702	.000

a. Dependent Variable: Financial performance

The results in table 4.13C, indicated that credit policy is positively (β=0.773) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. The sig. value of credit policy is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit policy significantly affect Bushenyi Peoples' SACCO's financial performance. This indicates that an increase in credit policy increases financial performance of Bushenyi Peoples' SACCO and a decrease in credit policy decreases financial performance of Bushenyi Peoples' SACCO.

4.6 Effect of credit collection policy on financial performance of Bushenyi Peoples' SACCO

The regression results on credit collection policy and financial performance of Bushenyi Peoples' SACCO were as follows;

Table 4.14 A: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.421[a]	.178	.170	1.61327

a. Predictors: (Constant), Credit collection policy

From table 4.14A, results indicate that R^2 = 0.421, therefore, credit collection policy contribute towards financial performance of Bushenyi Peoples' SACCO by 42.1% (0.421*100).

Table 4.13 B: Analysis Of Variance (ANOVA[a])

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	62.380	1	62.380	23.968	.000[b]
1	Residual	288.894	111	2.603		
	Total	351.274	112			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Credit collection policy

From table 4.14B, results indicated that the sig-value of credit collection policy is 0.000. This value is less than the level of statistical significance (sig.), alpha (α = 0.05). This implies that the regression analysis of credit collection policy statistically and significantly affect financial performance of Bushenyi Peoples' SACCO.

Table 4.14 C: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.386	1.849		3.454	.001
	Credit collection policy	.307	.063	.421	4.896	.000

a. Dependent Variable: Financial performance

The results in table 4.14C, indicated that credit collection policy is positively ($\beta=0.307$) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. The sig. value of credit collection policy is 0.000 and this is less than the level of statistical significance value of 0.05 and this implies that credit collection policy significantly affect Bushenyi Peoples' SACCO's financial performance. This indicates that an increase in credit collection policy increases financial performance of Bushenyi Peoples' SACCO and a decrease in credit collection policy decreases financial performance of Bushenyi Peoples' SACCO.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Under this chapter the researcher discussed and gave conclusion to the major findings of the study, in light of the objectives and research questions. The researcher also presented some recommendations for credit risk management and financial performance of Bushenyi Peoples' SACCO. The recommendations will suggest some areas that need further study.

5.1 Discussion of findings

5.1.1 Effect of credit terms on financial performance of Bushenyi Peoples' SACCO

The study found out that credit terms is positively ($\beta=0.538$) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. This was in support with recommendation of Riach (2010), who observed that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

5.1.2 Effect of credit standards on financial performance of Bushenyi Peoples' SACCO

The study found out that credit standards is negatively ($\beta=-0.001$) and does not statistically and significantly (p-value=0.990) affect financial performance of Bushenyi Peoples' SACCO. This was in agreement with view of Kakuru (1998) who noted that tight credit standards make a firm lose a big number of customers and when credit standards are loose, firms gets an increased number of clients but at a risk of loss through bad debts, hence lack of credit standards increases bad debts recovery.

5.1.3 Effect of credit policy on financial performance of Bushenyi Peoples' SACCO

The study found out that credit policy is positively (β=0.773) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. This was in support with the view of Simonson and Hempel (1999), Hsiu-Kwang (1969) and IMF (1997) who observed that sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of nonperforming assets, loan classification and provisioning.

5.1.4 Effect of credit collection policy on financial performance of Bushenyi Peoples' SACCO

The study found out that credit collection policy is positively (β=0.307) and statistically and significantly (p-value=0.000) affect financial performance of Bushenyi Peoples' SACCO. This was in agreement with view of Padilla and Pagano (2000), who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of SACCOs.

5.2 Conclusions of the study

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

According to the findings credit standards have a negative significant effect on financial performance of Bushenyi Peoples' SACCO. An increase in credit standards decreases financial performance of Bushenyi Peoples' SACCO and a decrease in credit standards increases financial performance of Bushenyi Peoples' SACCO.

According to the findings credit policy have a positive significant effect on financial performance of Bushenyi Peoples' SACCO. An increase in credit policy increases financial performance of Bushenyi Peoples' SACCO and a decrease in credit policy decreases financial performance of Bushenyi Peoples' SACCO.

According to the findings credit collection policy have a positive significant effect on financial performance of Bushenyi Peoples' SACCO. An increase in credit collection policy increases financial performance of Bushenyi Peoples' SACCO and a decrease in credit collection policy decreases financial performance of Bushenyi Peoples' SACCO.

5.3 Recommendations

SACCO should normally assesses credit history and income of the customer before giving credit to them

Bushenyi Peoples' SACCO should always analyse of past borrowers and market conditions that limit the risk of a borrower not making credit payments or defaulting on loaned money

Credit policy of Bushenyi Peoples' SACCO should be enhanced for cross-functional cooperation especially between the credit and sales departments

Bushenyi Peoples' SACCO should have effective penalties put on default and late repayment and are well known to the borrower and the SACCO should often charge penalties in case of delayed loan payments.

Bushenyi Peoples' SACCO should use auctioneers to recover loans and should normally sale of the property to recover loans.

Bushenyi Peoples' SACCO should normally assess market conditions risk of a borrower to limit loan.

5.4 Areas for future research

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

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APPENDICES

APPENDIX A

SELF ADMINISTERED QUESTIONNAIRE

Dear Respondents;

INATUKUNDA LILIAN, a student of Kampala international University of College of Economics and Management finalizing my Degree in Bachelors of Business Administration. As part of my requirement for the Degree award, I have to present a research report. The study is on credit risk management and financial performance of SACCOs in Bushenyi, Uganda.

I am now on my field part of collecting information for my research report and you are being requested to respond to the various questions in the questionnaire attached. This interview will be treated with the strictest confidentiality. It would therefore be greatly appreciated if you would answer all questions in a fair and open manner. The information gathered from this questionnaire will be used purely for research purposes. Thank you for taking the time and effort to complete this questionnaire. Your cooperation is greatly appreciated. Your participation is voluntary and you may withdraw from the survey at any stage. I shall be grateful for your cooperation in this regard.

Thank you.

NATUKUNDA LILIAN (Candidate)

SECTION A: BIO DATA

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

1. AGE

26-30 ☐   31-35 ☐   36-40 ☐

41-45 [   ]   Above 46 [   ]

2. **GENDER**

   Male [   ]   Female [   ]

3. **MARITAL STATUS**

   Single [   ]   Married [   ]   Divorced [   ]   Widowed [   ]

4. **HIGHEST EDUCATION LEVEL**

   Diploma [   ]   Bachelor's Degree [   ]   Masters [   ]

   PhD [   ]

5. **WORKING EXPERIENCE IN YEARS**

   1 – 3 [   ]   4 – 9 [   ]   10 and Above [   ]

Please indicate the extent to which you disagree or agree with each of the following statements. Please indicate your preference by marking with a cross (X) in the appropriate block provided.

1	Strongly Disagree	SD
2	Disagree	D
3	Not Sure	NS
4	Agree	A
5	Strongly Agree	SA

SECTION B: Credit risk management

S/N	Variable	SD	D	NS	A	SA
	Credit terms					
1	SACCO has more attractive credit terms to act as an incentive to clients					
2	SACCO's credit terms lead to unnecessary high levels of bad debts					
3	SACCO's loan repayment interest rate and credit worthiness accelerate timely with associated costs					
4	SACCO's interest calculation method and loan repayment installments are very clear					
	Credit standards					

1	SACCO uses set standards to determine whether to extend a loan to an applicant					
2	SACCO normally assesses client characters before giving loan					
3	Before giving loan to customers, the SACCO normally determines client creditworthiness					
4	SACCO often consider aspects of collaterals while coming up with credit risk management					
5	SACCO normally assesses credit history and income of the customer before giving credit to them					
	Credit policy					
1	SACCO has developed appropriate credit policies to ensure that credit administration is done effectively					
2	SACCO's credit policy helps to mitigate risks to prevent financial losses					
3	SACCO's credit policy enhances cross-functional cooperation between credit and sales departments					
4	Comprehensive credit policy communicates a consistent standard to SACCO's customers					
5	Credit policy enable the SACCO to assess the risk of losses associated with credit extended to customers					
	Collection effort					
1	SACCO has effective penalties on default and late repayment and are well known to the borrower					
2	SACCO normally send prompt notification to the borrower in event of late loan payments or default					
3	SACCO has strict debts collection deadlines and are clear to the borrower					

4	SACCO sell off Defaulter's property to recover loans					
5	The SACCO normally leave the defaulters to pay at their own free will					
6	SACCO usually write the debt off and account it as bad debts					

SECTION C: Financial performance

S/N	Variable	SD	D	NS	A	SA
1	SACCO's return on assets keep on growing annually					
2	SACCO's revenue grows annually					
3	SACCO's return on equity has been growing annually					
4	SACCO has been realising profits annually					

"Thank you for taking the time and effort

to complete this questionnaire"