

**THE EFFECT OF CREDIT RISK MANAGEMENT STRATEGIES ON LOAN
RECOVERY IN CREDIT COOPERATIVE SOCIETIES SACCOS IN MUKONO
DISTRICT**

JENIPHER ESTHER WOOR

S19B05/820

**A DISSERTATION SUBMITTED TO THE SCHOOL BUSINESS IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR AWARD OF A DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

September, 2024



**UGANDA CHRISTIAN
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DECLARATION

This research project is the copy of my original work and has not been presented by any other person for a bachelor degree in any other university or any award


Sign: Esther Jenipher Date: 29/8/2024

Name: Woor Esther Jenipher

Reg No: S19B05/820

APPROVAL

This research project has been submitted for examination with my approval as the university supervisor

Sign:  Date: 29/8/2024

Mr: KISENYI VINCENT

Dean Of School of Business

Uganda Christian University

ACKNOWLEDGEMENTS

First, I thank to the Almighty God for giving me the knowledge, strength and wisdom to complete through with this research project; this would not have been possible without his approval.

I also thank my supervisor, Mr. Kisenyi Vincent for his support, patience and guidance to ensure that this work was completed correctly on time. I am very grateful for your contributions.

The family members who supported me throughout the process in every possible way, I am and will always remain in debted to you, thank you very much, and to my friends and well-wishers in Mukono district and from everywhere who prayed and supported me, I say a big thank you all.

And to the family of Uganda Christian University, I want to say a big thank you for the opportunity they gave to me to gain this level of quality education that will benefit not only me, but also the people of the Republic of Uganda

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LIST OF ABBREVIATIONS

SACCO	:	Savings Cooperatives
DFID	:	Department For Internal Development
FSDU	:	Financial Sector Deeping Unit
SASSRA	:	Sacco Society Regulatory Authority
ERM	:	Effective Risk Management
ICB	:	International Credit Bank
GB	:	Greenland Bank
TB	:	Trust Bank
EB	:	Europe Bank
RRGS	:	Risk Retention Strategy
WHO	:	World Health Organization

OPERATIONAL DEFINITION OF TERMS

Credit risk Is a principal or loss of a financial reward stemming from a failure to repay a loan or otherwise meet a contractual obligation.

Credit risk management This is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions.

Risk retention A strategy used to mitigate risk when either the cost of sharing a credit risk or transferring it is too high. An example of this would be that the premiums paid to the insurer are higher than the cost of taking the risk itself in the view of the company.

Risk transfer Is the elimination of the credit risk in exchange for consideration given to the company that accepts the risk.

Credit recovery Collection of amounts due. The normally recovery depends on the purpose, time and condition, business running process. Normally loan amount will be recovered on installment basis. The manager can fix installment period on the basis of nature of their business.

Figure 1.1: Relationship between credit risk management strategies and credit recovery

ABSTRACT

The research investigates the effect of credit risk management strategies on credit recovery within the SACCOs in Mukono district. Specifically, it examines the effectiveness of risk avoidance, risk transfer, risk reduction and risk retention strategies in enhancing credit recovery outcomes.

This research uses a descriptive survey as it provides a tool to contextually interpret and understand credit risk management strategies for credit recovery in SACCOs in Mukono district. Descriptive study describes the existing conditions and attitudes using the techniques of observation and interpretation.

In survey research, the researcher selects a simple group of respondents from a population and administers a standardized questionnaire to them. The questionnaire or survey can be a written document that is completed by respondent, an online questionnaire, a face-to-face interview or a telephone interview. The design will include an in depth study of credit risk management and its effect on credit recovery of SACCOs in Mukono district.

The research found out that risk avoidance, risk transfer, risk reduction and risk retention strategies were instrumental in credit recovery processes. SACCOs should fully adopt credit risk management strategies as a means of reducing credit defaults. In particular, the management should consider implementing a framework approach to debt collection.

The study finds that risk avoidance strategy such as stringent client appraisals and avoiding high risk borrowers significantly improve credit recovery by preventing problematic loans from entering the portfolio. Effective risk transfer mechanisms help enhance credit recovery by shifting some of the risks to other parties thus mitigating the financial impact on SACCOs. Implementing robust risk reduction measures like continuous monitoring and updating positive collaterals with improved credit recovery hence minimizing defaults.

The findings suggest that a comprehensive approach incorporating all the four strategies; risk avoidance, risk transfer, risk reduction and risk retention can significantly enhance credit recovery in SACCOs. Implementing a tailored mix of these strategies based on specific SACCO needs and contexts is recommended for optimal credit management

CHAPTER ONE

1:1 Introduction

This chapter discusses introductory part of the study that includes the back ground of the study statement of the problem, research questions of the study, the scope of the study and the definitions of the key terms.

1:2 The Back Ground Of The Study

1:2:1 Cooperative savings and credit organisations

Cooperative Savings and Credit Cooperative Organizations are called financial models or cooperative institutions that play the role of mobilizing the savings from the community members for safe keeping while providing credit to those who consider the concept of the money multiplier (Ndiege et al,2016)

Therefore, savings and credit cooperative organisations (SACCOs) were introduced to the African continent on the Gold Coast in Ghana, in September 1955 by an Irish Canadian Catholic Priest known as Reverend Father John McNulty. He had an idea that organisation like SACCO could make a significant contribution to improving the investment potential of the population Emma and Maghimbi (2009).

1.2:2 Credit recovery.

Loan recovery refers to the process and the rate at which customers repay principal amount plus the interest given to them in form of a loan, it is determined by repayment rate, the quality ratios of the portfolio, the profitability ratios, productivity and efficiency and depth of awareness scale by Mpinga, 2014. Philip (2011), stated that loan recovery rates provides asset performance ratios (the ability to measure the level of financial resource reform) that allow the institution to gauge public trust. Debt collection involves the processes that credit unions use to get their money back from debtors. This may include calling customers, sending reminder letters, contracting with collection agencies and taking legal action. Debt recovery can also refer to the number of loans that were previously made, but that have now been collected.

1.2.3 Credit risk management strategies.

Risk management began after World War 11 and since then there has been rapid global economic growth and technological advancement. This, in turn contributed to large scale changes in the economic structure of organisation that create fierce competition in the organisation market. Due to this nature, organisations, individuals and living beings in general face challenges and continue to face a large number of un certainties (Xiong and Zhou, 2012). Much evidence suggests that the current very high volatility in the business world will worsen in the coming years and decades (Elahi,2013). The trend of the increasing uncertainties and the resulting risks for businesses make risk management strategies very crucial for the survival of any organisation like SACCOs.

According to Chapman and Cooper (2009), risk is the possibility of suffering economic and financial losses or physical damage to property due to the uncertainty inherent in the action taken. Several issues, such as capital adequacy levels in the institutional system, the role of rating agencies in the assets of financial institutions assets are the most controversial. In response to these crises, significant reforms were carried out in the financial regulatory system. However, some problems such as the lack of solvency risk measures and weak incentives to strengthen the risk management system appear as deficiencies (Povali,1993). Risk management strategies provide a structured and consistent approach to identifying, assessing and managing risks. The purpose of risk management strategies is to define minimum requirements and target risk management to meet recovery and policy requirements. On the other hand, risk management is a central part of the vital administration of any business organisation. This is an ongoing procedure that takes place throughout the duration of a project Garrod (2014).

This is the way to reduce the whole audience to avoid or limit the negative impact of the product (Gardner,2015). It is the technique by which SACCOs approach the risk of their work with the desire to achieve success with little wiggle room in each activity and game plan all things considered. The focal point of good risk management, is the distinctive confirmation and appropriate management of these risks. Dorfman 2017 points out that there are types of strategies that are used depending on the risk component that is present.

Risk Avoidance involves looking at various risks that can be eliminated if they do not deserve it. Changes are necessary in an association to avoid risks. Darnall and Preston (2010) argued that it is better to adopt well-understood risk schemes than new ones, without worrying whether the new schemes might be useful and profitable. By doing so, one risk can be avoided and

SACCO missions can be carried out effectively. This way, the system is less irritating for customers. The avoidance of risk involves the modification of the game system to eliminate the risk or the situation that allows it to protect the objectives of the association from its impact. This can be done either by eliminating the source of risk in the organisation or by avoiding certain activities (Mema, 2014)

Risk Transfer is the transfer of liability or the burden of disaster losses to another party through action, protection or other methods. Risk management can play a key role in managing characteristic and moderating or limiting disaster losses. This includes the use of guarantees, catastrophe pools, record based hedges, small-scale hedge plans and general project guarantees for organisational safety nets and disaster reserves Star Brooke (2013).

Risk Reduction. Wisner 2014) characterises risk reduction as the measured elements from possible results to limit the vulnerability and risk to the public, to avoid or limit the negative impact on the products. Risk reduction is methodical way to recognise, assess and reduce disaster risks.

Risk Retention is the decision of an organisation to take responsibility for a particular risk that it faces in terms of trading the risk to an insurance company. Credit unions often take risks when they are convinced that the cost of taking these measures is less than the cost of underwriting all or part of these risks. Many Associations can take risks if the insurance risks premiums against these risks are particularly high (Huizinga and Domingue, 2009)

1.3 Presentation Of The Problem.

Organisation risk management can be a way to protect an organization from disasters that may result from the occurrence of a risk. However, not all organizations have the ability to define a clear risk management plan due to their resources and capabilities. In Uganda, SACCOs engaged in deposit-taking activities are regulated by the SACCO Societies Regulatory Authority (SASRA).

The long-term objective of SACCOs is to be financially stable while, operating in profitably, but a significant number of these institutions, especially in developing countries, suffer losses related to credit risks ranging from reputational risks, reports financial and liquidity.

Risk management strategies help SACCOs reduce their exposure to the various risks and risk situations they may encounter. SACCOs must implement risk management strategies that require an understanding of risk management, which is essential in business. For Fadun 2013,

risk management is an integral part of the decision-making process and effective risk management (ERM) can improve business performance, minimizing the risk of failure.

Loans constitute a large part of credit risks and present between 10 and 15 times the capital of SACCOs in commercial loans. Therefore, there is a need to put in place strong and effective credit risk management strategies for SACCOs in Uganda, which mainly provide medium credit to businesses that cannot afford to provide collateral to obtain loans. Little is known about the studies that have been carried out on the effects of credit risk management strategies on credit recovery in SACCOs. Therefore, the present study aims to fill this gap by identifying the specific determinants of credit risk management strategies that affect the credit recovery of SACCOs in Uganda, with a view to recommending measures against each of the cause identified causes to help cooperative managers.

Several studies have been conducted on risk management in SACCOs, but most, if not all, focus on a single aspect of risk, while risk management involves a combination of different risk situations such as a wallet. In their studies, Lagat, Muga and Otoya 2013, found that credit risk management was a very important aspect in SACCO loan portfolio management. Wets etc. 2013, also found that effective credit risk management practices include procedures and strategies to understand risk and manage risk which contribute to the sustainable capabilities of SACCOs.

1.4 Objectives Of The Study

- I. To examine the credit risk management strategies used by the SACCOs on credit recovery in Mukono District
- II. To determine the factors that affect credit recovery in SACCOs in Mukono District.
- III. To establish the relationship between credit risk management strategies and credit recovery in SACCOs in Mukono District.
- IV. To identify the challenges and barriers in credit recovery in SACCOs in Mukono district.

1.5 Research Questions

The study will address the following questions;

- I. What are the credit risk management strategies used by the SACCOs on credit recovery in Mukono district?

- II. What are the factors that affect credit recovery performance of SACCOs in Mukono District?
- III. What is the relationship between credit risk management strategies and credit recovery in SACCOs in Mukono Central District?
- IV. What are the challenges and barriers in credit recovery in SACCOs in Mukono district?

1.6 The Purpose Of The Study

The purpose of the study is to examine the credit risk management strategies used by SACCOs on credit recovery in Mukono district.

1.7 The Scope Of The Study

The subject scope.

The subject scope of this study is the effects of credit risk management strategies on credit recovery in SACCOs in Mukono District.

The geographical scope

The geographical scope of this study will cover SACCO in areas in Mukono District areas with a total area of 2986.47sqkm located in the central Region of Uganda, sharing borders with the Buikwe district to the east, Kayunga along the sezibwa river in the north, Luwero in the northwest, Kampala and Wakiso in th southwest, Tanzania, Lake Victoria in the south with the islands of Ruvuma district. Indeed, since Mukono is an industrial area, most SACCOs constitute a good representative sample of other SACCOs that face the same challenge in terms of credit risk recovery. This framework was considered sufficient and adequate to examine the research objectives. The list of SACCOs to be considered were documented in the appendix.

1.8 Important Of The Study.

The management of SACCOs will use the results of this study as a source of information on the effectiveness of the debt recovery strategies in Mukono district. The results of this study will help managers to formulate appropriate debt recovery measures in the short term and to reduce the amount of debts in the long term.

The policy makers

SACCO policy makers should use the results of this study to formulate policies and risk management strategies regarding the type of loan amount, requirements of borrower and processes to obtain credit recovery in SACCO of Mukono.

Researcher and scholars

The researcher and scholars will also benefit from this research finding on the factors that determine the effectiveness of debts collection strategies of lending institutions. The information is part of the established knowledge in the field of strategic management and allows future researchers to propose more research areas.

1.9 Conceptual Frameworks

This is a schematic representation that describes the relationship between the independent and dependent variables. The conceptual framework for this study is adopted by Aps (1996). This schematic representation shows the relationship in the SACCO. The independent variables include risk version, risk transfer, risk reduction and risk retention strategies that affect the dependent variable which is credit recovery.

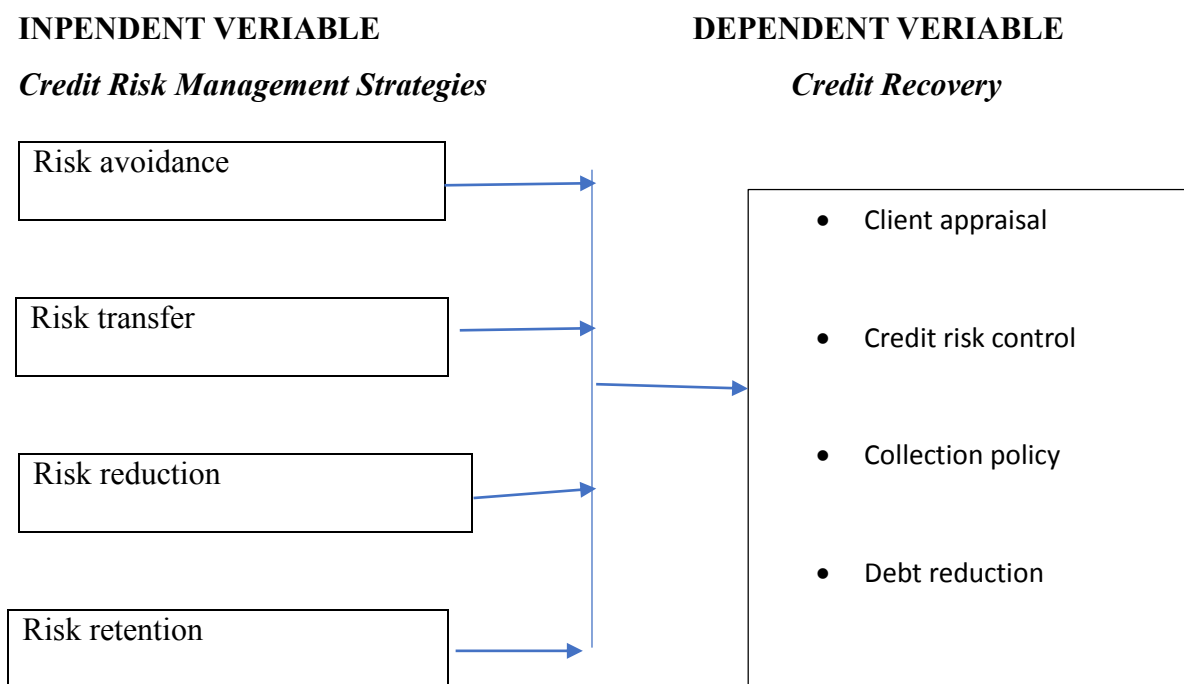


Figure1.1: The relationship between credit risk management strategies and credit recovery.

Source: Adopted from Aps (1996).

11. Conclusion

In conclusion, this chapter explores how credit risk management strategies like risk transfer strategy, risk avoidance strategy, risk reduction strategy and risk retention strategy are reform the credit recovery in SACCOs by the loan committees.

CHAPTER TWO

2.1. Theoretical Framework

Theoretical review covering various theories like risk theory, symmetric information theory, portfolio theory and value at risk theory

2.1.1 Credit risk theory

The theory was created by Robert Merton in 1974 and then advanced and adopted by Black and Scholes with an identical model. In banking language, credit refers to the advances and loans given to borrowers by the intermediaries. Credit risk means the vulnerability to accidental loss or damage. Risk is the element of uncertainty or probability of loss that exists in any business transaction (Kisivuli,2013). Credit risk is the risk that a creditor will not be able to fulfill its obligations according to the established terms. Credit risk theory is a concept that guides the lenders in risk modeling and mitigation. It emphasizes the identification, measurement, monitoring and evaluation of risks (Costitato di Supervione Bancaria di BASILEA, 2000)

The theory credit risk describes the risks created as the final result of default risk. Credit risk has an impact or a negative effect on order risks; an institution that suffers from credit risk is exposed to liquidity risk when it will not be able to lend to other debtors; On the other hand , the credit risk will attract the legal risk since there will be of litigation and this can put the institution in an operational risk since the litigation can take time, resources, market and strategic risks that will arise in place because the loan institution will operate as a duty and only help can save its situation, therefore, the institution will suffer from the reputational risks because it suffers from that lack of trust of the public that are borrowers and this cripples the operations of the economic entity (Maaka, 2013)

Since the risk of credit has existed for decades, it is a problem that been studied intensively in the financially in the financial field, but very little has evolved, especially in the financially field in the financial assets of institutions that are owned by the state, the public thinks that the amount lent by the government. They are their funds from the taxes paid. This has greatly affected credit recovery to a great extent. The introduction of risk reduction portfolio theory has been prioritized by many people who evaluate returns and risks.

Credit institutions make considerable efforts to diversify their portfolios with different investment plans to protect themselves from the risk of default (Klimczak,2005) Credit risk theory is important in the study because it helps to reveal the credit risk control measures used by SACCO managers in Mukono district to profile risk factors in their operations. This theory focuses on variable credit risk control measures in this study because it helps to recognize the need for management to have a guide to identify, measure, evaluate, monitor and report credit risks.

2.1.2 Value at risk theory

The mathematics of value at risk was developed mainly primarily in the context of portfolio theory by Harry Markowitz. In particular, a focus on market risks and the effects of movements in those risks is central to how value at risk is calculated. The first regulatory actions to address the risk, however, were initiated in 1980, when the Securities and Exchange Commission linked the capital requirements of financial services companies to the issues that had be 95 percent confidence issuances over a 30 year interval. Years historical returns are used to calculate these potential losses Manganelli and Engle (2001)

This is a technique used to measure the probability of portfolio losses based on the statistical analysis of historical price trends and fluctuations. Value at risk is able to measure risk while it is happening and is an important condition when companies make decisions about the trend Manganelli and Engle (2001). According to Jorion (2001), value at risk measures the worst expected loss over a given horizon under normal market conditions at a level confidence. Bohman (2008), risk avoidance strategy involves reviewing the well-documented credit risk management policy of financial institutions that develop products. Liuksila (1996), observed that the problem often begins at the stage of loan application and is aggravated during loan approval, monitoring and control when credit risk management guidelines of credit for the loan process are weak or incomplete.

The theory examines the value of portfolio assets subject to credit risk and the time period over which the credit risk is subject. Furthermore, the theory is consistent with the goal of risk aversion. It specifies the mechanisms that SACCO managers in Mukono district should put in place to avoid credit risks in the environment in which they operate.

2.1.3 Portfolio theory

Modern portfolio theory (MPT) was introduced by Harry Markowitz in 1952 and later became portfolio theory because there was nothing modern about it. According to Harry Markowitz

(1952), the theory allows investors to measure the expected risks and returns, as given statistically, for their investment portfolios. Scheuflur (2002), noted that MPT information on default risk has stagnated over the years, as default risk remains the biggest risk for many financial institutions.

The theory suggests that risk-averse investors can construct portfolios to optimize or maximize the expected return given a level of market risk, emphasizing that the risk is an integral part of a higher reward. In 1952, the Nobel Prize winner Harry Markowitz, then a young doctoral student in operations research at the University of Chicago, demonstrated mathematically why putting all your eggs in one basket is an unacceptably risky strategy and that Diversification is the most profitable strategy for an investor or business manager Bornstein manager (1996).

Rubinstein (2002), developed the idea that diversification is the best way to see risk and then apply this idea to stock analysis. He showed how the variance of a portfolio is mathematically related to the variance of other stocks and where there is a trade-off between the expected return of a portfolio and its risk (Eastham and Skidmore ,1993). This theory suggests that the best way to reduce credit risk is portfolio diversification, which and this means transferring the risk of an asset and dividing it between several assets in the portfolio. The theory in this study explains the objective of the effects of risk transfer strategy on credit recovery in Mukono district, as the theory examines the reduction of credit risk through the diversification of the portfolio assets. The theory is also related to the second objective of credit transfer where all the credit risks are not localized but spread in different portfolios, with others unable to default.

2.1.4 Credit control policy.

Mwisho, 2001 indicated that credit cooperatives must have a written credit policy approved by the board of directors of the financial institution. The Board should review the policy on an annual basis and revise it as necessary. The loan policy should should include the policy objectives, eligibility requirements for obtaining a loan, permitted loan objects, type of acceptable collateral limits, interest rates, terms, payment frequency, the maximum loan amount, maximum amount of loan as a percentage of the collateral values, loan concentration of members, restrictions on employees and officers, loan approval requirements, monetary terms of loan limits, loan documentation requirements and loan cosigners must also developed loans. In addition to the loan policy, credit unions must also develop loan procedures that are developed by the operational management team, which is responsible for updating them and ensuring that they are representative of current loan practices.

Credit concentration limits are one of the essential elements of credit policy. Credit unions may not lend to a member or related party if such lending would cause that member or group of related parties to represent 10% of the total assets or 25% of the unions institutional credit of the credit union. For the purposes of this regulation, related parties are those that rely on the same source of income, such as a family business. Public servants or their families will not directly or indirectly receive any commission, tax or other compensation in connection with loans made to any member. The second essential element of the credit policy is the limitation of loans to employees, officials and their immediate families.

2.1.5 A symmetric information theory

The problem of the information economics and the particular question of information symmetry were discussed for some time before the decisive discoveries by Akerlof, Spence and Stiglitz in the 1970s Barklay (2002). Information asymmetry refers to a situation in which business owners or manager know more about the prospects to respond to the risks that the businesses are in front of the lenders. Eppy (2005) describes a situation in which not all parties involved in a business know the relevant information.

In a debt market, information a symmetric occurs when a borrower who receives a loan generally has better information about the risks and potential returns associated with investment projects for which the funds are intended. The lender, in turn, does not have enough information about the loan Edwards and Turnbull (1994). Binks and Ennew (1997), point out that the perceived information symmetry presents two problems for banks, moral hazard (supervision of entrepreneurial behaviour) and negative selection (errors in lending decisions).

This theory supports the objective of studying the effect of risk retention strategy on credit recovery within Mukono district. The risk containment strategy can only be effective if the management of the SACCO has the right information in which to base its decisions. Information on credit management strategies especially risk retention, requires extensive evaluation and diligence.

2.2. Literature Review Introduction

In this chapter, the researcher presents reviews of submissions by several researchers related to the problem studied, in line with a theoretical review that covers different theories such as risk, the theory of symmetric information, the portfolio theory and theory of value at risk.

2.2.1 Literature review for objective one

Credit risk management strategies play a very important role in the recovery process of credit risk in COA, as presented by many researchers in relation to the conceptual framework.

The risk avoidance strategy is designed to avoid as many threats as possible to avoid the costly and devastating consequences of a harmful event. A risk avoidance methodology attempts to minimize vulnerabilities that may pose a threat. Risk avoidance and mitigation can be achieved through policies and procedures, training, education and technology implementation.

According to Bohman (2008), the risk avoidance strategy includes the review of financial initiatives, a well-researched credit risk management policy that develops the products offered and all activities play an important role in the management of the credit risk. A well-organized institution, a credit manual that documents and develops credit risk strategies, is also the part of an effective credit risk management and must formulate compliance with the institution's credit policy. Credit extension strategies also focus on who, what and when to do at the branch and division levels of the company when evaluating loans. Quantitative credit rating models should be part of the approach credit risk management methodology used as quantitative research method. Gatuhu (2013) noted that credit recovery is the means by which SACCOs achieve financial sustainability.

The concept of risk transfer strategy concept is risk management strategy in which an insurable risk is transferred to another party through an insurance policy. The transfer of risk for insurance means a guarantee.

Risk transfer includes mechanisms such as insurance or securitization to mitigate the credit risks of Saccos aimed at protecting against default losses and facilitating smoother credit recovery processes. Saccos use insurance products to transfer credit risks to third party insurers, thereby protecting their loan portfolios from default (Oloo, P., and Kibera, F.N. 2016). Loan insurance allows SACCOs to transfer credit risks to investors to provide liquidity and reduce exposure to defaults risks (Ndung'u 2018). Effective utilization risk transfer strategy improves the SACCOs ability to recover loans and maintain financial stability (Oloo and Kibera, 2016) On the other hand, the risk transfer strategy in SACCOs can also be limited by the costs associated with insurance and premiums securitization fees (Muthoni and Gathogo,2019) and the regulatory requirements and market conditions influences the feasibility and effectiveness of risk transfer strategy in the SACCOs (Ogolo and Kitindi, 2020)

However, Brown bridge (2002), on the concept of crisis of financial institutions and the restoration of credit in Uganda; The statement of the problem for the study is that may some financial institutions that failed in Uganda between 1998 and 2005 due to non-performing loan for example the International Credit Bank (ICB), Greenland Bank (GB), Trust Bank (TB) Euro Bank(EB), among others with 12.1% of deposit in the Ugandan banking systems.

Risk reduction strategy in the SACCO aims to proactively mitigate credit risks through measures such as diversification, collateral and credit rating systems.

These strategies are essential to improve loan recovery rates and ensure financial stability. (Gitonga and Munene, 2017). Effective use of credit scoring systems helps SACCOs accurately assess the creditworthiness of the borrowers there by reducing default risks and improving loan recovery rates. (Gitonga and Munene, 2017). However, SACCOs face challenges in implementing effective risk reduction strategies due to different levels of collateral (Karanja and Gitau, 2020) and then balancing risk reduction with the need to serve target populations and promoting financial inclusion presents operational challenges for SACCOs (Njeru and Kariuki, 2021).

In addition, it requires careful planning and commitment from all stakeholders. It is encouraging to note that it is possible to minimize risk losses through a careful portfolio and cash flow management, building a strong institutional infrastructure with qualified human resources capable of instilling customer discipline, through a coordination effective of the parties interested in improving the effectiveness of the union.

Risk retention implies SACCOs absorb or self-insure against credit risks by creating internal reserves or provisions to cover potential credit losses, thus ensuring financial stability and facilitating rapid credit recovery (Kariuki and Koskei, 2017).

The risk retention strategy concept is an alternative risk transfer entity created by the Federal Liability Risk Retention Act (RRG) that must be incorporated as a liability insurance company under the laws of at least one state, the constitution state. RRG insureds are owners and membership should be limited to organizations or individuals to engaged in similar activities, with exposure to the same type of insurance companies.

Macaulay (1988), on the survey concept of studying the adoption of the best practices in credit management in the United States, stated that more than 90% of the financial institutions in this country have adopted the best practices. Effective credit risk management has gained

importance in recent years, especially as inadequate credit risk policies continue to be a major source of serious problems in the industry. The main objective of an effective credit risk management policy should be to examine the repayment of the risk of the financial sector that maintains the credit portfolio, as well as the risk in individual credit transactions.

Sanderson (2011), conducted a study on the environmental requirements for credit, profitable operations without waste; As an important part of this process, risk managers seek to reduce the economic impact of risk on their organisations by choosing higher levels of risk retention. The analysis will help you decide how much risk you are able to retain which would be carried out through the risk assessment models Amato et al. (2007). The work of Gordy's (2007), shows that knowledge of the appropriate level of risk retention strategy promotes financial efficiency.

Effective use of risk retention strategies improves the ability of SACCOs recover loan and maintain financial viability by reducing reliance on external risk mitigation mechanisms. Therefore, the impact on overall financial performance and member satisfaction requires careful monitoring and adjustment of risk retention strategies based on SACCO objectives. However, the implementation of risk retention requires SACCOs to maintain sufficient capital reserves, which can be difficult given resource constraints and regulatory requirements Kihoro and Gakure, (2020)

In conclusion, the literature highlights the importance of credit risk management strategies to improve debt recovery processes. While these strategies can strengthen the internal risk management capabilities and improve financial sustainability, SACCOs must face challenges related to capital adequacy, liquidity management and regulatory compliance to effectively implement and use these strategies effectively. Future research could explore innovation approaches and best practices in the optimization of credit risk management strategies adopted to the specific needs and operational contexts of SACCOs.

2.2.2 The objective of literature review two

Credit recovery refers to the process and the rate at which customers repay the principal amount plus the interest given to them in the form of credit, determined by the repayment rate, portfolio quality ratios, profitability ratios, productivity, efficiency ratios and the depth of credit knowledge from Mpinga, 2014. Credit recovery can be affected by several factors. On the nature of SACCO as presented below by some researchers.

Technological advances: The adoption of advanced models of credit assessment and digital platforms improves the management of the credit portfolio (GOK, 2019) therefore technology

facilitates on timely monitoring of repayment and reduce operational costs. (Karau and Muchai, 2020)

Risk management practices: Effective risk assessment and mitigation strategies minimize defects. Ochara and Onyema, (2021) Therefore, a diversified loan portfolio spreads risks and improves loan recovery Kathomi and Wanjau, (2018).

Economic conditions and financial performance: Economic recessions can have a significant impact on loan recovery rates SACCOs operating in stable economic environments tend to experience lower default rates. (Ndirangu, 2015)

Regulatory environment: changes in the regulatory framework affect loan recovery processes and borrower behavior (Muhammad and Ismail, 2018). Thus, the effective regulatory supervision improves borrowers understanding of their loan obligations Kasyoka and Muturi, (2019). As pandemics affect repayment capacity (WHO,2020) and cultural attitudes towards debt repayment behavior Nyamori and Ongus, (2016).

A strong governance structure ensures a transparent decision making Makau and Onsomu, (2017) Therefore, the leadership integrity promotes member trust and loan repayment. Muriithi and Oduor, (2018).

Effective legal frameworks support credit recovery efforts (CBK, 2021) and enforcement of legal contracts affect credit compliance Kamau and Otieno, (2020). The interaction between economic, regulatory, technological, social and governmental factors in determining the credit recovery performance of SACCOs.

2.2.3 Literature third objective

Credit risk management strategies play a crucial role in SACCO operations especially in credit recovery processes such as customer assessment, risk control of credit, recovery policy and debt reduction. The relationships between credit risk management strategies and credit recovery strategies link each strategy to each process as below.

The risk avoidance strategy involves the complete avoidance of activities or clients with high credit risk profile. Therefore, this is related to the processes of evaluating customers by identifying potentially risky loan and avoiding loans. By doing so, they minimize the likelihood of defaults and the of credit recovery efforts and default. (According to the World Bank ,2020) and Merton, (1977)

Transfer strategy. This involves transferring the risk of default to another party, usually through mechanisms such as insurance or guarantee. Therefore, SACCOs can transfer credit risk through insurance products that can mitigate losses in the case of default and contribute to foster recovery efforts. (Risk Management Association, 2012) and Mishkin, (2001)

Risk reduction strategy. It involves taking measures to reduce the likelihood or impact of credit risk. SACCOs apply rigorous measures such as setting an appropriate credit limit, conducting regular credit reviews and seeking guarantees to reduce the risk of default. Depending on the risk reduction strategies, they aim to reduce the probability of a risk event or minimize the impact if it occurs. (Investopedia, 2023) and (Merton and Bodie, 1995)

Risk strategy. This implies the acceptance of risk and the assumption of potential losses internally. SACCOs retain certain credit risks when they do not transfer or avoid them, which require strong collection policies and debt reduction strategies to effectively manage and recover defaults. (Financial Stability Board, 2022) and Niehaus, (1997)

Summary of relationship

- Customer assessment is related to risk aversion because it helps to identify and avoid high credit risk customers.
- Credit risk control strategies often involve elements of risk transfer such as obtaining collateral or guarantees to mitigate potential losses.
- Collection policy is a manifestation of risk reduction providing structured processes to recover loan and reduce the impact of default.
- Debt reduction directly addresses risk retention by reducing their financial exposure through effective recovery strategies.

In conclusion, these credit risk management strategies are intertwined with the processes of customer assessment, credit risk control, collection policy and debt reduction in SACCOs. Each strategy dictates how SACCOs approach risk assessment, mitigation and recovery, thereby influencing their overall financial health and sustainability in serving their members effectively.

2.2.4 Literature review of objective four.

The processes credit recovery in SACCOs are faced by numbers of challenges and barriers depending on the nature of SACCO setups as follows.

Economic factors: According to studies by Buriru and Roaheman (2014), economic conditions significantly impact credit recovery in SACCOs. In times of economic downturns, recovery rates tend to decrease due to higher default rates among borrowers.

Lack of credit information: According to Mbwayo (2017), one major challenge is the absence of comprehensive credit information about borrowers, making it difficult for SACCOs to assess creditworthiness and recover loans effectively.

Weak legal framework: Muriuki (2019) argues that inadequate legal frameworks and enforcement mechanisms hinder SACCOs from efficiently pursuing defaulters through legal channels, thereby limiting their ability to recover loans.

Poor risk management practices: SACCOs may struggle with insufficient risk management practices, including inadequate loan appraisal, monitoring, and mitigation strategies, which contribute to higher default rates (Ndemo, 2018).

Economic instability: Economic fluctuations and market uncertainties can impact borrower's income stability and their ability to repay credits, thereby increasing default rates and complicating credit recovery efforts (Mwenda, 2016).

Social and cultural factors: Social norms, cultural attitudes towards debt, and community pressures can influence borrower's behaviour towards credit repayment, affecting SACCOs' recovery efforts. (Mwangi, 2020)

Technological limitations: Limited adoption of digital tools for credit management and communication can hinder SACCOs' efficiency in tracking credits and communicating with borrowers, thus delaying or complicating the recovery process (Nyaga, 2011)

Technological innovations: Recent studies such as by Gichunge and Mutwiri, (2020) suggest that technological innovations like mobile banking and digital lending platforms have improved credit recovery rates by facilitating easier loan management and repayment tracking.

Limited capacity and resources: Some SACCOs may lack the necessary financial resources, infrastructure, or skilled personnel to implement effective credit recovery strategies. This resource constraint can hinder their ability to cover credits efficiently. According to Laeven and Majnoni (2003).

Member engagement and education: as discussed by Karugia et al. (2018), member engagement and financial literacy programs positively influence credit recovery rates.

Educated members are more likely to understand loan terms and repayment schedules, reducing defaults.

Inadequate credit assessment and monitoring: SACCOs may face challenges in conducting through credit assessments and ongoing monitoring of borrowers' financial situations. According to Berger and Udell (2006), insufficient monitoring can lead to delayed detection of credit deterioration and hinder timely intervention in credit recovery.

Legal and regulatory complexities: Legal and regulatory frameworks governing credit recovery processes can vary widely across jurisdictions, impacting SACCOs' ability to efficiently recover loans. Demirci-Kunt and Detragiache (1998) hence navigating these complexities can increase costs and time involved in recovering defaulted credits.

In conclusion, the credit risk recovery in SACCOs is faced with combination of challenges of economic conditions, governance practices, member education, legal frameworks including technological advancements as evidenced by scholars' researches.

2.3 Credit Recovery Concept

2.3.1 Client appraisal

The assessment carried out by borrowers that determines the possibility that a borrower will not be able to meet their debt obligations. Credit institutions also take into account the amount of available assets and the amount of liabilities to determine the probability of a customer default.

2.3.2 Credit control

The risk of credit control is more simply defined as and the potential that a lender or a banking party fails to meet the obligations in accordance with the agreed terms. The objective of credit risk control management is to maximize the SACCO's repayment rate, keeping credit exposure within of acceptable parameters.

2.3.2 Collection policy

The step that financial institutions follow in ensuring timely payment of its accounts receivables. This could a friendly phone call to make sure payments are made on time, followed by a firm phone call when a payment is late, followed by a threatening letter, and finally returning the customer over to a collection agency. Companies may deviate from their standard collection policy for long standard or otherwise trusted customers.

2.3.3 Debt reduction

This is the process of reducing or eliminating the amount of debt owed to an individual, an organisation or an economic entity. These are strategies and measures taken to reduce the overall burden of debt, improve financial stability and reduce risks associated with debt. These include paying off debt, reducing interest costs, budgeting and financial planning, debt consolidation, negotiating with creditors, seeking professional help to improve your credit scoring.

2.4 Emergging Gaps In The Literature

Limited empirical studies focus on the effectiveness of specific credit risk management strategies like risk aversion, risk transfer, risk reduction and risk retention affect loan recovery in Saccos compared to other financial institutions.

Limited studies explore how SACCOs integrate different risk management strategies (avoidance, transfer, reduction and retention) into a coherent framework and their combined effects on loan recovery

Limited research on how the behavior and characteristics of credit risk management strategies and credit recovery processes.

2.5 Conclusion

This chapter presents the views of the different literature of different researchers on the topic of the study including the theoretical concept and clearly explains how different credit risk management strategies, which are the independent variables contribute to the recovery of credit in SACCOs. This study also examined the concepts of credit recovery including customer evaluation, credit risk control and collection policy, which are the dependent variables of the study. Since exposure to credit risk is the biggest problem facing financial institutions' worldwide, credit unions and their supervisors should be able to learn useful lessons from the past experiences. Now they must be fully aware of the need to identify, measure, monitor and control credit risk, as well as to determine if they have enough capital to face these risks and if they are well compensated for the risks caused.

CHAPTER THREE

3.0 Research Methodology And Design Introduction.

This chapter discusses the study design. The population, sample size and procedures are then discussed. Research processes are also covered. A pre-test method was examined and finally, the data collection and analysis methods were used.

3.1 Research Design

According to Mugenda and Mugenda (1999), the research design is the outline plan or scheme that will be used to generate answers to the problem. This is the structure and plan of the investigation. The study will use a descriptive survey as it provides a tool to contextually interpret and understand credit risk management strategies for credit recovery in SACCOs in Mukono district. According to Cooper and Schindler (2003) descriptive research describes the existing conditions and attitudes using observation and interpretation techniques.

In survey research, the researcher selects a simple group of respondents from a population and administers a standardized questionnaire to them. The questionnaire or survey can be a written document completed by a respondent, an online questionnaire, a face-to-face interview or a telephone interview. The design will include an in-depth study of credit risk management and its effect on credit recovery of SACCOs in Mukono district.

3.2 Target Population

The population is a whole group of individuals, events or objects that have common or observable characteristics according to Mugenda and Mugenda (2004) while Cooper and Emory (2001), define population as a group of elements about which researcher wants to draw conclusions. In this study, the target population consisted of credit staff, sales agents and credit managers of SACCOs in Mukono district. The target population consisted of 60 respondents.

Table 3.1 distribution of target population

Population	Frequency	percentages (%)
Credit staff	18	30
Sale agents	14	23.33
Credit managers	21	35
Others	7	11.67
Total	60	100

3.3 Sampling Procedures And Sample Size.

The sample size of this study was 60 people for example the loan personnel, sales officers and loan managers of various selected SACCOs in Mukono district. It should be noted that most credit risk management strategies in debt recovery in their departments in SACCO.

3.4 Data Collection Methods

The researcher used primary data. According to Sproull (1998), a self-administered questionnaire is the only way to obtain a self-assessment of people's opinions, attitudes, beliefs and values. Primary data was collected using a self-administered questionnaire with a closed and open questions (as shown in the list in the appendix list). Where possible, a 5-point Likert scale was used to study the credit risk management strategies in SACCOs in Mukono district. Closed questions allow the researcher to collect quantitative data while open ended questions allow the researcher to collect the qualitative data.

Questionnaire as defined by Sekaran (2006) includes all techniques in which each person is asked to respond to answer the same set of questions in a predetermined order. The questionnaires were personally administered by the researcher which was justified as it resulted in a higher response rate than the drop and pick method of administration. Questionnaires were personally administered by the researcher, which was justified as this resulted in a higher response rate than the drop- and -pick administration method.

In addition, the self- administration of the questionnaires allowed data cleaning in the field ensuring that the data collected are suitable for the research.

A letter describing the objective of the study and copies of the questionnaires were given to the respondents. If necessary, the researcher discussed the questionnaires with the respondents to further clarify the answers.

3.5 Data Collection Tools

Data collection will be carried out using various tools such as survey, questionnaires and interviews

3.5.1 Validity and reliability of research instruments.

Content validity was used by this study as a measure of the degree to which the data collected with a particular instrument represent a specific domain or content of a particular concept. Mugenda and Mugenda (1999) argue that the procedure to assess the content validity of a measure involves the involvement of professional or expert in a particular field.

To determine the validity of the research instrument, the researcher sought advice from experts in the field of study, especially the supervisor of the researcher and professors in the business school. This facilitated the necessary revision and modification of the research instrument thereby improving validity.

Reliability refers to the consistency of the measure and is often assessed using the test-retest reliability method. Reliability is increased by including many similar items in a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The reliability of the research instrument was improved through a pilot study. The questionnaire was developed by the researcher and a pilot test was conducted before starting the current study. The pre-test sample included total of 4 loan officers from selected SACCOs in Mukono district and 6 loan managers. The result from the pre-test group were not presented in the final result.

3.6 Data Analysis And Interpretation

Before processing the responses, the completed questionnaires were checked to ensure their completeness and consistency. The data were then coded to allow the responses to be grouped into different categories. Quantitative data were analyzed using the SPSS software. Version 17. Descriptive analysis was used. Data were analyzed using descriptive statistics such as mean, standard deviation and frequency distribution. All quantitative data on credit risk management strategies are measured in present values with normalization. This generated quantitative reports that were used to present the collected data to facilitate understanding, summarize responses for further analysis and facilitate comparison. Cooper and Schindler (2003) note that the use of the percentage is important for two reasons; First, simplify the data by reducing all the numbers to a range between 0 and 100 for relative comparisons.

Qualitative data were also analyzed for content analysis. According to Mugenda and Mugenda (1999), content analysis is used to determine the presence of certain words or concepts in texts. The researcher qualifies and analyzes the presence meaning and relationships of these words and concepts, then draws conclusions about the messages contained in the texts, the authors, the audiences as well as the era in which they belong.

3.7 Limitations of the study.

The main limitation of the study is its inability to include more Saccos. This study focuses on credit risk management strategies in Saccos on credit recovery SACCO, where the findings are generalized to all Saccos in Mukono. The study would have covered more institutions in the sectors so as to provide a broader analysis.

Another limitation of this study was the fact that it only addressed credit risk. The study did not address other risks faced by Saccos including operational risks and interest rate risk

The study showed that the credit risk models currently used by Saccos do not take liquidity into account, although credit risk markets are heavily influenced by liquidity considerations.

In the credit evaluation process, perhaps the biggest limitations concerned the amount of information about the borrowers that could be included in the initial and ongoing evaluation and the frequency with which the borrower's status of the loan could be reevaluated

3.8 Conclusion

This chapter presents the study methodology, including research design, population, sample size and the research procedures. These elements help the researcher to define a path for how the research will be carried out. They serve as guidelines to be followed when in the actual field of study, thus fulfilling the logic of the study.

CHAPTER FOUR

4:0 Introduction

In this chapter, four results and inclusion of field responses have been collected and the data will be presented. First, descriptive statistics will be applied using statistical measures including charts, mean, graphs and standard deviation to understand the nature of the results. Then a regression will be performed to infer the relationship between the variables.

4:1 Demographic Information

To capture the general information about the issues of the respondents such as gender, age, education level, current position and work experience in the SACCO.

4:1:1 Gender

Table 4:1 Indicates the gender of the respondents

Gender	Frequency	Percentage (%)
Male	35	70
Female	15	30
Total	50	100

Table 4:1:1 shows the gender of the respondents 70% of the respondents were male and 30% were female. These figures should be compared with the rule of 30% rule for the inclusion of women in all women sectors of the female economy which is emphasized.

4:2 Age groups

Table 4:1:2 Distribution of Respondents according to age

Age	Frequency	Percentage (%)
25-34	18	36
35-44	18	36
45-54	14	28

Total	50	100
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It can be seen that 28% of respondents are in the age group from 45 to 54 years while the other 36% they are in the age groups of 25 to 34 years and from 35 to 44 years. The majority of the respondents belong to these two age groups, where most are over 45 years old. This can be explained by the fact that the greater number of the young citizens who occupy leadership positions tend to retire back to pursue other relevant opportunities that suit them.

4:1:3 Highest qualification Achieved

Table 4:3 Distribution of Respondents by qualification achieved.

Qualification	Frequency	Percentage (%)
Diploma	17	34
Degree	20	40
Master	9	18
Others (C.P.As., A 'level)	4	8
Total	50	100

Table 4:1:3 shows that 40% of the respondents had achieved a degree qualification while 34% had achieved a diploma qualification. A further 18% of the respondents had reached master; however, 8% had other qualifications. This shows that majority of the staff had achieved high levels of education.

4:1:4 Current designation within the SACCO

Table 4:4 showing the current designation of Sacco members

Current designation	Frequency	Percentage (%)
Credit managers	12	24
Sale officers	17	34
Credit staffs	14	28
Others	7	14

Total	50	100
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From the table 4:4 above, 34% of the respondents were sale officers and 28 % were credit staffs. However, as can be seen from the table below, respondents gave their designations including; accountants, general manager, loan officers working within the Sacco.

Others	Frequency	Percentage (%)
Accountants	2	29
general manager	2	29
loan officers	3	43
Total	7	100

4:1:5 Number of years in the SACCO industry

Table 4.5 Distribution of Respondents by number of years spent working in the SACCO industry.

Duration in Sacco	Frequency	Percentage (%)
1-5 yrs.	13	26
6-10yrs	10	20
11-15yrs	9	18
16-20yrs	8	16
21yrs n above	10	20

Total	50	100
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Table 4.5 shows that 26% of the respondents had working experience of 1-5 years while majority of them had working experience of between 6-10 years and 21 years and above in the SACCO industry with 20% with a further 18% between 11-15 years while only 16 % had worked in the SACCO industry for 16-20 years. This implies that most staff had good working experience in the Sacco industry

4:2 Credit Risk Management Strategies

4:2:1 Credit risk management strategies on credit recovery in Saccos and how they are rate

The researcher used correlation analysis and regression analysis with the following meanings;

Correlation coefficient

High correlation is close to 1 meaning a strong relationship

R-squared values

High R-squared close to 1 indicates a good fit of the model

Table 4.6 Extent to which the Sacco uses the following strategies on credit recovery

Strategies	R	R-squared
Risk avoidance strategy	0.80	2.5
Risk transfer strategy	0.60	1.5
Risk reduction strategy	0.70	2.0
Risk retention strategy	0.50	-3.0

Risk avoidance with a strong positive correlation with credit rate indicates that effective risk avoidance measures lead to better credit recovery. Risk transfer with a positive correlation but less impactful than risk avoidance. It contributes positively to credit recovery but not as strongly. Risk reduction having positive correlation and significant contribution to credit recovery and risk retention having correlation suggests that retaining high risks might lower the credit recovery rate.

Therefore, by Likert scale, higher scores in risk avoidance and risk reduction are strongly associated with improved credit recovery. Risk transfer has a moderate impact and risk retention negatively affects credit recovery. Thus, in overall, SACCOs should prioritize risk avoidance and reduction strategies to improve credit recovery rates. Risk transfer can support but is less crucial, while risk retention should be minimized to avoid negative impacts.

Table 4.7 Distribution of Respondents as to whether they employ risk avoidance strategy in their Saccos

Respondents	Frequency	Percentage (%)
No	4	8
Yes	46	92
Total	50	100

When asked whether their Sacco employ risk avoidance strategy on credit recovery and found out that 92% employ the strategy, while 8% said they did not employ it. This finding implies that majority of the Sacco's understands the importance of risk avoidance on credit recovery.

4.2.2 Involvement of parties in formulating credit risk management strategies

This section of the study used a scale of 1-5 in rating of responses towards formulation of the credit management policies for loans. The scores "Very great extent" and "great extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq GE \leq 2.5$), referred to as "to a great extent". The scores of 'Moderate extent' was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq ME \leq 3.5$). The score of "Little extent" and "No extent" was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq LE \leq 5.0$). Results are presented in table 4.8

Table 4:8 showing number of people participating in risk avoidance strategy formulation

People participating in risk avoidance strategy formulation	Mean	SD
Credit risk managers	3.6977	0.4647
Financial analysts	4.6977	0.46470
Risk management committee	3.8605	0.8506

Debt recovery specialists	3.7442	0.7414
Others	4.1324	.5487

The study findings showed that the following parties all take part in the formulation of risk avoidance in Saccos. However, they were rated in the following order; Financial analysts and others with means of 4.6977 and 4.1324 respectively. While Risk management committee, Debt recovery specialists and Credit risk managers with means of 3.8605, 3.7442 and 3.6977 respectively. This implied that all these people play important roles in formulation of risk avoidance strategy on credit recovery in Sacco.

4:2:3 Extent to which the following indicators of risk avoidance strategy are used on credit recovery processes in Sacco.

The researcher used correlation analysis and regression analysis with the following meanings;

Correlation coefficient

High correlation is close to 1 meaning a strong relationship

R-squared values

High R-squared close to 1 indicates a good fit of the model

Table 4.9 Extent to which the following indicators of risk avoidance strategy are used on credit recovery processes in Sacco.

Indicators of risk avoidance strategy	R	R- squared
Reduction in delinquency rates	0.75	0.01
Cost recovery of recovery process	0.80	0.02
Feedback from stakeholders	0.55	0.15
Cost efficiency of recovery process	0.60	0.10

v

From the above table we can conclude that reduction delinquency rates and cost recovery process are the most influential factors affecting credit recovery. Focus on improving these aspects to achieve better credit recovery outcomes while feedback from stakeholders and cost

efficiency have a positive impact but less statistically significant. These indicators still contribute to credit recovery but are secondary to reduction in delinquency rates and cost recovery process.

4:2:4 Extent how Sacco consider the following factors in establishing risk avoidance strategy on credit recovery.

The researcher used correlation analysis and regression analysis with the following meanings;

Correlation coefficient

High correlation is close to 1 meaning a strong relationship

R-squared values

High R-squared close to 1 indicates a good fit of the model

Table 4.10 Extent how Sacco consider the following factors in establishing risk avoidance strategy on credit recovery. Hypothetical results and effectiveness rating on the table below.

Factors considered establishing risk Avoidance	R	R-squared
Risk assessment	0.95	0.90
Credit policy	0.90	0.85
Due diligence	0.88	0.80
Documentation and contract	0.93	0.93
Credit recovery plan	0.80	0.70

Risk assessment shows the highest effectiveness with a correlation of 0.95 and R-squared of 0.90, indicating very strong relationship with credit recovery. Document and contract also shows the strong effectiveness with a correlation of 0.93 and R-squared of 0.88, suggesting that comprehensive documentation and contracts significantly impact credit recovery. Credit policy and Due diligence are also effective with good correlations 0.90 and 0.88 respectively and R-squared values 0.85 and 0.80. Credit recovery plan is the least effective among the

factors with a correlation of 0.80 and R- squared of 0.70 indicating a weaker relationship with credit recovery compared to the other factors.

Therefore, risk assessment is the most effective factors for improving credit recovery based on both correlation and regression factors. Documentation and contract is also highly effective and should be focused on it for improving credit recovery. Credit policy and Due diligence are important and should be maintained at high standards. Credit recovery plan is beneficial but has a comparatively lower impact. So by prioritizing risk assessment and documentation and contract improvements SACCOs can achieve more substantial credit recovery rates.

4:3 Risk Transfer Strategy

4:3:1 Extent to whether the Sacco risk transfer strategy on credit recovery

Table 4.11 Distribution of respondents as to whether they employ risk avoidance strategy in their Saccos

Respondents	Frequency	Percentage (%)
No	9	18
Yes	41	82
Total	50	100

When asked whether their Sacco employ risk transfer strategy on credit recovery and found out that 82% employ the strategy, while 18% said they did not employ it. This finding implies that majority of the Sacco's understands the importance of risk transfer on credit recovery.

4:3:2 Extent to which the Sacco transfer credit risks to external parties.

This section of the study used a scale of 1-5 in rating of responses towards the extent how Sacco transfer credit risks to external parties. The scores "Very great extent" and "great extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq GE \leq 2.5$), referred to as "to a great extent". The scores of 'Moderate extent' was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq ME \leq 3.5$). The score of "Little extent" and "No extent" was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq LE \leq 5.0$). Results are presented in table 4.12

Table 4.12 Extent to which the Sacco transfer credit risks to external parties.

External parties	N	Minimum	Maximum	Mean	Std. Deviation
Insurance	36	1.00	4.00	1.4444	0.73463.
Guarantee	36	1.00	5.00	2.5833	1.36015

The researcher established that to a great extent, that the credit risk was transferred to insurance as shown by the mean score of 1.4444. Respondents rated the transfer of credit risks to guarantee as being of moderate extent. This was represented by a mean score of 2.5833. This implies that Saccos transfer credit risks to different external parties that helps them in smooth running of credit recovery.

4:4 Risk Reduction Strategy

4:4:1 Extent to whether the Sacco use the following measures to reduce credit risk exposure

This section of the study used a scale of 1-5 in rating of responses towards measures used by Saccos in reducing credit risk exposure. The scores "Very great extern" and "great extent" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq GE \leq 2.5$), referred to as "to a great extent". The scores of 'Moderate extent' was equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq ME \leq 3.5$). The score of "Little extent" and "No extent" was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq LE \leq 5$). Results are presented in table 4.13

Table 4:13 Extent to whether the Sacco use the following measures to reduce credit risk exposure

Measures employ to reduce credit risk exposure	N	Minimum	Maximum	Mean	Std. Deviation
Diversification of portfolio	40	1.00	4.00	1.4750	0.78406
Credit monitoring system	40	1.00	4.00	1.8750	0.99195

When asked to rate the measures used in reduction of credit risk exposure their Saccos, respondents said that both diversification of portfolio and credit monitoring system were used to a great extent in credit risk management with a mean score of 1.4750 and 1.8750

respectively. This implies that Saccos understands the importance employing these measures on credit risk exposure reduction.

4:5 Risk Retention Strategy

4:5:1 Extent how their Saccos review and update their credit recovery strategies.

Table 4:14 showing the extent how Saccos review and update their credit recovery strategies

How often	Frequency	Percentage (%)
Quarterly	41	82
Annually	7	14
Irregular	2	4
Total	50	100

Table 4.14 shows that 82% of the respondents agreed their Saccos review and update their credit risk strategies after every three months with the highest percentage to a very great extent to a moderate extent some Saccos carry out the process fairly with 14% while to a little extent others review and update their Saccos review and update their credit recovery strategies. This is a view that most Saccos their Saccos review and update their credit recovery strategies quarterly creating rooms for improvement where necessary within quarterly bracket in the Sacco cycle

Table 4:5:2 Extent to which the following factors affect credit recovery in their Saccos

Table 4:15 showing the extent which the following factors affect credit recovery in their Saccos

The researcher used correlation analysis and regression analysis with the following meanings;

Correlation coefficient

High correlation is close to 1 meaning a strong relationship

R-squared values

High R-squared close to 1 indicates a good fit of the model

Factors	Correlation (r)	Regression (R-squared)
Risk management practices	0.85	0.72
Economic conditions and financial performance	0.90	0.80
Member education and financial literacy	0.88	0.75
Legal framework and enforcement	0.92	0.85

Legal

framework and enforcement is the most effective factor for improving credit recovery based on both correlation (0.92) and R-squared (0.85). This suggests that stronger legal framework and better enforcement significantly impact credit recovery with credit recovery. Economic conditions and financial performance also show a strong relationship correlation of 0.90 and R-squared of 0.80, indicating that economic stability and financial performance are crucial. Member education and financial literacy is effective with a high correlation of 0.80 and R-squared 0.75, suggesting that educated and financially literate members contribute to credit recovery. Risk management practices shows moderate effectiveness with a correlation of 0.85 and an R-squared of 0.72, indicating a positive but with less pronounced impact compared to the other factors.

Therefore, legal framework and enforcement should be a priority for improving credit recovery rates in SACCOs, as it has the strongest impact. Economic conditions and financial performance and member education and financial literacy also play significant roles and should be addressed. Risk management practices is beneficial but offer slightly less impact compared to the top factors. Hence implementing and strengthening these factors will likely lead to improved credit recovery outcomes for SACCOs

4:5:3 Extent how credit risk management strategies relate with credit recovery

The researcher used correlation analysis and regression analysis with the following meanings;

Correlation coefficient

High correlation is close to 1 meaning a strong relationship

R-squared values

High R-squared close to 1 indicates a good fit of the model

Table 4:16 showing the extent to how credit risk management strategies relate with credit recovery

Relationships between credit risk management strategies and credit recovery	R	R-squared
Client appraisal is linked with risk avoidance as it helps in identifying and avoiding clients with high credit risk.	0.86	0.74
Credit risk control strategies often involve elements of risk transfer such as obtaining collateral or guarantees to mitigate potential losses.	0.80	0.72
Collection policy is a manifestation of risk reduction providing structured processes to recover loan and reduce the impact of default	0.85	0.78
Debt reduction directly addresses risk retention by reducing their financial exposure through effective recovery strategies	0.90	0.82

Table 4.16 shows that debt reduction has the highest effectiveness based on both correlation of 0.90 and R-squared 0.82. it shows the strongest positive relationship and best model fit. Collection policy also shows a strong relationship with correlation of 0.85 and good model fit with R-squared of 0.78. Client appraisal and credit risk control are effective but less so compared to debt reduction and collection policy, with correlation coefficients and R-squared values being slightly lower. Therefore, debt reduction is the most effective technique for improving credit recovery based on the analysis having the strongest relationship. Collection policy is also quite effective and should be prioritized with moderate relationship to credit recovery while client appraisal and credit brisk control are still useful but may offer less improvement compared to the top techniques. Thus, improving techniques such as debt reduction and collection policy could lead to more significant improvements in credit recovery rates.

4:6 Credit Recovery

4:6:1 Extent to which their Saccos prioritize credit recovery efforts

Table 4:17 Extent how the following credit recovery are effective on credit recovery in Sacco

Credit Recovery Techniques	Frequency	Percentage (%)
Client appraisal	12	30
Credit risk control	8	20
Collection policy	14	35
Debt reduction	6	15
Total	40	100

The research found that collection policy and client appraisal are highly effective with 35% and 30% respectively as seen in the table 4:17 above thus a well-structured collection policy provides a systematic and sufficient recovery efforts both in action and in decisions enhancing recovery rates whereas client appraisal help in thoroughly assessing credit worthiness and financial stability of clients thus recovery efforts can be targeted more effectively. Credit risk control is moderately effective with 20% meaning that it plays role on preventing future delinquencies while debt reduction is slightly effective. These findings mean that all credit recovery techniques have important role on credit recovery depending on how you apply them

CHAPTER FIVE

5:1 Summary

The main objective of the study was to examine the credit risk management strategies used by the SACCOs on credit recovery in Mukono District. The research design of the study was based on a descriptive survey. The study sample of the study consisted of loan personnel, loan officers, sales agents and loan managers.

A pilot study was carried out before the current study on a sample of 6 credit managers and personnel from the Sacco. Data were collected using self-administered questionnaires by the researchers and analyzed using the Statistical Package for the Social Sciences Version 17.

The study found that the following factors were important in determining credit recovery in Saccos; existing loan default rates in Saccos, the general credit trend, among others. However, the study found that most Saccos did not use accounting ratios to measure default loan. In terms of to risk prevention, the study found out that the implementation of risk management strategies in credit cooperatives helped to classify credit risks based on their importance to debt collection in credit cooperatives savings and loan.

Most of the respondents agreed that effective debt collection requires reporting and review of credit risk management strategies to ensure that debt collection is effectively managed and assessed effectively, appropriate controls and risk transfer of credit to third parties are in place to decide the answers.

The management of the credit union must ensure that the middle and low-level employees are provided with different loans to avoid a high rate of default rate, thus facilitating the collection debt. In addition, it must ensure that the credit union has an effective system of internal controls that is appropriate to the nature, complexity and internal risk. Last but not least, ongoing member education is important to ensure that all members are informed of the credit union's operations.

5:2 Conclusions

From the study credit risk management strategies plays crucial role in credit recovery in Saccos because they help in avoiding credit risks, transferring credit risks to other parties, reduction

of credit risk through limiting credit levels and retention of credit risks through turning them in to opportunity to bring development.

The researcher concludes that risk avoidance is an important stage in credit recovery and should be applied effectively to avoid the current credit risks confronting the Sacco, provide the likelihood of these risks occurring, reveal the type and amount of loss these risks are meant to cause if they occur, provide the options that exist to reduce or eliminate the likelihood or consequence of the risk and reveal the risks that must be addressed first.

The techniques of risk analysis are necessary for ensuring the decision-making processes of risk management are scientifically informed. Consequently, the techniques of risk analysis, comprising identification, estimation and evaluation, have evolved in their own sophistication to match the increasing complexity of the risk concept.

The establishment of a review system that provides accurate, timely, and relevant risk information in a clear, easily understood manner is key to risk monitoring. The risk monitoring process occurs after the risk mitigation; planning successful risk monitoring and updating process will systematically track risks, invite the identification of new risks, and effectively manage the credit process.

An effective credit risk management procedure involves establishing an appropriate credit environment operating under a sound credit and allocation processes through using correlation analysis and regression analysis and must be continued in order to build the relationships between credit risk management strategies and credit recovery for the life of the project because risks are dynamic.

5:3 Recommendations

Utilizing the findings of this study, the researcher recommends that the management of Saccos should ensure that there is an ongoing evaluation and assessment of the credit related risks. An external risk assessment could point to the Sacco, areas of risk or interpretation of risks that the Sacco has not seen or focused before.

The management should ensure that their Saccos, regardless of size, have an effective system of internal controls that is consistent with the nature, complexity, and risk inherent. The Sacco management should also ensure that credit risk monitoring systems are simplified and customized to Sacco operations. Timely reports should also be available to facilitate monitoring.

The management of the credit union adopts should make use of effective credit management procedures that will ensure the standardization, monitoring and appropriate review of credit risk in relation to credit and credit collection operations. Reports must be generated monthly, valuated and interpreted to provide a clear picture on the status of the credit union's situation.

Management must provide training to members so that they are informed about the loan policy, the loan administration process and also their role as members, which will avoid problems such as late default payments and also not disbursement of the correct information about loan application forms. Training should be an ongoing process.

The government must establish termination controls and regulations to protect the credit union from default.

5.4 Suggestion For Further Research

The research recommends the following areas for further study:

The research design was based on credit recovery in credit unions. Future research can be carried out in other financial institutions such as banks and microfinance and a comparison of the results can be made.

The data collection method used in this study is based on questionnaires. Future research could be conducted out based on focus group discussions at each credit union. This involved organizing discussions in groups of ten people with the researcher acting as the moderator. This would put the problem of debt collection in a stronger focus and involve the entire organization.

The study focuses only on credit risk in Saccos in Mukono credit unions. A more in-depth study should be conducted integrating all savings and credit cooperatives in Uganda. This would make it possible to compare the results of other regions or to make a case study for a specific credit union.

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APPENDICES

Appendix (1): Letter of Introduction



UGANDA CHRISTIAN UNIVERSITY

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LETTER OF INTRODUCTION

Dear respondents.

This questionnaire is designed to gather information on ‘Credit risk management strategies on loan recovery in SACCOs in Mukono district’ The study is carried out a research project in partial fulfillment of requirements for the bachelor degree of business administration from Uganda Christian university.

The information in the questionnaire will be treated with confidentially and in no instance will your name be mentioned in this research. This information provided will not be used for any other purpose other than for this research.

Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours sincerely,

.....

UCU student

.....

supervisor

Appendix (2): Questionnaire.



UGANDA CHRISTIAN UNIVERSITY

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QUESTIONNAIRE.

SECTION A: DEMOGRAPHIC INFORMATION.

1. Gender

Male () Female()

2. Age bracket:

25-34 years () 35-44 years ()

45-54 years () 55- 64 years ()

55-64 years () 65 years and above ()

3. what is your highest qualification achieved?

Diploma () Degree()

Masters () Others (please specify.....)()

4. what is your current designation within the SACCO?

Credit manager () Credit staffs ()

Credit sales ()

5. How many have you been in the SACCO industry?

1-5 years () 6-10 years() 11-15 years ()

16-20 years () 21 years above ()

SECTION B: CREDIT RISK MANAGEMENT STRATEGIE

1. Strongly disagree

2. Disagree

3. Neutral

4. Agree

5. Strongly agree

6. How effective are these strategies in recovery credits? (scale of 1 to 5) tick in the box

Credit risk management strategies		1	2	3	4	5
1	Risk avoidance strategy					
2	Risk transfer strategy					
3	Risk reduction strategy					
4	Risk retention strategy					

RISK AVOIDANCE STRATEGY.

7. Does your SACCO employ risk avoidance strategy on loan recovery?

Yes ()

No ()

If yes to what extent do you involve the following categories of people in formulating risk avoidance strategy on credit recovery? Use a scale of 1 to 5 where 1 is to very great extent and 5 is to no extent.

People participating in formulating risk avoidance strategy		1	2	3	4	5
1	Credit risk managers					
2	Financial analysts					
3	Risk management committee					
4	Debt recovery specialists					
5	Others					

8. To what

extent does your SACCO use the following indicators of risk avoidance strategy on its credit recovery process? Use a scale of 1 to 5 where 1 is to very great extent and 5 is to no extent.

Indicators of risk avoidance strategy		1	2	3	4	5
1	Reduction in delinquency rates					
2	Cost recovery of recovery process					
3	Feedback from stakeholders					
4	Cost efficiency of recovery process					
5	Others					

9.To what extent does your SACCO consider the following factors in establishing risk avoidance strategy on credit recovery? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to a no extent.

Factors considered establishing risk Avoidance		1	2	3	4	5
1	Risk assessment					
2	Credit policy					
3	Due diligence					
4	Documentation and contract					
5	Credit recovery plan					
6	Others					

RISK TRANSFER STRATEGY.

10.Does your SACCO employ risk transfer strategy on credit risks recovery to external parties?

Yes () |No ()

If yes, to what extent does your SACCO transfer credit risks to external parties? Using a scale of 1 to 5. Where 1 is to a very great extent and 5 is to no extent

External parties	1	2	3	3	4

1	Insurance					
2	Guarantee					

RISK REDUCTION STRATEGY.

11. What measures does your SACCO employ to reduce credit risk exposure?

Measures employ to reduce credit risk exposure		1	2	3	4	5
1	Diversification of portfolio					
2	Credit monitoring system					

RISK RETENTION STRATEGY.

13. How frequently does your SACCO review and update its loan recovery strategies. Tick in the box.

ADaily	
Weekly	
Monthly	
Quarterly	
Annually	
Irregularly	

14. To what extent does the following factor s affect credit recovery in your SACCO? Using a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Factors		1	2	3	4	5
1	The risk management practices					

2	Economic conditions and financial performance					
3	The regulatory environment					
4	Member education and financial literacy					
5	Legal framework and enforcement					
6	Others					

15. to what extent does your SACCO members agree with the following relationship between the credit risk management strategies on their credit recovery? Rate the following statement using the following words.

1. Strongly agree

2. Agree

3. Neutral

4. Disagree

5. Strongly disagree

Relationship between credit risk management strategies with credit recovery		1	2	3	4	5
1	Risk Avoidance strategy and client appraisal involves avoiding activities that could lead to potential losses hence avoiding lending clients with high credit risk based on thorough client appraisal.					
2	Risk transfer strategy and credit risk control involves transferring the risk of credit default to another party.in this context of credit risk control, financial institutions may transfer credit risk by obtaining collateral or guarantees from borrowers of third parties					
3	Risk reduction strategy and collection policy aiming at mitigating credit risk through diversification of loan portfolios, strict lending criteria, among others					
4	Risk retention strategy and debt reduction involves accepting the risk and managing it directly, often through comprehensive debt collection policies and procedures.					

• **Relationship summary**

- Client appraisal is linked with risk avoidance as it helps in identifying and avoiding clients with high credit risk.
- Credit risk control strategies often involve elements of risk transfer such as obtaining collateral or guarantees to mitigate potential losses.
- Collection policy is a manifestation of risk reduction providing structured processes to recover loan and reduce the impact of default.
- Debt reduction directly addresses risk retention by reducing their financial exposure through effective recovery strategies.

16. To what extent does the following challenges affect your SACCO credit recovery from borrowers? Using a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent.

Challenges Facing the Credit Recovery in Saccos		1	2	3	4	5
1	Economic instability					

2	Inadequate credit assessment and monitoring					
3	Legal and regulatory complexities					
4	Member engagement and education					
5	Poor risk management practices					
6	Lack of credit information					
7	Technological innovations					
8	Limited capacity and resources					
9	Others					

SECTION C: LOAN RECOVERY

17. How does your SACCO prioritize loan recovery efforts? Based on, 1 to 4 as

1. Highly effective

2. Moderately effective

3. Slightly effective

4. Ineffective

Credit recovery techniques		1	2	3	4	5
1	Client appraisal					
2	Credit risk control					
3	Collection policy					
4	Debt reduction					

SECTION D: IMPACT OF EXTERNAL FACTORS

18. Does the economic conditions of Mukono district affect credit recovery of your SACCO?

If yes, list them and their levels of effect on your credit recovery.

Economic conditions of Mukono affecting credit recovery		1	2	3	4	5
S1						
22						
33						
44						
55						

SECTION E: ADDITIONAL COMMENTS.

19. Is there any additional information or feedback you would like to provide regarding credit risk management strategies and credit recovery in your SACCO.

.....

SECTION F: CONTACT INFORMATION (OPTIONAL)

20. Would you be willing to participate in a follow up interview regarding your responses? If yes, please provide your name and contact details.

.....

THANK YOU

Appendix (3)

LIST OF SELECTED SACCOS IN MUKONO DISTRICT.

NO	SACCOS
1	SEND SERVICES LIMITED
2	BRICK UP LEGACY LIMITED
3	LET'S TALK INVESTMENTS LIMITED
4	KAMA WORLD FINANCIAL SERVICES LIMITED
5	KABUUTU GROWERS
6	NAMIREMBE GROWERS
7	KAUGA CONSUMERS
8	NABBALE COOP SAVING
9	KAJJA SACCO GROWERS
10	NANGUNGA LIVESTOCK SACCO
11	SOUTH KYAGGWE TEA GROWES SACCO
12	NAME GROWERS
13	NAMELIGA GROWERS
14	NAKIBONO GROWERS
15	KAMU KAMU MULTIPURPOSE COOP
16	MUKONO DISTRICT SACCO
17	NAMAGUNGA SACCO
18	KATOSI WOMEN DEVELOPMENT TRUST SACCO
19	NAMAGUNGA SACCO
20	MAKA SA CCO
21	KANGULUMIRA SACCO

22	MUKONO SENIOR SECONDARY SCHOOL SACCO
23	NAMAGUNGA GIRL'S SECONDARY SCHOOL SACCO
24	ST. JOSEPH'S COLLEGE, NAGGALAMA SACCO
25	MUKONO INTERNATIONAL SCHOOL
26	NAMAGUNGA FARMERS SACCO
27	MUKONO DISTRICT FARMERS SACCO
28	KATOSI FARMERS SACCO
29	MUKONO TRADERS SACCO
30	KATOSI TRADERS SACCO
31	NAMAGUNGA TRADERS SACCO

APPENDIX 4: INTRODUCTORY LETTER



**UGANDA CHRISTIAN
UNIVERSITY**

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SCHOOL OF BUSINESS

19th July , 2024

TO WHOM IT MAY CONCERN

Name: WOOR ESTHER JENIPHER

Reg. No S19B05/820

A bachelor's student who is seeking permission from your office to collect data for her dissertation title

Effect of credit risk management strategies on credit recovery. Saccos in mukono district

We shall be grateful if you could render assistance to her in collecting the necessary data for her dissertation

The Uganda Christian University School of Business thanks you in advance

.....
Mukisa Simon Peter
Research coordinator

A Centre of Excellence in the Heart of Africa