CREDIT POLICIES AND PERFORMANCE OF SACCOs IN SERERE DISTRICT. A CASE STUDY OF AMORU VILLAGE SACCO OF KADUNGULU SUB COUNTY IN SERERE DISTRICT.

BY

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

JULY, 2019

DECLARATION

I, **OCEN SAMUEL** heart fully declare that this report is in its original status through the field work and data analysis I undertook. It has never been produced and presented anywhere for the academic awards in this university or elsewhere including other higher institutions of learning.

OCEN SAMUEL

SIGNATURE...**DATE**...06TH/08/2019.........................

APPROVAL

I, certify that the research report has been submitted by Ocen Samuel Registration number.1163-05014-05966 with my approval and it's ready for submission in the Department of Accounting and Finance.

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(SUPERVISOR)

SIGNATURE……………………………………**DATE**…7th/08/2019……………………

DEDICATION:

I dedicate this Research report to God Almighty, my beloved Mum Amoding Grace who tirelessly supported me with financial assistance I needed and with words of encouragement and Dad Okae George William for his awesome parental advice.

I also extend my special dedication to my lovely spouse Namwano Lydia who irresistibly always helped me financially whenever I approached her, my Cousin Brother Okello John Robert and to my beloved Aunt Mrs. Khakha Agnes for their wide hand of help towards this piece of work and my Siblings Ariokot Malisa, Okae, Lillian, Berita, Atungo Damali, Amulen Betty for their endurance during allocation of the limited resource envelope and accepted to make me a family's priority, indeed may God highly bless you, am much proud of you.

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I highly appreciate my parents for their Continuous financial support that they have always extended towards my academic career up to now that I am finalizing. May God always grant them favor and blessings.

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LIST OF ACYNOMNS

ADB	African Development Bank
ATM	Automated Teller Machine
CVI.	Content Validity Index Test
DTS:	Deposit taking SACCOs
IMF's	Micro finance Institutions
LDCs	Low Developed Countries
MDI	Micro-Finance Deposit Taking Institute
MFIs	Micro Finance Institutions
NPL	Non-Performing Loans
SACCO	Savings and Credit Cooperative Society
SASRA	Sacco Societies Regulatory Authority
SASRA:	society regulatory authority
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
WOCCU:	World Council of Credit Unions

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ABSTRACT

The study examined credit policy and performance of savings and credit, Amoru Village SACCO being the case study.

The study based on three objectives namely; to find out the effects of credit terms and standards on the performance of SACCOs at Kadungulu sub county Serere district, to determine the effects of collection efforts applied on performance of SACCOs at Amoru village Savings and Credit Cooperatives (SACCOS) in Kadungulu sub county, Serere District and to establish the effects of collection period on the performance of Amoru village Savings and Credit Cooperatives (SACCOS) in Serere District.

The researcher used descriptive research design in investigating the relationship between Credit policy and the performance of SACCOs. The design was preferred because it entails complete description of the situation, thus limiting the level of biasness in the collection of data and eventual reduction of errors in interpreting the data collected. Descriptive research allowed the researcher to evaluate the states of a defined population with respect to certain variables.

The study found out that good credit terms have a positive impact on the performance of the SACCO since the clients will be borrowing funds and paying them back in time, there was a high positive correlation between the credit terms and loan performance. The study also found out that good credit standards can save the SACCO from cases like loan defaulting by the clients, hence boosting the financial performance of the SACCO. Collection policy also helps a lot in tracking the loans from the clients and ensuring that the loans are paid back on time. This has improved on the performance of Amoru village SACCO.

The study concluded that credit terms affect performance of Amoru village SACCO as the clients can afford the interest rates charged by this SACCO. Collection policy influences the performance of the SACCO.

The study recommended that the SACCO should apply lenient collection methods so that it does not scare away potential borrowers, a further study should be carried out to investigate the challenges facing SACCOs in successfully implementing financial management practices, the study also recommended a further study on the impact of SACCO regulatory bodies on non-performing loans in SACCOs.

CHAPTER ONE

1.0 Introduction

This chapter of the study presented the background of study, the statement of the problem, purpose of the study, objectives of the study, the research questions, and the study hypothesis, the scope of the study, significance of the study and the conceptual frame work of the study.

1.1 Background of the study

1.1.1 Historical Perspective

A credit policy is an institutional method for analyzing credit requests and its decision criteria for accepting or rejecting applications Craig, R. (2010). A credit policy was an important tool in the management of accounts receivables. A firm has time flexibility of shaping credit policy within the confines of its practices.

It has therefore be a means of reducing high default risk implying that the firm should be discretionary in granting loans Churchill, G. (2010). Policies save time by ensuring that the same issue should not be discussed over and over again each time a decision is made. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner Berry (2010), According to Normal (2009), credit policy provides a frame work for the entire management practices. Most micro finance write credit policies which are the cornerstone of sound credit management, they set objectives, standards and parameters to guide micro finance officers (SACCO leaders) who grant loans and manage loan portfolio.

The main importance of the set policies is to ensure operation's consistency and adherence to uniform sound practices. Policies should always be the same for all and being the general rule designed to guide each decision, simplifying and listening to each decision making process. A good credit policy involves effective initiation analysis, credit monitoring and evaluation. Credit policies are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it. Ahimbishwe (2002).

The main objective of credit policy was to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions (SACCOs). The credit policy of an organization may be stringent or lenient depending on the manager's regulation of variables.

There are three main variables namely credit terms, credit standards and credit procedures (Iyer, 2008): Managers uses these variables to evaluate client's credit worthiness, repayment period and interest on loan, collection methods and procedures to take in case of loan default on the given SACCO. A stringent credit policy gave a credit to customers on a highly selective basis.

Credit policy prior to the adoption in 1992 of the country exposure policy (Document ADBIBD/WP/9219s) the Banks leading operations were conducted on the basis of broadly defined principle were outlined in the agreement establishing the African Development Bank (ADB).(amended in May 1979) which situated that bank should extend leading to borrowing counties paying due regards to the prospects to the borrowing would meet its obligations schedule following African debt crisis in the last 1980s and early 90s during which several ADB borrowing accumulated significant loan arrears, it became clear that an explicit credit policy to guide lending to borrowing countries and to manage the bank exposure needed to be developed.

In September 1992 standards to guide the new lending operations aimed at enhancing the soundness of the Banks loan per folio.

Among the new standard, calling countries should not exceed 15% of the bank portfolio. New developing countries that stitch away from traditional loans to grant highly concessional loan to these countries in 1993. An exposure monitoring committee will be established to oversee the implication of the country exposure policy.

However it was not to be so common because very few countries can manage the 15%. In 1992, Finca Uganda started its operation as a microfinance institute (SACCO) and became popular for its village banking methodology where customers would access loans through group membership. In 2004, it was licensed as a Micro-Finance Deposit Taking Institute (MDI) to be regulated by Bank of Uganda under the MDI act 2003 and also introducing new Technology to reach out to Further Rural Areas in 2010.

In 2012 MDI had finished 20 years of providing life changing financial services and in the same year it also launched ATM service using the Finance Access Card (FAC) to allow customer 24/7 access their money through a multiplicity of inter-switch member banks' across the country, In 2014, it started offering savings, loans, and money transfer services to its clients across its 27 branches countrywide.

In 2015, Finca Uganda acquired and opened its own head office in a magnificent building located on plot 11, Acacia Avenue, Kampala, and in 2016, it became the first financial institution in Uganda to adopt credit hence scoring a key credit analysis tool that enables the financial institution (SACCOs) to make credit decision very fast and in 2017, Finca Uganda marks 25 years of providing relevant financial service to over 100,000 clients hence empowering and impacting community positively.

1.1.2 Theoretical Perspective.

In the last three decades, some theories try to explain trade credit. Most of them rely on market imperfections, such as taxes, transactions costs and asymmetric information.

1.1.3 Transaction costs Theory by Petersen and Rajan (1997).

Petersen and Rajan (1997) argue that information acquisition is the main source of trade credit cost advantage. In fact, suppliers have a better capacity to acquire information about buyers than traditional lenders (Schwartz, 1974). The occurrence and the number of the buyer's orders give suppliers information on credit worthiness of their clients (Bellouma, 2011). For example, the buyer's denunciation of discounts for early payments alerts the supplier about the weak credit worthiness of the buyer and its potential financial difficulties.

Finally, credit policy should be a very flexible operational tool. Indeed, when demand fluctuates, the company may adjust price or production. Nevertheless, as advanced by Emery (1984), this traditional adjustment is costly and can be replaced by a change in trade credit terms. More precisely, terms can be relaxed or tightened in proportion to the demand. From an empirical view, long et al (1993) finds a positive relationship between the variability demand of the company and the offer of trade credit.

According to the transaction cost theory, trade credit policy exists in order to reduce costs related to the exchange relationship between buyer and seller. Then, as Ferris (1981) supports the improvement in transaction technologies may reduce the level of trade credit. Conversely, this decline has not been detected in recent years.

1.1.4 Conceptual Perspective.

Credit policies according to Ahimbishwe (2002). Are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it. And the main objective of credit policy is to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions.

The **credit management policy** is a set of policy actors designed to minimize costs (risks) associated with credit while maximizing the benefits from it. (Kakuru, 2001).

Performance according to Hornby (2001) explained Performance as accomplishment, execution, carrying out and working on anything ordered for following the credit policies of Micro Finance Institutions (MFIs).

1.1.5 Contextual Perspective:

SACCOS establishes credit policies as a measure of administering credit. These policies have objectives of maximizing profits of shareholders as well as ensuring good quality loans. Amoru Village Savings and Loan Membership Shares (SACCOS) of Kadungulu Sub county in Serere District is a small Micro Finance Institution which usually gives loans to low community income earners especially peasants, local business men, and women constitute 85% of her lending methodology called village banking in which small scale business have benefited.

1.2 Statement of the Problem

SACCOs establishes credit policies as a measure of administering credit. These policies have objectives of maximizing profits of shareholders as well as ensuring good quality loans.

Despite the above credit policies, the following disadvantages of credit policies can reduce instance of loan defaults and speed up account receivable turnover thus increasing cash out flow and it also enforces pressure to the borrower. Soroti, a business woman was dragged by the management of Finca Micro Credit Bank officers because of failure to comply with the terms and conditions of the SACCO .Also, Akello Lucy from Kadungulu sub-county in Serere District who was taken to police because of serious torcher by the group members on the orders of the loan official from the SACCO when she failed to complete to pay-back the borrowed 3.5 million in the period of 6 months which elapsed when she has just paid back only shillings 400,000. (New vision, 12th March 2018, Pg5).

1.3 Purpose of the Study

To establish the effects of Credit policy on performance of Amoru village SACCOS of Kadungulu Sub-county in Serere District.

1.4 Objectives of the study

The objectives of the study are as follows;

i. To find out the effect of the Credit terms and standards on performance of Sacco's at Kadungulu Sub-County in Serere District.

ii. To determine the effect of collection efforts applied on performance of Sacco's of Kadungulu Sub-County in Serere District.

iii. To establish the effect of collection period on performance of Sacco's of Kadungulu Sub-County in Serere District.

1.5 Research questions

The researcher undertakes the following research questions;

i. What was the effect of Credit terms and standards on the performance of SACCOs at Kadungulu Sub-county in Serere District?

ii. What was the effect of collection efforts applied on the performance of SACCOs of Kadungulu Sub-county in Serere District?

iii. What was the effect of collection period on performance of SACCOs of Kadungulu Sub-county in Serere District?

1.6 Scope of the study

The scope of the study was undertaken as below;

1.6.1 Subject Scope

The research study was carried out under the topic of "Credit policy and Performance of Amoru Village SACCO of Kadungulu Sub-County in Serere District. There are so many indicators or causes of performance of an Organization but under this research, the researcher was interested in particularly the topic cited above.

The Researcher in this study was interested in the Management of the Organization, the Credit department Manager, and the clients of the Organization.

1.6.2 Geographical Scope

Geographically, Amoru Village Savings and Loan Membership Shares is located in Uganda, in the Eastern region, in Serere District, Kadungulu Sub-county at Amoru trading Centre opposite Kagwara Primary School. It borders Kagwara Landing Site of Serere district on the north, Ngora District in the Southern part, Kamuli District in the Western part and Lira District in the Northern side.

1.6.3Time Scope

The time scope of the research work barely took four months due to the distance involved to collect the data, data analysis, and access of the Supervisor, General type setting of research work and printing of the Work.

1.7 Significance of the study

The researcher benefited directly from this research since its one of the requirements for the award of a degree course in Kampala International University.

The research carried greatly benefited the Management of Amoru Sacco's with relevant information on the causes of huge drop of the credit clients and streamline on its causes.

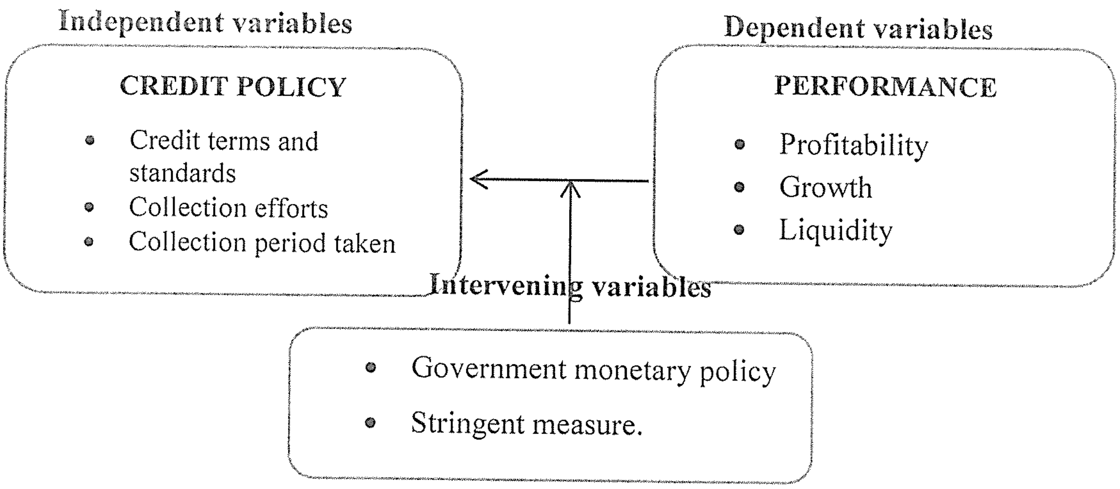
The research also benefited the Credit department of the SACCO and the Management on determining the most suitable optimal credit policy that would help it maximize returns as well as boosting the performance of a Sacco of Amoru.

The research benefited the clients of the Amoru SACCO to understand fully the risks associated with all credit policies applied by the Organization to them as clients and fully how it affects its performance.

The research also benefited Kampala International University through identification of study gaps in the research topic hence making them appropriately to guide students on aspects of the time scope of the research and the backload that comes along with the entire cost of working on it.

1.8 Conceptual frame work

Figure 1 Conceptual frame work



Source: adopted and modified by Montana, D. (2012).

The independent variable were perceived as the credit policy with, credit terms and standards, collection efforts applied and collection period taken whereas the dependent variable was the performance of SACCO with, Liquidity, profitability and growth. The professed goal of making performance was to improve the welfare micro finance institutions of people living in Serere District. Montana, D. (2012).The less number of clients of Amoru SACCO will contribute to less profit gained by the business men in Serere district. The core reason for Amoru SACCO to exist was to improve on the standards of living of the people and as a result, their investments will increase.

1.9 Definition of key terms

Credit policy. According to this study, Credit policy is a set of series of policies of action designed to minimize costs associated with credit while maximizing the benefits from it.

Credit management policy. This is a set of policy actors designed to minimize costs (risks) Associated with credit while maximizing the benefits from it.

Credit terms. These are conditions set by the firms for accessing credits and loans advances from the firm.

Collection effort. These are activities set in place to ensure creditors pay back the loans given to them in time and at the right interest.

Collection period. This is the period in which the creditors are expected to bring back the loan credited to them and the period in which the members are expected to go to collect those loans from those who owe the SACCO.

Performance. Performance is defined as an accomplishment execution, carrying out, and working onto anything ordered as undertaken.

Government monetary policy. These are guidelines taken by government to stabilize the economy by regulating the amount of money in circulation.

Stringent measure. Involves very little money being available for spending or borrowing as a result of firm's controls. Stringent cost management is counterproductive when it interferes with a firm's ability to grow.

Liquidity. Is the company's ability to covert its assets to cash in order to pay its liabilities when they are due? Current assets are listed in their order in which they are expected to turn to cash. Or Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market at a price reflecting its intrinsic value

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter looked at the Credit policies and performance of Amoru Village SACCO's. A case study of Kadungulu Sub County, Serere District. It consisted of existing literature on credit policy by different scholars/research studies from magazines, text books, journals and newspapers.

2.1 Theoretical review

Transactions Costs Theory

Petersen and Rajan (1997) argued that information acquisition is the main source of trade credit cost advantage. In fact, suppliers have a better capacity to acquire information about buyers than traditional lenders (Schwartz, 1974). The occurrence and the number of the buyer's orders give suppliers information on credit worthiness of their clients (Bellouma, 2011). For example, the buyer's denunciation of discounts for early payments alerts the supplier about the weak credit worthiness of the buyer and its potential financial difficulties.

The second source of cost advantage arises from the threatening power of the seller compared with financial institution. When the repayment chance is reduced, sellers can threaten buyers to cut off future supplies. This power becomes stronger when the buyers have limited alternative suppliers of the product needed or when they represent only a small part of seller's turnover (Kandori, 1992).

Besides, in case of buyer default, the seller can reclaim value from seizing goods that are supplied. Financial institutions can salvage value from existing assets as well. However, the supplier repossesses and sales goods at a low cost since he often trades in the same industry as the buyer and already uses the same channel. Accordingly, to this cost advantage, Main and Smith (1992) note that the trade credit offered is as greater as supplied provide better collaterals. Petersen and Rajan (1997) support that more the transforms goods, the lower the advantage of seller compared to financial institutions will be.

Finally, trade credit policy should be a very flexible operational tool. Indeed, when demand fluctuates, the company may adjust price or production. Nevertheless, as advanced by Emery (1984), this traditional adjustment is costly and can be replaced by a change in trade credit terms. More precisely, terms can be relaxed or tightened in proportion to the demand. From an empirical view, long et al (1993) finds a positive relationship between the variability demand of the company and the offer of trade credit.

According to the transaction cost theory, trade credit policy exists in order to reduce costs related to the exchange relationship between buyer and seller. Then, as Ferris (1981) supports the improvement in transaction technologies may reduce the level trade credit. Conversely, this decline has not been detected in recent years.

2.1.2 Liquidity Theory by Bellouma et al., (2009); Bellouma and Omri, (2008).

Trade credit policies is an important aspect and source of financing that rationed Companies use (Bellouma et al., 2009; Bellouma and Omri, 2008, Petersen and Rajan, 1994). The central point of this idea, as Emery (1984) suggests, is that companies with high level of liquidity or which accede/comply or agree to capital markets can finance rationed companies by offering trade credit. Nielsen (2002) supports this assumption by showing that in a period of monetary contraction, credit rationed firms increase the amount of goods bought by trade credit.

In the same way, Petersen and Rajan (1997) obtain evidence supporting the negative relation between buyer's access to other sources of financing and the use of trade credit. Thus, financially constrained companies are more likely to use trade credit than companies with easier access to financial intermediaries. This justification is insufficient since it does not clarify why financially unconstrained companies use trade credit.

2.2 The conceptual review

Credit policies according to Ahimbishwe (2002). Are set of objectives, standards and parameters to guide bank officers who grant loans and manage the loan portfolio. Thus, they are procedures, guidelines and rules designed to minimize costs associated with credit while maximizing the benefit from it. And the main objective of credit policy is to have an optimal investment in debtors that minimizes costs while maximizing benefits hence ensuring profitability and sustainability of microfinance institutions as commercial institutions.

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2.3 Costs associated with credit policy.

According to Charles. P. Jones (1992), the following are the costs of extending trade Credit.

Production, selling and administrative costs.

Cash discounts.

Bad debt costs.

Required rate of return Opportunity Cost.

According to James C. Van Horn (1992) in his book of financing management and policy, Credit financing policy is one where services are extended to interested persons who hold the company's long term debts called debtors. Horne emphasized that credit and Collection policies are interrelated with pricing of services and must be reviewed as part of Organization's overall competitive process. In addition, more liberal extension of credit may cause certain existing customers to be less stressed in paying their bills on time. Horne noted that credit terms involve both the duration of credit period and discount given.

2.4 The relation of Credit policy impact.

According to Charles. P. Jones (1992) Credit policies can have a major impact on firm's sales, costs, and profitability. Jones added that, other things equal firm's with relatively loose credit policy will tend to have higher sales levels shift from donor assistance towards a greater focus on sustainability. Despite the perceived impact and staff incentives policies for the performance of the firm little is known about the effectiveness and impact of such policies.

Mark Schreiner (2004) research on children education both girls and boys revealed that when credits are channeled to the mothers, they are more concerned to educate their children amongst the poor households than when credits are directed to men. Micro finance schemes do not target children directly, but influence of schemes goes through non-neutral intermediary of household credit policy enters the household and might influence several of the factors that determine children's education, including the overall finance budget as well as the individual parent's degree of participation in household's decision making and perception regarding the importance of children's education.

By having credit policy, just like banking institutions Micro Finance Institutions (IMFs) like Savings Credit and Co-operative Society (Sacco's) often respond to changes in the economy by tightening or loosening their credit requirements. Micro Finance Institutions might be more Stringent about credit requirement effectively filter out the poorest then individuals who join during a recession will be better off than those who join during boom or normal time or if the policy became lenient, individuals who would not have received loans do now. Whether a given loan is seen as large or small, it depends on which aspect matter most from the given point of view. Borrowers are concerned mostly about low monthly payments will see a two-year loan as smaller than a one-year loan. Borrowers are concerned mostly with getting enough cash to make a purchase will see both loans as equivalent and borrowers concerned mostly with interests' costs will see the 30-year loan as larger than 15-year loan. (Karlan, 2001).

With Micro Finance Institutions (MFIs) Mc Kim (2004) argued that MFIs credit policy on the Organization performance accounts for about half of an institution's input (inform of salaries) and critically affect the overall performance of an institution. As they spent 75% of their time outside the office visiting clients or potential clients. A large percentage of IMFs have switched from a fixed salary compensation component based upon various performance indicators. This shift has been accompanied by another trend towards a commercialization of MFIs industry that's characterized by increased competition and a shift from door assistance towards a greater focus on sustainability and profitability. Despite the perceived importance of an organization.

2.5 Performance of an Organization. Hamby (2001) defined performance as an accomplishment execution, carrying out, and working onto anything ordered as undertaken. According to Organ and Bateman (1991), it's helpful to distinguish between two different types of performance.

In **role performance**, consisted of those functions or contributions that were required by the job description or quality contractually for compensation from the Organizations' formal reward system. It is what we had in mind when we referred to the person's productivity.

Extra role performance consists of those functions or contribution that is not required. According to them, it consisted of types of performance that a person would not be disciplined for not doing and would not be automatically rewarded for doing.

Crawford (1991), believed that products are internationally designed to be of low quality. This view point according to him cited attempts to lower costs of items by using cheaper materials that do not hold up by eliminating features or attributes that contribute to long term durability. He further noted that, product quality control lacking whether, the problem was physical system of production, managerial motivation or (demotivation) system for employees or just the poor attitude of today's workers (all have been accused), the fact seems to be that quality is not what we perceive it to have been.

It's pointed out by "Donnelly, Gibson and Ivance Vich 1987" that **successful performance** is completion of goals. They further noted that effort alone does not yield successful performance. The individual also must possess the abilities needed and other personal traits to do the job well. They point out duties as perceived by the person performing the job.

Armstrong (1999), states that, **performance** meant both behavior and results. He went ahead to point out that behavior emanated from the performer and transformed performance i.e. from abstraction to action. Not just the instrument for results, Bevier were also out comes of their right, which is the product of mental and physical effort applied to tasks and could be judged a part from the results.

2.6 The Related Objectives:

2.6.1 Credit terms and standards on performance of SACCO's

Credit Terms

A credit is a contractual stipulation under which a firm grants credit to customers Soderland C. and Oberg J., (2001); furthermore these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organization risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. Burt Edwards, (2004), explains the significance of discounts in credit terms.

Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period, in case of clients who would like to be offered a loan. This discount is normally expressed as a percentage of a loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs Helms, B., (2003).

Rianga, P. M. (2011), observes 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 terms may include; Length of time to approve loans, this is the time taken from applicants to the loan disbursement of receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position. Maturity of a loan, this is the time period it takes loan to mature with the interest there on.

Cost of loan. This is interest charged on loans, different Sacco institutions charge differently basing on what their competitors are charging. The chartered institute of bankers and lending text (1993) advises lending institution to consider amount given to borrowers. Schmittlen, M. (2010), pointed out that the maximum loan amounts per cycle are determined basing on the loan and the ability of the client to repay (including guarantee).

Credit Standards.

Credit Union standards according to Mattius, M.(2009), advancing loans, credit Union standards must be emphasized such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Van Horne, 1994). Tight credit standards maker a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at risk of loss through bad debts.

A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery. In agreement with other scholars Bullivant, G. (2016). Advocated for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits. This is a criteria used to decide the type of client to whom loans should be extended. Moira, E. (2010), noted that it's important that credit standards be basing on the individual credit application by considering character assessment, capacity condition collateral and security capital.

According to Bodie Z, Kane, A & Marcus, A. J. (2004), the evaluation of an individual should involve; gathering of relevant information on the applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of the 5Cs of lending. The 5Cs of lending are Capacity, Character, Collateral, Condition and Capital. Capacity refers to the customer's ability to fulfill his/her financial obligations. Capacity, this is subjective judgment of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical or observation.

Collateral is the property, fixed assets, chattels, pledged as security by clients. Collateral security, this is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset Arishaba, S. (2011).

According to Mattius, M. (2009), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it.

Capital portends the financial strength, more so in respect of net worth and working capital, evaluation of capital may be by way of analyzing the balance sheet using the financial ratios. Condition relates to the general economic climate and its influence on the client's ability to pay. Condition is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay Anon, P. (2002).

2.7 Collection efforts applied on performance of SACCO's

2.7.1Collection effort

Helms, B., (2003), defines a collection of efforts as the procedure an institution follows to collect past due account. Collection policy refers to the procedures Sacco institutions use to collect due accounts. This collection process can be rather expensive in terms of both product expenditure and lost good will Ayodele et al, (2014).

Collection efforts may include matching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation (Myers, 1998). Methods used by credit unions could include letters, demand letters, telephone calls, and visits by the firm's officials for face to face reminders to pay the legal enforcements.

Pandey, I.M. (2006), assets that collection policy is a guide that ensures prompt payment and regular collections. 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.

According to Fofack, H. (2005), many micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency. Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. 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 Wright, GAN. (2000), However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors Moira, E. (2010), states that collection efforts are directed to accelerating recovery from slow payers and decreases bad debts losses. This therefore calls for vigorous collection policy is its slackness in arousing slow paying customers.

The collection efforts can be rather expensive in terms of both product expenditure and lost good will (Tandelilin, Kaaro, & Supriyatna, 2007). Collection efforts may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets and courts litigation.

Methods used by regulated SACCOs could include letters, demand letters, telephone calls, visits by the firm's officials for face to face reminders to pay and legal enforcements.

Zimmer (2003), asserts that collection efforts are guide that ensures prompt payment and regular collections. Collection procedure is required because some clients do not pay the loan in time hence collection efforts aim at accelerating collections to avoid bad debts.

According to Dawkin (2010) posited that prompt payments aimed at increasing turnover and keeping bad debts low. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debt losses and increases profitability of the banking institution.

Debt collection strategies are now about proactive systems and procedures including a structured series of telephone calls, email, even text messages if it suits, personal visits and online payments. With the right kind of operatives, well trained and knowledgeable, more debt is recovered and those people who should be followed are profiled, identified and dealt with accordingly. In deciding policy for local authority debt, the key has to be a co-ordinate, partnership approach, which recognizes and helps prevent individuals becoming burdened with debt through early intervention, as well as repayment programs, but which also understands the legitimate needs of the creditors. Sophisticated profiling can focus the appropriate collection strategy to the identified debtors, even if this includes enforcement. We may not always like it, but as well as the carrot, there sometimes has to be a stick (Lewis, 2005).

Businesses that are the most successful are the ones that use effective debt collection strategies. This enables them to know which accounts are being paid and delinquent debts are being satisfied. This improves cash flow to the business. While it's a good idea at any time, it's especially important during economically tight times to review your debt collection strategies and make sure they really are having the effect you want. Debt collection is a legitimate and necessary business activity where creditors and collectors are able to take reasonable steps to secure payment from consumers or businesses that are legally bound to pay or to repay money they owe. It is important that any organization involved in recovering debt is aware of their legal obligations. Debt collection strategies should guide a firm to treat debtors and third parties fairly and with respect and courtesy. A firm should never harass or coerce them, treat them unconscionably or mislead them as to the nature of their debt, their legal obligations or any possible outcomes if the debt is not paid. A firm should also not pursue a person for a debt unless they have reasonable grounds for believing the person is liable for the debt (Mori, 2006).

2.8 Collection period on performance of SACCO's

These are terms and guidelines which any borrower should adhere to before and after loan advancement. They are the most key features of any financial institution and cannot be ignored by any enterprise engaged in money collection period regardless of nature and environment of their operation. The terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution. Drzik, (2012) discussed these policies as interest rates, time and the procedures the lender will use to collect all the amount due from the borrower.

Normally loan principal is recovered in installments including the loan interest. The loan policies dictate installment periods and the interest rates, which vary from one loan to another. For instance in some SACCO's loans recovery may be thirty six months and below while in others the period may be extend up to seventy two months. The interest rate may vary from the recommended 12% to 15% per annum depending on the loan type. These are internal controls applied by the SACCO management in the administration of different loans (Nancy 2011).

Lending terms of financial institutions presented a moderate positive correlation between borrower's loan size and repayment period as opined by (Ozdemir, 2004) in Kadungulu Sub County in Serere district. In his study, he revealed that the amount of loan advanced is influenced by the borrower's level of income. He argued that the starting point of any sound lending terms must begin with establishing legitimate financial needs of the potential borrower but not the financial performance of the microfinance firm.

Therefore the lending institution must ensure that loan terms are constantly updated because they will affect the growth, stability and economic wellbeing of the financial institution. However, there was no mention on how these lending terms affect financial performance in his study. In Kadungulu Sub County in Serere district Chigozie et al., (2013) focusing on the SACCO sector, observed that although risky, lending is the key business of any financial institution. They argued that lending was evil and management of these microfinances is advised that they should put in place sound loan administration policies and an effective and efficient machinery to monitor loan repayments with well established guidelines. Nevertheless, they only gave general knowledge on these loan guidelines therefore the researcher has made effort to relate the loan policies to the financial performance of the sub counties based SACCOs.

Locally, studies have been done on this topic but concentrating on Deposit Taking SACCOs (DTS) and on specific counties and sectors. For instance, Ngugi (2015), Ikua (2015) and

Damaris (2014) all opined that credit terms and guidelines have a positive correlation to the performance of DTAs. However, this study has created diversity by looking at collection terms and on SACCOs operating indifferent environments and specifically in a sub counties set up.

Performance of SACCOs can also be affected by profitability, growth and liquidity in form of working capital management as concluded by (Kennedy et al., 2016) on their study. These variables tested positive in relation to financial performance on their study on factors influencing financial performance of SACCOs in Kadungulu Sub County in Serere district.

More research has been done on SACCOs characterized by a common check off system environment. For instance in the study by Ndubi, (2006) on how SACCOs are responding to the changing operating environment he didn't mention social environment, which is a characteristic of this sub county based SACCOs. Others like Ajiambo, (2010), Nzaywa, (2013) who studied on the relationship between loan policies and financial performance, concentrated on SACCOs in Kadungulu Sub County in Serere district, and there was no mention of social based SACCOs. This research has diversified on SACCOs operating in different environments, look at specific c lending terms and how collecting defaulted loans affect financial performance of Sub County based SACCOs. In any financial institution the management has the responsibility of putting in place these terms and conditions within the confines of their finance management practices and environments Pande, (2012). These will also ensure that the borrowers are aware of the requirement of each loan and that the same credit issues are not discussed, visited and reviewed every time a member puts forward a loan request. This will also ensure that decisions are consistent and fair and that members applying the same type of facility get standard treatment Dermine et al., (2006).Whether the application of these loan policies affect the financial performance of these church based SACCOs was a research question of this study. No prior well-known study has examined these sub county based SACCOs which are volatile since they are built on faith and trust.

2.8.1 Effect of Collection period on performance of SACCOs

The divergence of loan products by SACCO sector in Kadungulu Sub- County in Serere district must be done with thoughtfulness and far-sightedness in order to mitigate large percentage of risk. The SASRA supervision report of 2011 indicated that loans accounts to three quarters of the total assets in SACCO's balance sheet. The pace of loans recovery has therefore been an uphill task as the average gross Non-Performing Loans (NPL) stood at 9.6% for DTAs contrary to the SASRA regulations which provide that the non-performing loans level should not exceed 5%. Therefore for any microfinance institutions to be stable and sustainable, they must ensure strict loan policies adhere to SASRA regulations which will ensure high loan repayment, deal with loan delinquency and minimize the cost of loan recovery of all advanced loans. Loan default is the failure to pay back the amount advanced to the borrower either by choice or due to change of circumstances which may make the debtor unable to honor his or her obligation Khemraj, T. And Pasha, S. (2009). The defaulted loan will be a cost to the SACCO in terms of delayed interest, high recovery cost and administration cost associated with loan follow up and this will affect the capital, asset, earnings and liquidity of the SACCO Fleifel, B. A. (2009).

In Uganda, for the period 1996 to 2002 a study done by (Ahmad et al 2004) compared social SACCOs and conventional SACCOs. Their results revealed that variables namely, management efficiency and weighted average of total assets had positive relationships with loan defaulting. However, the study didn't pin point how specific loan policies on loan default costs in the SACCO portfolios affect their financial performance. Social factors showed a weak influence on loan default by SACCOs in Kadungulu Sub- County in Serere district as compared to economic factors, but this sub county based SACCOs are spread in other counties rather than Kadungulu Sub- County (Mitei at el., 2016). Therefore this study was focusing on the same and looked at how social factors affect loan default in other parts of the country and the cost involved.

A study on financial performance of DTAs confined in Serere district region by Mundia Milka Wangui (2016) used variables namely diverse loan products in a portfolio and credit facility management. These two variables had a positive correlation to DTAs financial performance. Therefore, this study has extended on the same and to other regions. The effect of loan terms and conditions on loan repayment granted by selected DTAs SACCOs in Kadungulu Sub- County, interest rate charged on loans had also a positive relationship to loan default. Therefore this study furthered on the same and on SACCOs in other areas which are not deposit taking (Damaris et al., 2015).A research by Chege (2006) on how loan size granted by SACCOs affect loan default he concluded that changes in interest rates and different repayment schedules has positive correlation. He recommended that lower interest rates, management involvement on loan policy regulating were very vital in curbing the loan default vice. Nevertheless in his study he didn't show how this default affected the SACCO financial performance.

The indications by Susan Ngugi (2015) on micro finance sector in Uganda established that credit policies formulated by the microfinance institutions which include all types of SACCOs do affect their financial performance. The study concluded that managing credit relationships that are based upon all available customer information and consistent throughout the credit life cycle greatly increases profitability and reduces surprises. The study on the effects of credit management practices on profitability by Mundia Milka Wangui (2016): based on deposit taking SACCO's in Serere district concluded that there is need of informal relationship between management and borrowers. This will help in monitoring and early detection of potential problems that may arise in non-repayment of loans that finally affect the SACCOs financial performance. In addition, cooperation and coordination among various stakeholders provide additional support to borrowers will help them succeed in financial management. However, this study has extended and covered on-deposit taking SACCOs based on different environment rather than Serere district. Mwaura (2015) asserted that loan recovery is a recurring worry for overall SACCO sector in Uganda.

Moreover, he also opined that recycling of cash is key, without which SACCO's cash flow and assets are in jeopardy. This will result to shareholders lack benefit of their investment unless borrowers are encouraged to adhere to the SACCOs loan policies. The survival of any SACCO or any other micro finance institutions relies heavily on their capacity to manage their loans efficiently and effectively Mwaura (2015).The socially formed SACCOs are faced with several challenges in effort to introduce workable reforms and policies to improve on their financial performance due to familiarity between the management and the members and therefore this has motivated the researcher.

Huge SACCOs losses are caused by outright loan default due to inability or unwillingness of a borrower to adhere to set standards and policies in relation to loan repayment which will result to deterioration of SACCO credit quality Oloo (2013).When loans become non-performing, SACCO's balance sheet and cash flow are adversely affected, as well as their financial performance which is measured in relation to the strength of their balance sheet and net income.

This study will be of great help to determine how loan collection affect return on funds invested and whether revenue generated cover their operating expenses. Fleifel (2009) argued that one of the obstacles on improving financial performance of any micro finance institution is the lack of knowledge about the dynamics of loan recovery strategies affecting them, which may arise due to in ability of debtors to meet their financial commitments when they fall due.

The effect of loan recovery to the SACCO performance was a concerned of this study because loan delinquency is now a threatening factor to the financial performance of the whole SACCO system in Serere district. Although some scholars argue that turbulences of national and international economic factors have impact on their financial performance the widespread loan defaults and low recovery rate on both regulated and non-regulated SACCOs has special significance.

(Alam et al., 2011). Therefore to ensure high financial performance all types of borrowers and stakeholders must be put into consideration when formulating loan policies to ensure effective loan management and recovery in order to curb adverse effects on the SACCO financial performance.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter presented research design, study population, sampling design, sampling size, data collection methods, validity and reliability instruments, ethical consideration and limitation of the study.

3.1 Research Design

Mugenda and Mugenda (2003) defines **research design** as the way the study is designed, that is to say; the method used to carry out the research.

The researcher used a descriptive survey research design basing on the use of qualitative and quantitative approaches that was adopted to establish the relationship between Credit Policies and Performance of SACCOs in Serere district, this design was used for profiling, defining, segmentation, estimating, predicting, and examining associative relationships.

Cooper and Schindler, (2014) indicated that a descriptive study aims at finding out who, what, where and how of a phenomenon as a descriptive study. According to Sekaram and Bougie, (2013), descriptive studies may help the researcher to; understand the characteristics of a given group in a given situation, think systematically about aspects in a given situation, offer ideas for further probe and research and finally help to make certain simple decisions. The design was preferred because it helped to entail complete description of the situation, thus limiting the level of biasness in the collection of data and eventual reduction of errors in interpreting the data collected. Descriptive research allowed the researcher to evaluate the states of a defined population with respect to certain variables.

3.2 Area of Study.

The researcher carried out the research at Amoru Village, Kadungulu Sub-County in Serere District.

3.3 Study Population

According to Mugenda and Mugenda (2003) a population refers to an entire group of individuals, events or objects having a common observable characteristic.

Collins and Hussey (2009) define population as a precisely defined body of people or objects known to have similar characteristics. While

Sekeran (2009), defined population as basically, the universe of units from which the sample is to be selected. The term 'Units' is employed because it is not necessarily people alone who are sampled. It can also be defined as the entire group of people, events, or things of interest that the researcher wishes to investigate.

The population of the study comprised of **43** Community members who are members of the SACCO, 4 Senior Manager of the Organization, 4 Credit officers and 3 Accountants of the Organization. The Organization's clients was randomly selected while managers and policy makers was purposely selected.

3.4 Sample Size

This refers to the number of respondent to who you obtain the required information of the study. The sampling frame work was drawn from the list of clients of Amoru Village, Serere District at random sample where all the members of the study population had equal and independent chance of selection in a sample. For example 43 respondents was chosen to represent the total population and this comprised of **36** as the sample size; 3 Senior Managers, 3 credit Managers, 2 Accountants and 28 clients/Community Members. The Organization's clients was randomly selected while managers and policy makers was purposely selected.

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

Where;

n is the sample size.

N is the Population size.

E is the level of significance (0.05) in social science research.

1 is a constant value

$$n = \frac{43}{1 + 43(0.05)^2}$$

$$n = \frac{43}{1 + 43\ (0.0025)}$$

$$n = \frac{43}{1 + 0.195}$$

$$n = \frac{43}{1.195}$$

$$\underline{n = 36}$$

Table 1 Showing sample size.

Category of respondents	**Targeted Population.**	**Sample size.**	**Techniques.**
Senior Managers.	4	3	Purposive sampling
Credit Managers.	4	3	Purposive sampling
Accountants.	3	2	Purposive sampling
Clients/Community Members.	32	28	Simple random
Total	**43**	36	

Source: Primary Data 2019

3.5 Sample Techniques.

The techniques that the researcher used in conducting the study involved simple random and purposive sampling.

3.5.1 Simple random sampling.

According to Siegel, (2004) simple random sampling is useful in a situation when each respondent has an equal chance of selection to participate in the study. The researcher therefore used simple random sampling on various leaders of the SACCO and clients. This is because random sampling helps to avoid bias and gives all potential respondents equal chance of selection.

3.5.2 Purposive sampling

According to Amin (2005), purposive sampling is preferred in selecting people holding positions that allow them to be more knowledgeable with issues going in their areas. In that respect therefore, the researcher was able to use purposive sampling for selecting key informants like Accountants, Senior Managers and Credit Managers by using an interview to gather responses from the respondents that may only be got from specific respondents who have a deeper understanding of the organization.

3.6 Sampling;

3.6.1 Sampling design.

The study mainly used a simple random sampling methodology.

3.7 Data collection method.

To obtain data about the research variables, primary and secondary data source used as elaborated below. The researcher applied the use of self-administered questionnaires. Kothari, C. (2014).

Primary: This involved use of first-hand information obtained from the field using interviews and questionnaires. The type of data included social- demographic characteristics of the respondents (age, gender, level of education etc.) and perception of solid waste management.

Secondary: This included the already existing literature about the credit policies and performance of SACCO's. This information is collected from reports, circulars, newspapers, magazines and internet.

3.8 Data Collection Instruments;

3.8.1 Questionnaires Method.

The researcher designed questionnaires basing on the main theme of the study and then administered them to heads of departments as respondents. These were closed ended questionnaires to the respondents. The closed ended questionnaires forms are advantageous in that they are easy to fill and save time and keep respondents on subject and relatively objective. The Likert scale is one of the most widely and successfully used techniques to measure attitudes toward a topic by asking respondents to indicate whether they SA-Strongly Agree, UD-

Undecided/ I don't know, DA-Disagree or SD-Strongly Disagree with each of series of statements about the topic.

3.8.2 Interview.

Interview guides with open-ended questions was prepared basing on the theme of the study and then be administered to the heads of departments like Senior Manager, Credit Manager and other SACCO Members/Clients. The purpose of interviewing was to help the researcher gather information from key informants with knowledge about the SACCO. The interview also helped in soliciting for more in depth first-hand information and opinions from the respondents. Key informants was regarded as individuals who have deeper knowledge regarding the structure and functioning of SACCO. The notion of saturation guided the selection of the total number of key informants who were interviewed (Tirivanhu, *et al.* 2015; Mason, 2010). The stage of saturation was only attained when no more new knowledge was generated from the interviews (Tirivanhu*et al.*, 2015)

3.8.3 Documentary Analysis.

The researcher used secondary data that was available to the public under the company profile and websites. The data can be viewed using the financial statements to see the financial performance of the credit union and after the implementation of the regulatory policies of the SACCO and more information from the management reports, audit reports and available articles under SACCO.

3.8.4 Data processing and Analysis

Data collected was edited and analyzed by using percentages, tables and graphs and simple statistical modules, frequency distribution to assess the effects of Credit policy and performance of SACCO's. Quantitative data analysis was performed in relation to research question. Statistical findings was interpreted in light of the objectives of study and conclusion was made based on the literature review to attach more meaning. This was done to determine the response rate, qualitative and quantitative form of analysis that was administered Field, A. (2005).

3.9 Measurement of variables:

3.9.1 Validity of instruments.

Validity is the efficiency or the degree to which a method, a test or a research tool actually measures what is supposed to be measured. It refers to the accuracy of the research data. For this case, the validity of the questionnaires was tested using the Content Validity Index Test (CVI). (Carole, 2008) This involved item analysis to be carried out by the supervisors and an expert who was knowledgeable about the theme of the study. This process involved examining each item in the questionnaire to establish whether the items brought out were exactly what was expected to be brought out. Item analysis was conducted using the scale that runs from relevant (R), Neutral (N), to irrelevant (I).

$$CVI = \frac{\text{No. of items regarded relevant by judges}}{\text{Total No. of items}}$$

3.9.2 Pre-testing.

In order to ensure and maintain a high level of consistency in this study, the researcher used the following: A questionnaire was pre-tested. An ambiguous question which made clear and irrelevant is to be deleted. The researcher used an accurate question which was open-ended and closed ended questionnaires. The questions set had enough space to give appropriate response.

3.9.3 Reliability of instruments.

Reliability means the degree of consistency of the items, the instruments or the extent to which a test, a method, or a tool gives consistent results across a range of settings or when it was administered to the same group on different occasions. The reliability of research questionnaire is tested for its internal consistency to measure research variables Winterstein (2008).

3.9.4 Data validity.

An introduction letter was obtained from the College of Economics and Management to solicit approval to conduct the study from respective departments in Amoru Village, Serere District. When it's approved the researcher secured a list of the qualified respondents from the SACCO authorities in charge and selected through systematic random sampling from this list to arrive at the minimum sample size Ahamed, R. (2010).

3.10 Ethical considerations.

The principle underlined research ethics were paramount and concern issues such as confidentiality, honesty, integrity, and respect for individual's rights. Welmer, Kruger and Mitchell (2000 to 2001), identifies consent, right of privacy, protection from harm and deception as ethical problems that require serious consideration by the researcher.

Ethical standards in this study were assured, the case study Organization was informed in writing about the objectives of the study and requested to kindly participate. Where the sources of data prefer to withhold their identity, only designations were used in station of their contribution, use of officially published data, voluntary participation of respondents, guaranteeing the confidentiality of the information given by them and reporting study findings basing on the data collected and analyzed using the appropriate techniques. This research is purely Academic and confidential and does not attract for any misuse of the information given to the researcher.

3.11 Limitation of the study:

The researcher found difficulties in accessing the information from the respondents such as;

The respondents resisted in availing the appropriate information that was needed by the researcher and this hindered the researcher from acquiring more appropriate information needed for the study.

The research study was also limited by time as it was noticed that not all respondents were available at the appropriate time of the study.

Some respondents were lazy to provide feedback that was needed in the questionnaires and interview guides leading to a delay in acquiring responses from the respondents of the SACCO.

Most operators of the SACCO were uneducated and this caused the researcher difficulties in order to get valid information from them about the effects of credit policies on the performance of their business/ SACCO.

Also the SACCO leaders were busy attending to their customers/clients and this spared less time for the researcher to get relevant information on time.

The researcher also faced the challenge of financing the research study because of the costs in terms of transport costs, feeding, accommodation and processing of the proposal report. However, various measures was put in place to minimize the problems that emerged in the course of the study in order to reach the goal of this thesis/study. This was done by providing study tools to respondents at the right time, use of a simple language on the respondents to enable them quickly understand and provide appropriate feedback.

CHAPTER FOUR:
DATA PRESENTATION, ANALYSIS AND DISCUSSION.

4.0 Introduction.

This chapter presented the data collected from primary source as well as the analysis, interpretation and discussion of findings, with reference to the study objective and related literature.

4.1 Results and Discussions.

Questionnaire targeted 36 respondents who were employees of Amoru Village Savings and Loan Membership Shares (SACCO) in Kadungulu who work in loans department, accounts department and credit department. The findings were analyzed and interpreted using the information given by the selected respondents in accordance with the objectives of this study.

The analysis was based on the findings from the field in which the respondents expressed their views on the subject matter. Data from questionnaire was analyzed following the questionnaire drafted by the researcher and interpreted to arrive at the meaningful and reliable findings.

The data collected includes the respondents profile presents gender, age, education level, field of the study and working experience of the respondents.

4.2 Gender of the respondents.

The study sought to establish the gender distribution of the respondents and the findings were as follows.

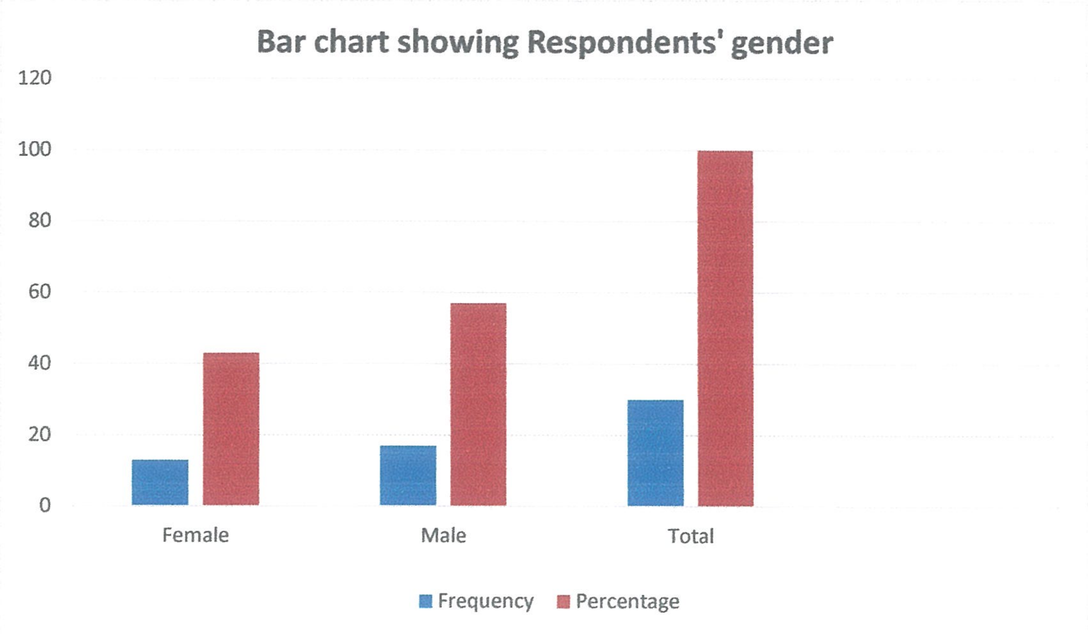
Table 2 showing Gender of the respondents.

Sex	Frequency	Percentage (%)
Male	17	57
Female	13	43
Total	**30**	**100**

Source: Primary Data: 2019

The table above indicates that the number of male was higher than the number of female which represents 57% of the respondents while the female represents 43% respondents. This implied that this research benefited views from male and female at a considerable level.

Figure 2 showing respondents gender



Source: Primary Data: 2019

The figure above shows that the male respondents were more at 57% compared to the females at 43%. The above findings suggested that majority of the workers in the SACCO are male while women are the minority.

4.3 Age of the respondents

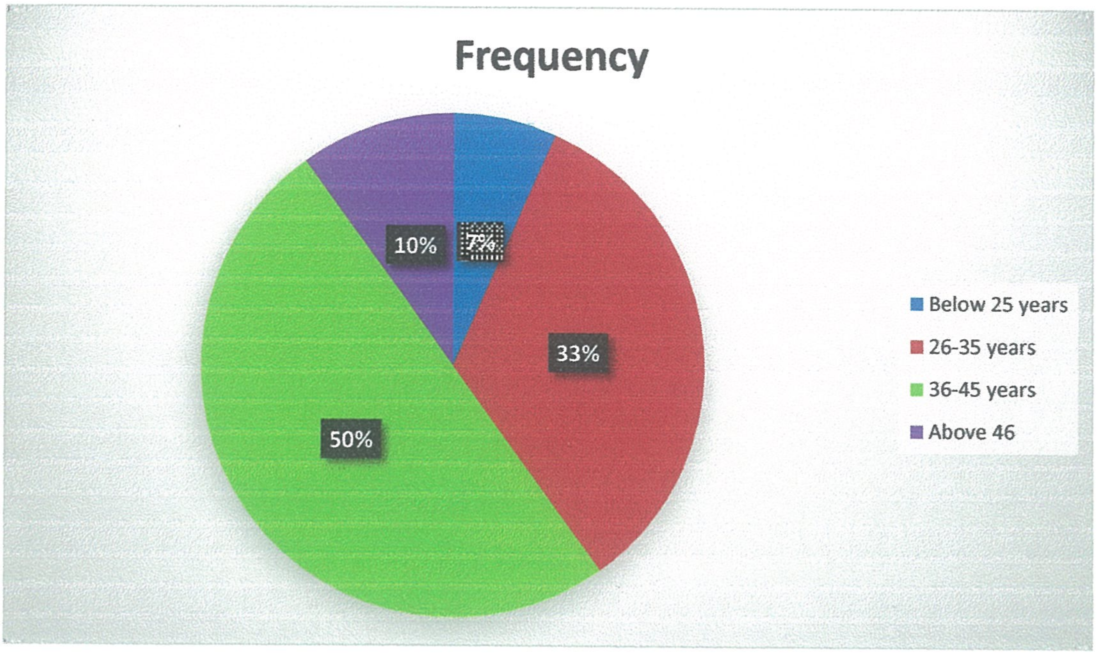
Table 3 showing the age of the respondents.

Age's range	Frequency	Percentage (%)
Below 25 years	2	7
26-35 years	10	33
36-45 years	15	50
Above 46 years	3	10
Total	**30**	**100**

Source: Primary/field Data: 2019

The table above shows the ages of the respondents where 7% of the respondents were below the age of 25 years, 33% of the respondents were in the range of 26-35 years, 50% of the respondents were in the range of 36-45 years, and 10% of the respondents were above 46 years.

Figure 3 ***showing age of the respondents.***



Source: Primary/Field Data: 2019

The figure above showed that majority of the respondents were aged (36-45 years), at 50% while minority were below 25 years, that is, at 7%. This meant that majority of the respondents would give objective information because of their age.

4.4 Educational level of respondents

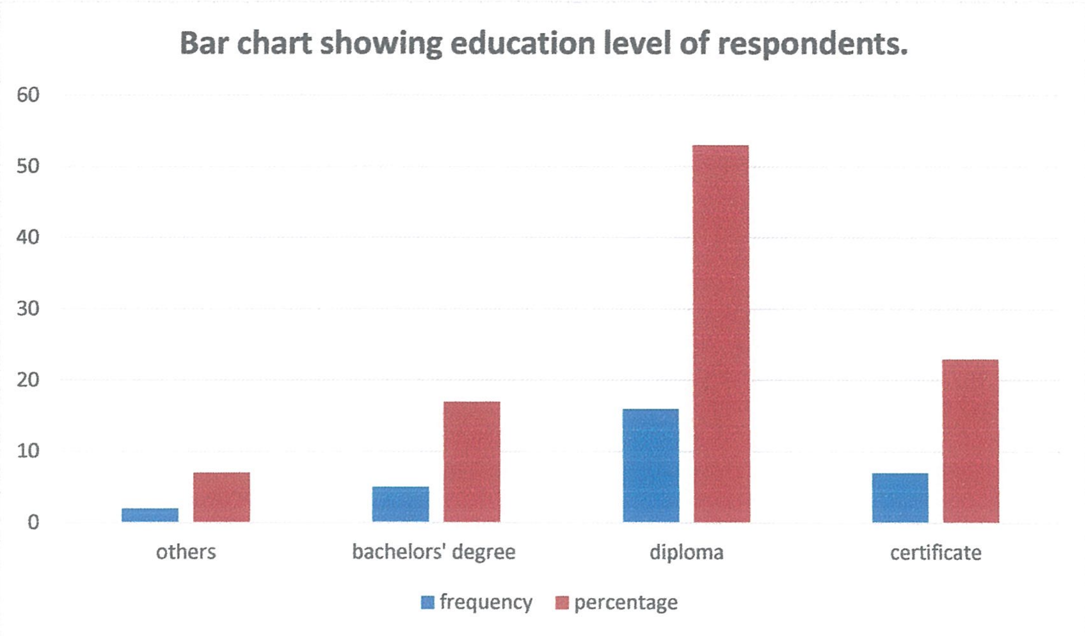
Table 4 ***showing education level of the respondents.***

Educational level	Frequency	Percentage (%)
Others	2	7
Bachelors' Degree	5	17
Diploma	16	53
Certificate	7	23
Total	**30**	**100**

Primary Data: 2019

Table 4.3 above showed that all the respondents approached were educated (Teachers) and of various levels as corresponds to their qualification, the highest number of the respondents were Diploma holders with 53%, followed by certificate holders at 23%, Bachelors' Degree holders at 17% and other qualifications at 7%.

Figure 4 ***Showed education levels of respondents.***



Primary Data: 2019

Figure 4.4 above shows that all the respondents approached were educated and of various levels as corresponds to their qualification, the highest number of the respondents were Diploma holders with 53%, followed by certificate holders at 23%, Bachelors' Degree holders at 17% and other qualifications at 7%.

4.5 Experience of the Respondents

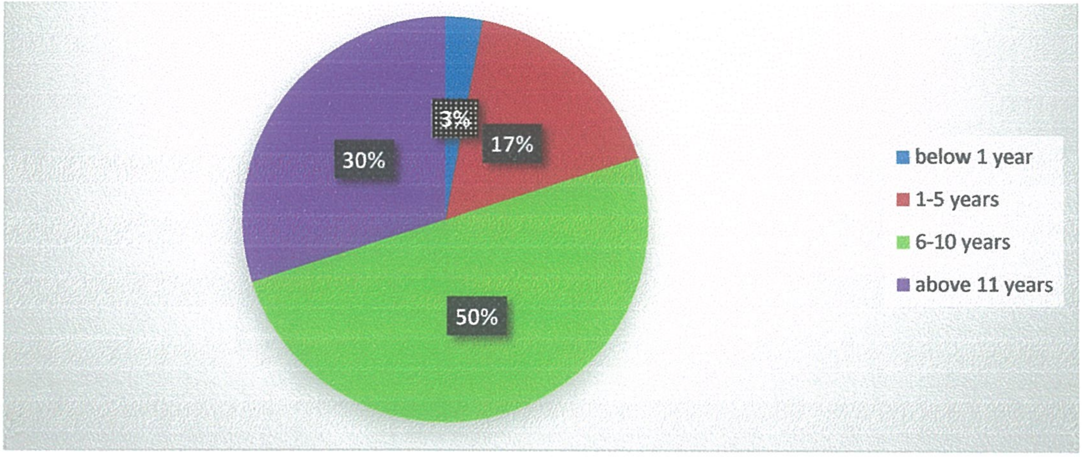
Table 5 ***showing experience of the respondents.***

Experience	**Frequency**	**Percentage (%)**
Below 1year	1	3
1-5 years	5	17
6-10 years	15	50
Above 11 years	9	30
Total	**30**	**100**

Primary Data: 2019

Table 4.5 indicates the working experience of respondents, where by 3% of the respondents had a working experience of not more than 1 year, 17% of the respondents range between 1-5 years of experience, 50% of the respondents have the experience of between 6-10 years, and 30% had a working experience of more than 11 years. This implies that all the respondents had quite enough experience to accomplish their duties in order to improve the effectiveness of interest rates towards SACCO loans. This therefore meant that when the institution has the employees with required experience, there always a view that good yields were earned.

Figure 5 **showed experience of the respondents.**



Primary Data: 2019

The above findings indicate that majority of respondents had working experience of (6-10 years), 15 (50%), while minority were having working experience of (below 1 year), 1 (3%). This showed that the majority of the respondents would give objective information because they have stayed long enough in the Amoru Village Savings and Loan Membership SACCO.

4.6 Credit Policy.

Under credit policy the following have been analyzed as below;

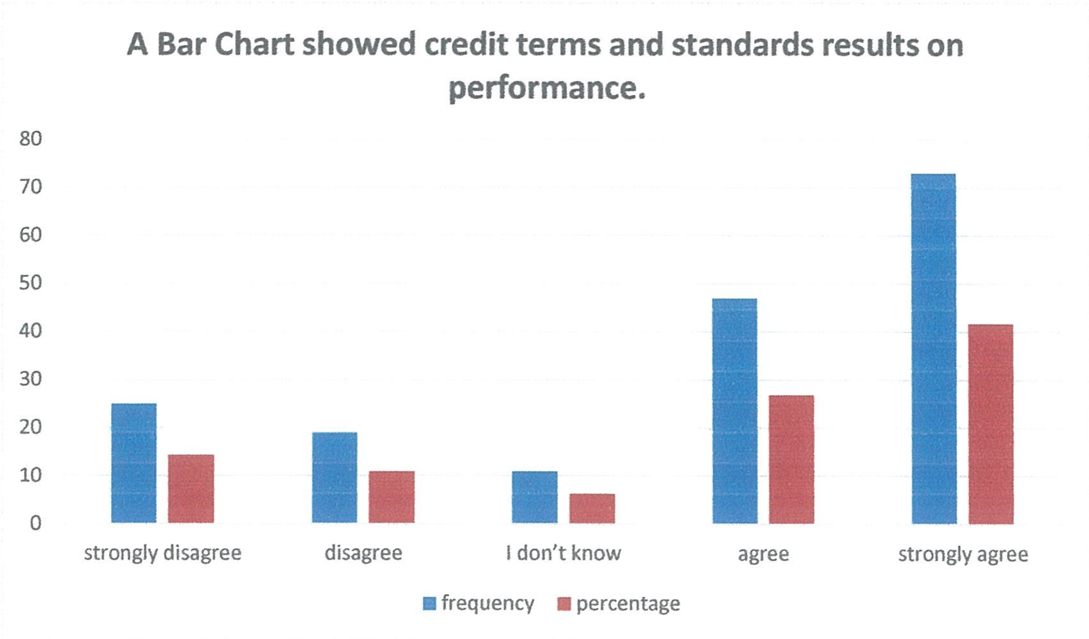
4.6.1 Credit Terms and Standards on Performance of the SACCO.

The study sought for responses on whether performance of Amoru Village Savings and Loan Membership Shares affected by different credit terms and standards.

Table 6 Credit Terms and Standards on Performance of the SACCO.

Category.		Strongly Disagree	Disagree	I don't know	Agree	Strongly Agree	Total
The clients can afford the interest rates charged by this SACCO.	Freq	04	03	02	10	06	**25**
	%	16	12	08	40	24	**100**
The loan repayment period given to this SACCO was convenient.	Freq	02	02	0	05	16	**25**
	%	08	08	0	20	64	**100**
The clients feel collateral required by this SACCO was favorable.	Freq	04	03	01	06	11	**25**
	%	16	12	04	24	44	**100**
The Interest rates paid remain fixed for the whole repayment ɔeriod.	Freq	03	02	02	06	12	**25**
	%	12	08	08	24	48	**100**
Most loans obtained by the ːlients have to be paid back vithin one year.	Freq	04	03	02	06	10	**25**
	%	16	12	08	24	40	**100**
ʼhe clients can acquire a ›igger loan amount as long as ts collateral can be increased.	Freq	05	03	02	07	08	**25**
	%	20	12	08	28	32	**100**
ʼhis SACCO gives incentives ɔ its clients after they have aid back loan in terms of ıcrease in loan amount.	Freq	03	03	02	07	10	**25**
	%	12	12	08	28	40	**100**
ʼotal number of responses	**Freq**	**25**	**19**	**11**	47	73	175
ercentage number of ːsponses	%	**14.3**	**10.9**	**6.3**	**26.9**	**41.7**	**100**

Figure 6 ***Showing Credit Terms and Standards on Performance of the SACCO.***



Source: Primary Data 2019

From the findings above majority of the respondents that's 40% agreed and 24% strongly agreed that the clients can afford the interest rates charged by the SACCO and 16% strongly disagreed while 12% disagreed. This implied that the interest rates charged by the SACCO favored the majority of the respondent hence was considered convenient to the members.

The finding also showed that 64% of the respondents strongly agreed and 20% agreed that the loan repayment period given to this SACCO was convenient while 8% strongly disagreed and disagreed. This implied that the loan repayment period was convenient to the majority of the respondents hence positively affected the performance of the SACCO in line with the credit terms and standards.

The above findings also showed that 44% of the respondents strongly agreed and 24% agreed that collaterals required by the SACCO was favorable while 16% strongly disagreed and 12% agreed. This implied that accessing loans using collaterals security provided by the members were favorable hence access to loans using collateral positively affected the performance of the SACCO.

The findings also showed that 40% of the respondents strongly agreed and 28% agreed that incentives are given to the clients by the SACCO after they have paid back the loans in terms of increase in amount of loan while 12% strongly disagreed and disagreed respectively.

Finally the above findings showed that majority of the respondents strongly agreed that credit terms and standards affected the performance of the SACCO (41.7%), while (6.3%) of the respondents were the minority as they did not have any idea of whether credit terms and standards affect performance of the SACCO.

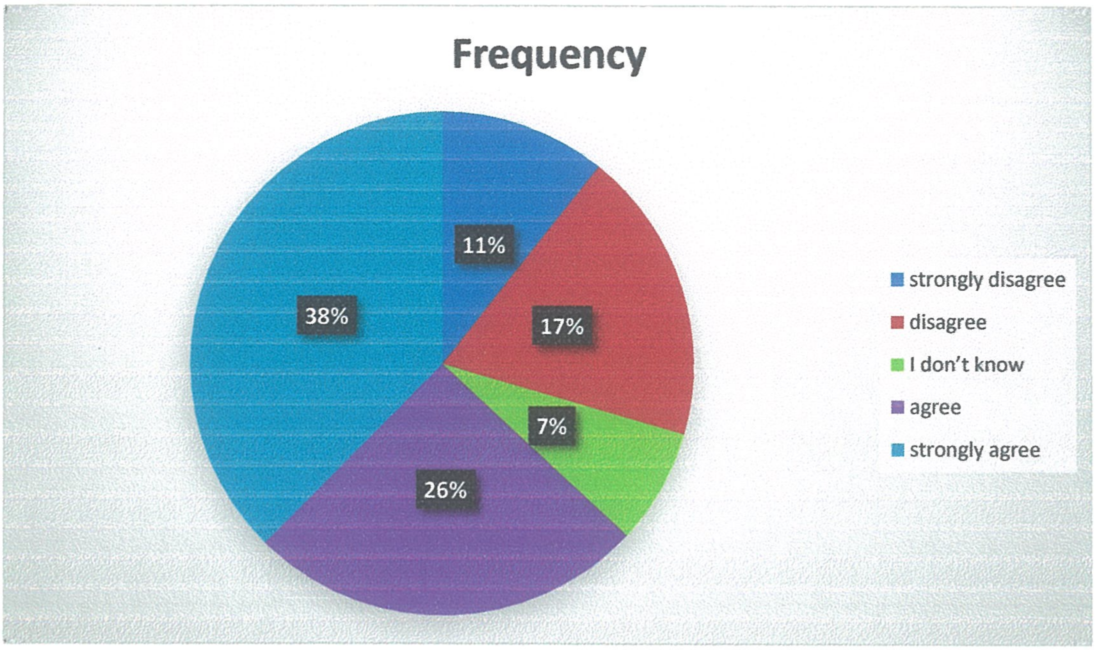
4.6.2 Collection efforts applied.

The study sought for responses on whether performance of Amoru Village Savings and Loan Membership Shares SACCO was affected by different collection efforts applied.

Table 7 Collection efforts applied on performance of SACCO.

Category.		Strongly Disagree	Disagree	I don't know	Agree	Strongly Agree	Total
Member can only get a loan after registering as a full member of the SACCO.	Freq	03	03	02	06	11	**25**
	%	12	12	08	24	44	**100**
There is regular assessment of borrowers operating conditions	Freq	03	08	01	03	10	**25**
	%	12	32	04	12	40	**100**
The credit department always checks the capacity of the borrower during credit review	Freq	02	03	03	07	10	**25**
	%	08	12	12	28	40	**100**
Maximum period of 6 months is given to borrowers to repay their loan	Freq	05	08	02	06	04	**25**
	%	20	32	08	24	16	**100**
The credit department always checks the character of the borrower before giving credit	Freq	01	02	01	07	14	**25**
	%	04	08	04	28	56	**100**
The credit department always checks the collateral of the borrower before giving credit	Freq	02	03	02	10	08	**25**
	%	08	12	08	40	32	**100**
The credit departments confiscate client's collaterals in case you fail to repay back the loan.	Freq	03	03	02	07	10	**25**
	%	12	12	8	28	40	**100**
Total number of responses	**Freq**	**19**	**30**	**13**	**46**	**67**	**175**
Percentage number of responses	**%**	**10.8**	**17.1**	**7.4**	**26.3**	**38.3**	**100**

Figure 7 **Showed Collection effort applied on performance.**



Source: Primary Data 2019

The above findings showed that 44% strongly agreed and 24% agreed that members can only get loan after registering as a full member of the SACCO while 12% strongly disagreed and disagreed respectively on the above statement. This implied that the SACCO could only give out loans to clients with whom they can get it back securely hence positively affected the performance of the SACCO.

The study finding also showed that 40% strongly agreed and 12% agreed that the regular assessment of borrowers operating conditions positively affected the performance of the SACCO while 32% disagreed and 12% strongly disagreed meanwhile 4% didn't know. This implied that credit was given only to borrowers whose conditions showed the ability to pay back the loan.

The findings also showed that 40% of the respondents strongly agreed and 28% agreed that the credit department always checking the capacity of the borrowers during credit review had positively affected the performance of the SACCO while 12% disagreed and 8% strongly disagreed meanwhile 12% didn't know. This implied that loan was given only to borrowers who had the capacity to pay back the loan hence positively affecting the performance of the SACCO.

In the study findings was also found that 16% strongly agreed and 24% agreed that giving maximum period of six months to the borrowers have positively affected the performance of the SACCO while 32% disagreed and 20% strongly disagreed meanwhile 8% didn't know. This implied that borrowers were given maximum grace period to pay back the loans hence positively affected the performance of the SACCO.

The study findings also showed that 56% of the respondents strongly agreed and 28% agreed that checking of the character of borrower before giving the credit had positively affected the performance of the SACCO while 8% disagreed and 4% strongly disagreed meanwhile 4% didn't know. This implied that the character of the borrower was highly taken into consideration before giving out the loan thus positively affecting the performance of the SACCO.

The study also found that 32% of the respondents strongly agreed and 40% agreed that checking the collaterals of the borrower was far most considered before lending out credit and this had positively affected the performance of the SACCO while 12% of the respondents disagreed and 8% strongly disagreed meanwhile 8% of the respondents didn't know. This implied that the loan was only given to potential borrowers with collateral security that the SACCO could sell to recover the loan in case of any default.

The study findings also showed that 40% of the respondents strongly agreed and 28% agreed that confiscation of the clients collateral security in case one fails to repay back the loan positively affected the performance of the SACCO while 12% of the respondents disagreed and Strongly disagreed respectively meanwhile 8% of the respondents didn't know. This implied that the SACCO ability to recover back the borrowed loan through sales of confiscated collateral security positively affected the performance of the SACCO.

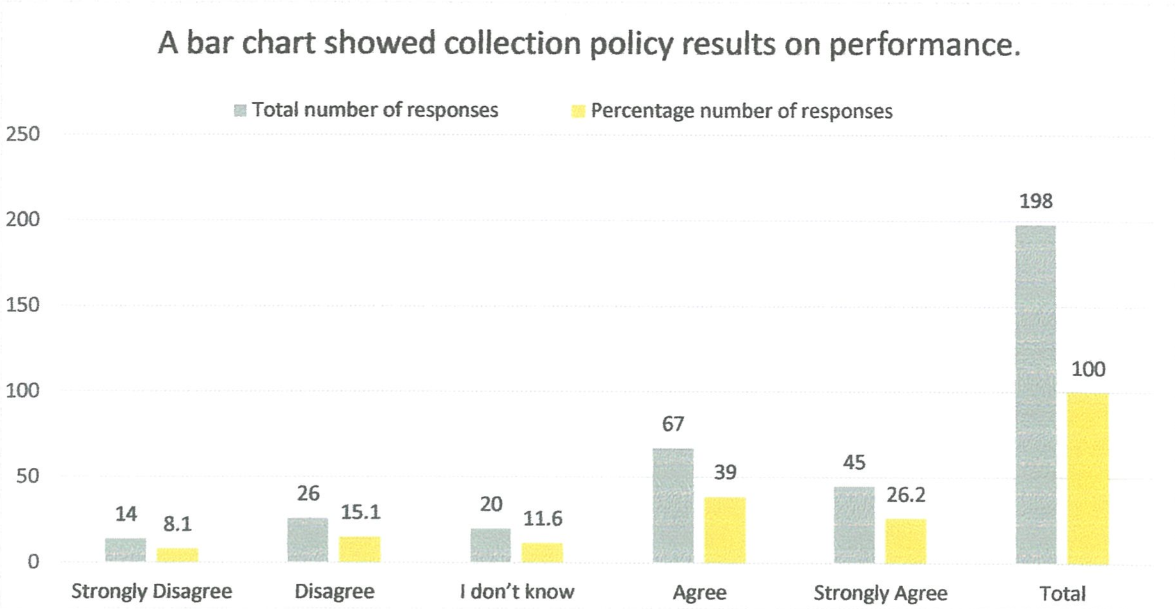
Finally figure 7 above indicated that the majority of the respondents (38%) strongly agreed, 26% agreed, that collection effort applied by the SACCO positively affected the SACCOs performance while 17% disagreed, 11% strongly disagreed to the case in point, while minority of the respondents 7% did not know. This implied that the overall SACCOs collection efforts applied positively affected its performance as observed from the above findings.

4.6.3 Collection policy on performance of the SACCO.

Table 8 Showed collection policy on performance.

ement.		Strongly Disagree	Disagree	I don't know	Agree	Strongly Agree	Total
ilable collection policies have ;ted towards effective credit agement	Freq	02	03	03	10	07	**25**
	%	08	12	12	40	28	**100**
ection policies and procedures y equally to all borrowers rdless of their professional or ıl standing.	Freq	01	03	04	12	05	**25**
	%	04	12	16	48	20	**100**
loans are always subject to .lties after a specified number ıys of delinquency	Freq	02	03	0	10	10	**25**
	%	08	12	0	40	40	**100**
an is always marked for closer .tion, even if not delinquent, if : is reason to believe future ıents may be in doubt.	Freq	03	02	07	07	06	**25**
	%	12	08	28	38	24	**100**
SACCO always Monitors loans are in arrears	Freq	02	04	02	09	08	**25**
	%	08	16	08	36	32	**100**
rcement of guarantee policies ides chances for loan recovery se of loan default	Freq	02	03	01	13	06	**25**
	%	08	12	04	52	24	**100**
SACCO applies Stringent ction policies than lenient ods	Freq	05	08	03	06	03	**25**
	%	20	32	12	24	12	**100**
l number of responses	**Freq**	**14**	**26**	**20**	**67**	**45**	**198**
entage number of responses	**%**	**8.1**	**15.1**	**11.6**	**39.0**	**26.2**	**100**

Figure 8 Showed Collection Policy



Source: Primary Data 2019

The study in the table above showed that 28% of the respondents strongly agreed and 40% agreed that available collection policies assisted toward effective credit management thus had improved the performance of the SACCO while 8% of the respondents strongly disagreed and 12% disagreed whereas 12% didn't know. This implied that the SACCO's collection policies was effective in credit management hence had positively affected its performance.

The findings also showed that 40% of the respondents strongly agreed and 40% agreed that penalties subjected to clients after a specific numbers of days of delinquency had positively affected the performance of the SACCO while 12% disagreed and 8% strongly disagreed. This implied that the borrowers were able to pay back the borrowed loan in time due to avoid penalties thus had positively affected the performance of the SACCO.

The study findings showed that 32% of the respondents strongly agreed and 36% agreed that monitoring of loans in arrears had positively affected the paying back of the loans hence positively affected the performance of the SACCO while 16% of the respondents disagreed and 8% strongly disagreed meanwhile 8% also didn't know. This implied that loans that were in arrears was followed up thus ensured that they were collected back in time hence promoted timely recovery of loans which had positively affected the performance of the SACCO.

The study also showed that 24% of the respondents strongly agreed and 52% agreed that enforcement of guarantee policies provided chances for loan recovery in case of loan default while 12% disagreed and 8% strongly disagreed meanwhile 4% of the respondents didn't know. This implied that loans were only given to potential borrowers with the ability to repay back the loan hence leveraged the SACCO's ability to recover back the loan thus positively affecting the performance of the SACCO.

The study finding also showed that majority of the respondents 32% and 20% disagreed and strongly disagreed respectively on the notion that the SACCO application of stringent collection policies than lenient methods had positively affected the performance of the SACCO while fewer respondents that's to say 12% and 24% respectively strongly agreed and agreed with the statement meanwhile 12% of the respondents didn't know. This implied that application of stringent collection over lenient collection policies had negatively affected the performance of the SACCO hence should not be implemented by the SACCO, therefore the study favored that the SACCO's application of lenient collection policy on borrowers would positively improve its performance.

From the figure 8 above, majority of the respondents 39.0% agreed and 26.2% strongly agreed that collection policy had positively affected the performance of the SACCO while minority (8.1%) strongly disagreed 15.1% disagreed whereas 11.6% did not know. This implied that the SACCO's collection policy was convenient thus had positively affected the performance of the SACCO.

CHAPTER FIVE:
SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction

This chapter entailed the summary of the research study, the conclusions being drawn from the research findings, recommendations and suggestions being put across for the purposes of further research. The summary contains a brief understanding of what was involved in achieving the each of the three objectives and what was gathered from the field. The conclusions embrace the final out comes of the research study.

5.1 Summary of the findings.

5.1 Credit Policy.

Credit policy of Amoru Village SACCO have been summarized as below;

5.1.1 Credit Terms and Standards.

From the study findings, 24% said that the clients can afford the interest rates charged by this SACCO, 64% said that the loan repayment period given to the customers is convenient, 40% said that the SACCO gives incentives to its clients after they have paid back loan in terms of increase in loan amount and 32% agreed that the clients can acquire a bigger loan amount as long as its collateral can be increased. Thus good credit terms and stardards have a positive impact on the performance of the SACCO since the clients were able to borrow funds and paying them back in time. These findings had in agreement with Ntiamoah, Egyiri, Diana Fiaklou, Kwamega (2014) who carried out assessing credit management and loan performance using some selected microfinance in the Greater Accra region of Ghana as a case study. The study found out that there was a high positive correlation between the credit terms and loan performance.

5.1.2 Collection efforts applied on Performance.

The findings of the study showed that 44% responded that members can only get a loan after registering as a full member of the SACCO, 32% said that the credit department always checks the collateral of the borrower before giving credit, 56% said that the credit department always checks the character of the borrower before giving credit. This shows that such good collection efforts applied can save the SACCO from cases like loan defaulting by the clients, 40% said that the credit departments confiscate client's collaterals in case you fail to repay back the loan hence boosting the financial performance of the SACCO. These findings were in agreement with Ojeka (2012) who studied four manufacturing companies in Nigeria. He used annual reports and accounts of selected companies as well as questionnaire. His findings revealed that when a company's collection efforts applied is favorable, liquidity is at a desirable level. He further found that the companies that monitor and regularly review their credit policy and reduce cash discount allowances perform quite well in terms liquidity position and profitability.

5.1.3 Collection Policy on performance.

From the study findings, 28% responded that the available collection policies have assisted towards effective credit management, 12% responded that the SACCO applies stringent collection policies than lenient methods, 24% responded that Enforcement of guarantee policies provides chances for loan recovery in case of loan default, 20% said that collection policies and procedures apply equally to all borrowers regardless of their professional or social standing, 32% responded that the SACCO always monitors loans that are in arrears. This means that the collection policy helps a lot in tracking the loans from the clients and ensuring that the loans are paid back on time. This improves on the performance of Amoru Village SACCO. This finding was in agreement with Gatuhu (2013) who carried out a study to determine the effect of credit management on the financial performance of Microfinance Institutions in Kenya. The study adopted a descriptive survey design. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of MFIs in Kenya. The study established that there was strong relationship between financial performance and client appraisal, credit risk control and collection policy.

5.2 Recommendations

The study made the following research recommendations as below:

5.2.1 In relation to objective one:

The effects of credit terms and standards on performance of SACCO at Kadungulu Sub County in Serere District, the study recommends that the SACCO should maintain its credit terms and standards since the credit terms and stardards are convenient for the members.

5.2.2 In relation to objective two:

The effects of collection efforts applied on performance of SACCO at Kadungulu Sub County in Serere district, the study recommends that the SACCO should apply lenient collection methods so that it does not scare away potential borrowers.

5.2.3 In relation to objective three:

The effects of collection period on performance of SACCO at Kadungulu Sub County in Serere district, the researcher recommends that more grace period should be given to the debtors in case they fail to bring back the borrowed money in time.

The study further recommends the study should be conducted on the impact of SACCO regulatory bodies on non-performing loans in SACCOs.

Finally, the study recommends that a further study should be done to determine the risks that are faced by the SACCO.

5.3 Conclusion

5.3.1 On objective one:

The study concluded that credit terms and standards have some considerable effects on the performance of SACCO in Kadungulu Sub County in Serere district. The study concluded that credit terms and standards such as interest rates, loan repayment period and collateral security required by the SACCO positively affected the performance of Amoru SACCO at Kadungulu Sub County. Therefore the SAACCO needed to maintain its credit terms and standards.

5.3.2 On objective two:

The study concluded that collection efforts applied also affected the performance of the SACCO at Kadungulu Sub county in Serere district and therefore recommends that before giving credit, the SACCO should check the character of the borrower and the collateral security that the borrower have put in place to ensure easy recovery of the loan during collecting it back, all loans should be subjected to penalties after a specific number of days, monitoring of loans in arrears should be done, enforcement of guarantee policies and reviewing collection policies can help to increase chances of recovery in case of any default.

5.3.3. On objective three:

The effects of collection period on performance of the SACCO at Amoru Village, Kadungulu Sub County in Serere district, the study concluded that a maximum of 6 months be given to borrowers to repay their loan and the current loan repayment period be maintained since it was found to be convenient.

The study concluded that credit policy affected the performance of Amoru Village SACCO of Kadungulu Sub-County in Serere District positively as the clients can afford the interest rates charged by this SACCO, the loan repayment period given to by this SACCO was convenient, and the clients feel collateral security required by this SACCO was favorable. The SACCO therefore needs to maintain its credit terms.

Credit terms and standards also influence the financial performance. Maximum period of 6 months given to borrowers to repay their loan, the credit checking the character of the borrower before giving credit, and the collateral security of the borrower before giving credit all have an impact on the performance of the SACCO.

Finally, collection policy influences the performance of the SACCO. This was through the available collection policies assisted towards effective credit management, subjection of all loans to penalties after a specified number of days of delinquency, monitoring of loans that were in arrears, enforcement of guarantee policies hence providing chances for loan recovery in case of loan default, regular reviews on collection policies to improve state of credit management.

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APPENDICES

APPENDIX I: IMPLEMENTATION BUDGET

Budget item/Activity	**Cost Ug. Shs**	**Total cost Ug. Shs**
Proposal development	5,000	
Typing and printing	30,000	
Binding	2,000	
Data collection analysis	5,000	
Transport	135,000	
Typing and printing	10,000	
Dropping and picking questionnaires	10,000	
Communication	2,000	
Flash	20,000	
Internet	10,000	
Completion	5,000	
Printing and binding final copies	46,000	**Total Amount** **280,000**

APPENDIX II: IMPLEMENTATION SCHEDULE

	MARCH	APRIL	MAY	JUNE	JULY
Proposal development					
Submit draft proposal					
Submit final proposal report					
Data collection and analysis					
Submit final report					