

**CREDIT MANAGEMENT POLICY AND LOAN REPAYMENT PERFORMANCE IN
SACCOS: A case study of Muhame Financial Services**

SHILLA NIMUSIIMA

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**UGANDA CHRISTIAN
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DECLARATION

I, Nimusiima Shilla, hereby declare that the work presented in this research report entitled Credit Management Policy and Loan Repayment Performance in SACCOS: A Case of Muhame Financial Services' is my original work and has never been presented to any other university or institution of higher learning for any academic qualification or award.

Signature.....

Date:06/09/2023.....

Nimusiima Shilla

APPROVAL

This study was done under my supervision and the dissertation has been submitted for examination with our approval.

Mr. Geoffrey Kasozi

Supervisor

Signed: 

Date: 6th Sept 2023

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DEDICATION

This work is dedicated to God and to the family of Mr. & Mrs. Muhereza Nathan, for their unwavering support, encouragement, understanding, and sacrifices that played an instrumental role in the successful completion of this research.

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LIST OF ABBREVIATIONS

MFS	Muhame Financial Services
MFI's	Microfinance Institutions
SACCOS	Savings and Credit Cooperative Societies

ABSTRACT

The study focused on the high levels of non-performing loans in SACCOS within Sheema District, posing a threat to their sustainability and goals. By examining Muhame Financial Services as a case study, the research aimed to assess how credit management policies influence loan repayment performance.

Specifically, the study investigated the impact of credit terms, client appraisal, and credit collection policies on loan repayment performance. The research design employed was descriptive, with respondents consisting of purposively selected staff members and clients chosen through simple random sampling, resulting in a total of 80 participants.

Questionnaires were used to collect primary data.

Based on the findings, it was concluded that there exists a positive relationship between credit terms, client appraisal, credit collection, and loan repayment. The study suggests that Muhame Financial Services should delve into the reasons behind repayment defaults and address the challenges faced by credit officers to mitigate this trend.

The researcher also recommended that MFS management should assemble a highly skilled team to research and implement effective credit management policies. Additionally, providing training for their staff, particularly credit officers, is advised. Allocating sufficient resources, including adequate funds for the management of loans, is crucial for enhancing loan repayment performance.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter entails the background of the study, problem statement, objectives, research questions, scope of the study; content scope, geographical scope and time scope, the significance of the study, and anticipated limitations, definition of key terms.

1.1 Background of the study

Uganda is generally considered among the countries with the most vibrant and successful microfinance industry in Africa. Microfinance was introduced in Uganda during the late 1980s and early 1990s. Initially, it began as non-governmental organizations (NGOs) and donor-funded programs that aimed to provide financial services to the unbanked and underserved populations, especially in rural areas. Some microfinance institutions (MFIs) have experienced strong growth and now are reaching a considerable number of clients, with some serving over 2,500,000 clients.

Over the years, microfinance has continually emerged as an effective vehicle of poverty reduction. Essentially, microfinance is the provision of financial services (loans, savings and insurance) to individuals who find difficulty in accessing such services from the formal banking system due to their low economic status. These institutions have grown and evolved, contributing to financial inclusion and economic development in Uganda.

Access to credit is a major issue among the rural poor, and MFIs, SACCOs and loan schemes are designed to fulfill this demand. These organizations usually educate local residents on the advantages of saving, provide small loans for launching small businesses, and offer training on using credit wisely for business growth.

Savings and Credit Co-operatives (SACCOs) are community membership-based financial institutions that are formed and owned by their members in promotion of their economic interests. These institutions mobilize and intermediate savings exclusively within their membership under the co-operative statute 1991. Furthermore, they are one of the several types of cooperatives that are unique micro finance institutions categorized under tier four in

the financial market and therefore not regulated by Bank of Uganda. (AMFIU, 2005) There are over 5000 SACCOS in Uganda (Ahimbisimbwe (SCO), F. Overview of Cooperatives in Uganda.)

SACCOS are established with the aim of providing support to low-income earners, particularly those residing in rural areas who may have limited access to loans from traditional commercial banks. During the 1990s, there was a notable issue with the performance of loans extended to customers, necessitating an intervention to address the situation. Most suggestions were for the evaluation of customer's ability to repay the loan, but this didn't work as loan defaults continued (Morduch, 1999). The concept of credit management became widely appreciated by Microfinance Institutions (MFI's) in the late 90s, but again this did not stop loan defaults to this date (Morduch, 1999)

Efficient credit management necessitates the skill to adeptly oversee customer credit limits, aiming to mitigate risks associated with bad debts, excessive reserves, and bankruptcies. SACCOS must gain enhanced insights into the financial stability of their customers, their credit history, and evolving payment behaviors. The capacity to explore new markets and engage new customers significantly relies on the ability to swiftly and judiciously make informed credit decisions and establish appropriate credit lines. Credit management commences at the point of sale and remains an integral aspect of the transaction until the final payment is successfully received. It holds equal importance in the overall process, akin to the significance of closing the sale.

In reality, a sale is not considered complete until the payment has been successfully collected. SACCOS often encounter challenges when attempting to establish an optimal credit policy because finding the best combination of credit policy variables can be a complex task. Typically, organizations make adjustments to one or two variables at a time and carefully observe the resulting effects on their operations. It should be noted that the firm's credit policy is greatly influenced by economic conditions (Pandey, 2008). As economic conditions change, the credit policy of the firm may also change.

Microfinance Institutions and other financial institutions must develop a credit policy to govern their credit management operations (Pandey, 2008), and since microfinance

institutions generate their revenue from credit extended to low-income individuals in the form of interest charged on the funds borrowed, the loan repayments may be uncertain. The effectiveness of extending credit relies on the methodology used to assess and approve credit applications. Consequently, credit decisions should be grounded in a comprehensive assessment of both the risk factors associated with the lending and the specific attributes of the borrower.

While each SACCO may employ its unique approach to assess the risk and quality of its clients, tailored to its target audience, the following client evaluation concepts are generally applicable in most cases: These concepts are referred to as the 5C's of credit appraisal and they are Character, Capacity, Collateral, Capital and Condition (Edwards, 2004).

Loan repayment defaults among SACCO members can occur due to various factors, including existing loan obligations, salary diversion, employer-related salary withholdings arising from financial constraints or employee disciplinary problems, reluctance to fulfill payment obligations, and the lack of profitability in the financed ventures. The lender's rigorous adherence to timely loan repayments and the policy of zero tolerance for late defaults create a scenario where borrowers are expected to demonstrate unwavering commitment to loan repayment. Potential borrowers undergo a screening process, ensuring that loans are extended exclusively to those who exhibit a strong commitment to repaying their obligations.

According to (Stearns, 1991) the manner in which borrowers are selected and the amount of loan given to each successful borrower determines the magnitude of loan delinquency. It is worth noting that borrowers who receive loans and can repay them without difficulty sometimes default on their repayment obligations. In reality, loan defaults are typically attributed to bad loans rather than bad borrowers. A "bad loan" refers to a situation in which the borrower struggles significantly to repay the loan. The default in loan repayments indeed represents a substantial risk to the financial stability of SACCOS.

The researcher is motivated to conduct an investigation into the suitability and efficiency of credit management systems concerning loan repayment performance, and the subsequent impact on the viability and long-term sustainability of SACCOS.

1.2 Background to the case study

Muhame Financial Services Cooperative Ltd (MFSCCL) is a well-established savings and credit institution located on Masheruka Road in Kabwohe Town, Sheema District. It originated in 1998 as a Savings and Credit affiliate of Muhame Co-op Society, thanks to the support of UNDP/GOU through the Private Development Program (PSDP), implemented by the Bushenyi Private Sector Promotion Center. Their collaboration began in 1999.

In January 2000, Muhame Financial Services officially separated from Muhame Cooperative Society and registered independently under Reg. No. 6350, with a Bank Code of 13006.

Today, Muhame Financial Services operates as a Savings and Credit Cooperative Society under the umbrella of the Association of Microfinance Institutions of Uganda (AMFIU). Established in 2000, it has expanded its presence to encompass nine branches across the Western region of Uganda.

Being a microfinance institution, Muhame Financial Services offers a variety of deposit and loan products tailored to meet the financial requirements of individuals in Uganda, with a particular focus on small, medium, and large-scale entrepreneurs. It extends loan services to its members to facilitate investments in profitable ventures and enhance their quality of life. Similar to other microfinance institutions, MFS secures funding through avenues such as equity, member share capital, seed capital, soft loans, savings, deposits, interest income, and retained earnings.

Muhame Financial Services is recognized as one of the most forward-thinking microfinance institutions in the western region. Nonetheless, it confronts challenges like illiteracy, client unawareness, and issues related to loan repayment, among others, which have impeded its progress.

MFS employs its credit policy as a strategic marketing tool. This policy serves the purpose of expanding loan disbursement, maintaining market share, retaining existing clients, and attracting new customers, particularly during competitive market conditions or economic downturns.

MFS loan repayment performance since 2019 to 2021 has not been all that a success. In 2019

N.P.A were 0.38%, P.A 0.62%, 2020 N.P.A were 0.44%, 0.56% P.A and in 2021 N.P.A were 0.5 1%, 0.49% P.A. The General Manager in the 2021 annual report stated that the poor performance is because many borrowers were simultaneously failing to meet their loan obligations of interest and principal as stipulated by the credit terms and agreement and this was worsened by the worldwide pandemic, COVID-19. As a result, on-performing asset ratio increased as illustrated in *Table 1.1*. Credit policy management remains the biggest challenge in MFS.

Table 1.1: Performing and Non-Performing Asset Ratio of MFS

Institution	Asset Class	2019	2020	2021
MUHAME	P.A	62%	56%	49%
FINACIAL	NPA	38%	44%	52%
SERVICES	Total	100%	100%	100%

Source: Extracted from MFS portfolio Kabwohe Branch.

1.3 The problem statement

SACCOs play a crucial role in providing access to financial services for individuals who might encounter challenges when dealing with formal financial institutions. They also contribute to mitigating the adverse effects of local money lenders in the areas where they operate. Although SACCOs in Uganda have demonstrated impressive performance since their establishment, they are currently facing issues related to loan defaults.

The prosperity of SACCOs is heavily reliant on the effectiveness of their credit management systems, as these organizations derive a significant portion of their income from interest earned on loans extended to small and medium-sized entrepreneurs. SACCOs utilize credit policies as a tool for evaluating and selecting creditworthy borrowers. A credit policy comprises established guidelines that an organization employs to oversee the extension of credit to its customers.

Despite the implementation of credit policies, which encompass aspects like credit terms, client assessment, credit risk control, and collection procedures, the problem of loan default remains prevalent within SACCOs. For example, AlutKot SACCO in Lira is reported to have disbursed Ugx 841,000,000 in loans since 2002 but had recovered only 26% of that amount by 2010 (Okwee, 2011).

Studies conducted by the United States Agency for International Development (USAID) within its Rural SPEED program, involving 18 of Uganda's SACCOs, revealed that Uganda's SACCOs had weaknesses in their financial systems when it came to screening creditworthy borrowers. Additionally, they encountered challenges in tracking delinquent loans at the loan officer level, aging arrears at the management level, and authorizing bad debt write-offs at the board level (USAID UGANDA, 2006).

(Hunte, 1996) argues that default problems can erode lending capacity as repayment flows decline, essentially transforming lenders into welfare agencies rather than viable financial institutions. Hunte further emphasizes that default issues unjustly penalize creditworthy borrowers when the screening mechanism is not efficient. (Arene, 1992) posits that whether default occurs randomly due to erratic behavior or is influenced by specific factors in particular situations, empirical investigation is crucial. Such research findings can be utilized by microfinance institutions to enhance their credit programs. Consequently, this study will analyze the impact of credit management policies on loan repayment performance within SACCOs, using Muhame Financial Services as a case study.

1.4. Objectives

These are categorized into two; the general objective and the specific objectives.

1.4.1 The general objective

The main objective of the study was to assess the influence of credit management policy on loan repayment performance in Muhame Financial Services.

1.4.2 The specific objectives

- a) To find out how credit terms affect loan repayment performance in MFS.
- b) To assess the impact of client appraisal on loan repayment performance in MFS.
- c) To find out how credit collection policies influence loan repayment performance in MFS.

1.5 Research questions

- a) How do credit terms affect loan repayment performance of MFS?
- b) What is the impact of client appraisal on loan repayment performance in MFS?
- c) How do credit collection policies influence loan repayment performance in MFS?

1.6.0 Scope of the study

1.6.1 Content scope

The primary focus of this research was to examine the relationship between loan repayment performance and credit policies within Muhame Financial Services (MFS). The objective was to determine whether the existing credit policies have an impact on loan repayment rates.

1.6.2 Geographical scope

The research was conducted at Muhame Financial Services, situated in Sheema District within the Western Region of Uganda. The study placed particular emphasis on the credit department, which plays a pivotal role in managing loans and credit-related matters.

1.6.3 Time scope

The research concentrated on the timeframe spanning from 2019 to 2021 to analyze both the credit policy dynamics and loan repayment trends.

1.7 Significance of the study

The research outcomes will have several valuable implications:

- ❖ **MFS and Other SACCOs:** The findings will assist Muhame Financial Services (MFS) and other SACCOs in evaluating their credit management policies, particularly the screening criteria (credit appraisal). This information can guide them in revising their policies to favor creditworthy borrowers and alleviate loan repayment challenges.
- ❖ **Policy Makers and Management Committees:** The study's insights are beneficial for policy makers, including management committees like credit committees and SACCO managers. They offer valuable information on effective loan repayment techniques and delinquency management strategies.
- ❖ **Future Research:** The research provides a foundation for other researchers and scholars interested in further exploring topics related to credit policy and loan repayment performance within SACCOs.

- ❖ **Educational Use:** The findings can serve as supplementary material for students studying research topics. They can also stimulate discussions and inquiries into various aspects of loan repayment and credit policy.
- ❖ **Research Clarity:** For researchers seeking a clearer understanding of how credit policies set by SACCOs influence loan repayment, this study offers valuable insights and knowledge.

1.8 Limitation of the Study

A significant limitation encountered during the study was the reluctance of respondents to disclose accurate information. Respondents often hesitated to provide truthful answers due to a perception that there were no tangible benefits in doing so. Additionally, there was a fear that the information could be leaked, potentially enabling other institutions, including competitors, to leverage the knowledge of Muhame Financial Services' failures and weaknesses for their own advantage, potentially outcompeting it in the process.

1.9 Expectations from the study

The researcher had several expectations for the study, and these objectives were partially achieved:

- **Understanding the Impact of Loans:** The researcher aimed to gain a deeper understanding of loans and their effects on both borrowers and lenders. This objective was successfully accomplished.
- **Assessing Credit Policy Influence:** The researcher set out to assess the influence of credit policy on loan repayment within SACCOs, and this goal was achieved.
- **Understanding Credit Policy Setting:** The researcher also had the goal of learning how credit policies are established, and although only partial insights were obtained, some understanding was gained in this regard.

1.10 Definitions of key Terms

Arrears: Arrears refer to late payments, partial payments, or skipped payments in a loan repayment schedule.

Default: Default occurs when a borrower fails to repay a loan, typically when they are unable or unwilling to meet their loan repayment obligations, and the financial institution no longer expects to receive payment.

Delinquency: In microfinance, delinquency refers to a situation where a loan is past due. It occurs when loan payments are in arrears, and a borrower has failed to meet their payment obligation at the agreed-upon time.

Microfinance: Microfinance is the provision of financial services to low-income clients, including those who are self-employed or have limited access to traditional banking services.

Loss: Loss happens when a borrower is financially incapable of repaying a loan, and the value of the collateral (if any) is insufficient to cover the outstanding loan amount.

Non-Performing Loan (N.P.A.): A Non-Performing Loan (N.P.A.) is a loan that is not being paid or serviced according to the agreed-upon terms.

Policy: Policy refers to broad guidelines that outline an organization's long-term expectations and rules.

Credit Terms: Credit terms are the conditions that must be met before a loan is approved, including interest rates, repayment schedules, and other terms of the loan agreement.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter focused on conducting a comprehensive review of the significant literature available regarding credit policy and loan recovery. The review primarily drew from surveys and research previously conducted in the field of credit policy and loan recovery within microfinance institutions in Uganda.

2.1 Concepts of Micro Finance Institutions.

Microfinance institutions are organizations that offer financial services to individuals with low income levels. These services encompass a range of financial products, such as savings accounts, loans, insurance offerings, money transfers, and payment services, all aimed at fostering the development and expansion of small-scale enterprises and improving the financial well-being of low-income individuals.

According to (Morduch, 1999) microfinance, refers to the provision of financial services to the low- income earners who do not earn or obtain their services from the formal commercial financial institutions because their business saving levels and credit needs are very minimal.

To Bank of Uganda, microfinance institutions are non governmental institutions, savings and credit co-operatives that provide savings and microloans not exceeding US \$ 5000 for project to low income earners (individuals or groups) for the purpose of engaging in income generating activities.

2.2 Credit Policy.

Credit policy refers to an institutional approach or framework used to assess credit applications and establish the criteria and guidelines for either approving or rejecting these applications. It outlines the procedures, rules, and standards that an organization follows in making decisions related to extending credit to borrowers. The purpose of the Credit Policy is to define the Credit Management function and to outline its objectives, scope and responsibilities. (Stevenson, 2015)

A credit policy should be clear and succinct to ensure that the concept and the importance of efficient credit management within the company are well understood by both those within and outside the credit function. Clarity in the policy helps communicate the significance of sound credit practices and the rationale behind them to various stakeholders.

The function of credit management policy is to protect the investment in the debtors of the company as well as maintaining the lowest levels of receivables, balancing risks inherent in achieving sales objectives. (Stevenson, 2015).

A credit management policy plays a crucial role in the effective management of accounts receivables. It provides a firm with the flexibility to shape its credit policies according to its specific practices and needs. This allows the company to tailor its credit policies to align with its unique business requirements and objectives. It is therefore a means of reducing high default risk implying that the firm should be discretionary in granting loans (Pandey, 2008).

Policies are time-saving tools as they help prevent repetitive discussions on the same issues every time a decision needs to be made. By having established policies in place, organizations can streamline decision-making processes, reduce redundancy, and ensure consistency in their operations. This ensures that decisions are consistent and fair and that people in the same circumstance get treated in the same manner (Khandker, 2005)

According to Mc Naughton (1996), credit policy provides a frame work for the entire management practices.

Written credit management policies serve as the foundation for sound credit management practices within an organization. They establish objectives, standards, and parameters that provide guidance to credit officers responsible for granting loans and managing loan portfolios. The primary purpose of a credit management policy is to ensure consistency in operations and adherence to standardized, prudent practices. A well-crafted credit management policy encompasses effective initiation analysis, credit monitoring, and evaluation processes.

2.3 Loan repayment performance

(Arene, 1992) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, distance between home and source of loan, education, household size, adoption of innovations, and credit needs.

(Pischke, 1994) spots out two problems as major causes of poor loan repayment performance: credit project design problems and credit project implementation problems.

Challenges in credit project design encompass decisions between debt and equity, balancing the pragmatism of the project's projections with ambitious objectives, and considering the full range of potential outcomes and variations in real-world results. Other factors to address include aligning accounting practices with borrower cash flow patterns, establishing effective collection methods, defining the extent of financial services provided, and determining suitable interest rates.

Credit project implementation issues involve achieving sufficient service quality, coordinating various aspects of the project, addressing information gaps, and handling a lack of experience in decision-making when lending to specific target groups. Additionally, maintaining accurate financial records throughout the project's implementation is crucial.

The aforementioned results indicate that the likelihood of loan repayment hinges on various factors related to the borrowers themselves, including their specific attributes such as age, education, experience, gender, household size, and how they utilize the loan. Additionally, loan contract terms, including aspects like repayment installments, collateral, maturity frequency, grace periods, loan amounts, interest rates, and the number of disbursements, also play a significant role. Moreover, external factors like political influence, technical guidance, and the degree of social cohesion (particularly for microenterprises) were found to influence loan repayment probabilities.

According to (Robinson, 2001), a loan as an extension of credit to another person (client) which maybe long term (more than a year) a short term (less than a year).

2.4 Indicators of credit policy.

According to (Pandey, 2008), credit policy encompasses three key decision variables that determine loan eligibility. These variables are credit standards, credit terms, and collection efforts, all of which fall under the influence of the finance manager. Additionally, credit risk control and client appraisal are important components of credit policy.

2.4.1 Credit Standards

Credit standards, which can also be termed as client appraisal, are criteria used by SACCOs to determine which clients are eligible for loan extensions. (Edwards, 2004) emphasizes the importance of basing credit standards on individual credit applications, taking into account character assessment, capacity, condition, collateral, and capital.

Character, as noted by (Kakuru, 2000), pertains to a customer's willingness to meet their financial obligations. Essentially, character serves as a tool that assigns weighted values to various attributes of a credit applicant, and the cumulative weighted score is used to assess the applicant's creditworthiness, as highlighted by (Myers and Forgy, 2005). It involves evaluating moral factors and is primarily concerned with the impression the client makes on the potential lender.

- In the context of social collateral groups, members can serve as guarantors for loans extended to other group members when they have a good understanding of each client's character. If there are doubts about a client's character, it increases the likelihood of loan default.
- A saving habit involves evaluating the consistency with which a client accumulates their own funds. Saving habits play a crucial role in ensuring the sustainability of an enterprise once the loan has been repaid.
- Identifying other sources of income is important as they can help borrowers fulfill their loan obligations promptly. These additional income streams significantly influence borrowers' repayment commitment. Additionally, it's crucial to have concrete evidence supporting this information, which serves as an indicator of the borrowers' character and financial reliability.

Capacity refers to a subjective evaluation of a customer's ability to meet their financial obligations. This assessment may rely on the customer's historical records, which can be supplemented by physical evidence or direct observations.

Condition pertains to the influence of current economic trends on a business's performance, which in turn affects the borrower's capacity to repay the loan and the firm's ability to recover its funds. It involves evaluating the prevailing economic and contextual factors that might impact the client's ability to make repayments, as noted by (Kakuru, 2000).

Collateral security is what clients provide as a pledge so that, in the event of them failing to meet their financial obligations, the lender can sell the pledged asset to recover the loan, as described by (Chan, 1987). It serves as a form of assurance that clients offer to obtain loans, and they surrender it if they are unable to repay. In cases where borrowers do not fulfill their obligations, the lender has the right to seize their assets.

As (Thakor, 2008) suggests, security should ideally consist of safe and easily marketable assets. Unlike land and buildings, which can lose value due to factors like globalization and evolving technology, easily marketable securities are preferred by lenders because they can be readily converted to cash.

All the information mentioned above can be verified by analyzing the loan application form submitted by the client. This aligns with the perspective of (Breth, 2000) who emphasized that a loan application should be completed before a deal is finalized. Such applications serve as risk mitigation tools for lending institutions as they enable them to track and take action in cases where borrowers do not fulfill their obligations as agreed.

Financial institutions have devised various approaches for the client appraisal process, spanning from straightforward methods like subjective or informal evaluations to more intricate ones such as computerized simulation models, as highlighted by (Horne V. C., 2007). In many cases, SACCOs make lending decisions based on their subjective assessments of the risk associated with the borrower's ability to repay. SACCOs often employ this approach because it is both uncomplicated and cost-effective.

2.4.2 Credit Terms

This pertains to the terms and conditions under which SACCOs provide credit to their customers. These credit terms typically outline the credit period and interest rates. The credit period denotes the duration for which the credit is extended. The length of this credit period is influenced by factors such as collateral value, credit risk, the account's size, and market

competition, as noted by (Westerfield, 2008). The interest rate applied represents the cost associated with borrowed funds and can have an impact on loan repayment performance.

Credit terms may encompass various elements, including:

- The time it takes to approve loans, known as the loan processing time, spans from the point of application to the actual disbursement or receipt of the loan. This duration can be assessed by considering the client's financial position, as indicated by ratio analysis, observing cash flow trends, and evaluating their capital position.
- The maturity of a loan refers to the period it takes for a loan to reach its full term, including the repayment of both the principal amount borrowed and any accrued interest.
- The cost of a loan encompasses the interest that is levied on the borrowed funds. Different SACCOs may apply varying interest rates, influenced by competition within their respective markets and competition from rival institutions.

As noted by (Robinson, 2001), the maximum loan amount per lending cycle should be determined based on the intended purpose of the loan and the client's capacity to repay, taking into account any guarantors involved in the transaction.

2.4.3 Credit Risk Control

Credit risk, also known as default risk, pertains to the risk that an investor faces when a borrower fails to make payments as initially promised. This event is referred to as a default. Credit risk exposes investors to potential losses, which can include the loss of principal, missed interest payments, reduced cash flow, and increased expenses associated with debt collection efforts. To mitigate credit risk, strategies such as risk-based pricing, covenants, credit insurance, and diversification can be employed (Ross, 2008).

2.4.4 Collection Efforts

Organizations should implement several policies to ensure effective credit management. One of these policies is a collection policy, which is essential because not all customers adhere to timely payment of their bills. Some customers are slow in making payments, while others do not pay at all. The collection policy should be designed to expedite collections from slowpaying customers and minimize losses due to bad debts. (Kairuki, 2010).

Collection effort can be defined as the process that an institution employs to recover overdue accounts. The collection process can incur significant costs, both in terms of operational expenses and the potential loss of goodwill.

Efforts to recover overdue accounts can involve various actions such as mandating savings contributions, compelling guarantors to make payments, attaching collateral assets, and even resorting to court litigation (Edwards, 2004). Microfinance institutions may also employ communication methods like sending letters to borrowers after a specified period (e.g., ten days) has passed or making phone calls. If payment is still not received within a set timeframe (e.g., thirty days), the institution may opt to transfer the account to a collection agency (Thakor, 2008).

The implementation of a collection procedure is essential because certain clients do not adhere to timely loan repayment; some are slower in making payments, while others never pay at all. Consequently, collection efforts are designed to expedite the retrieval of funds from slower payers and mitigate the risk of bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits (Steams, 1991). However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors (Horne, 1995).

2.5 Indicators of Loan Repayment Performance.

The following are the measures used to determine loan repayment performance;

Repayment rate quantifies the received payment amount relative to the total amount due. Portfolio quality ratios encompass various metrics, including the arrears rate, portfolio risk, and the ratio of delinquent borrowers. The arrears ratio rate illustrates the portion of loans that have become due but remain unpaid. Portfolio rate denotes the outstanding balance of all loans with amounts due. Delinquent borrowers indicate the number of borrowers who are delinquent in relation to the volume of delinquent loans.

Profitability ratios gauge the SACCO's net income relative to the composition of its balance sheet. These ratios are instrumental in assisting investors and managers in evaluating whether they are generating a satisfactory return on the funds they have invested in the SACCO. Productivity and efficiency ratios provide the information about the rate at which SACCOs

generate revenue to cover their expenses. Productivity ratio focuses on the productivity of credit officers because they are primary generators of revenue.

The ratio includes;

- Number of active borrowers per credit officer (performing assets).
- Total amount disbursed in the period per credit officer.
- Portfolio outstanding per credit officer (Non performing assets)

Efficiency ratios measure the cost of providing loans to generate revenue. These are referred to as operating costs and should include neither financing costs nor loan loss provisions.

2.6 Relationship between credit management policy and loan repayment.

2.6.1 Client appraisal and loan repayment

Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit management operations (Kabir, Jahan, Chisty & Hasin, 2010) and since microfinance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted, the loan repayments may be uncertain. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Edwards, 2004) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

Numerous approaches have been developed in client appraisal process by financial institutions. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones, such as the use of computerized simulation models (Kisaka & Simiyu, 2014). Many lending decisions by Microfinance institutions are frequently based on their subjective feelings about the risk in relation to expected repayment by the borrower. Microfinance institutions commonly use this approach because it is both simple and inexpensive.

The factors that influence a client appraisal can be categorized into personal, cultural, social and economic factors. The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment. MFI's consider this factor by observing and learning about the individual. In most cases it is not considered on first application of credit by an applicant but from the second time. Under social factors, lifestyle is the way a person

lives. This includes patterns of social relations (membership groups), consumption and entertainment. A lifestyle typically also reflects an individual's attitudes, values or worldview. Reference groups in most cases have indirect influence on a person's credibility. MFIs try to identify the reference groups of their target as they influence a client's credibility (Kurui & Kalio, 2012).

The MFIs will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan during client appraisal. Anthony (2006) defines cash flow as the cash a borrower has to pay his debt. Cash flow helps the MFY's to determine if the borrower has the ability to repay the debt. The analysis of cash flow can be very technical. It may include more than simply comparing income and expenses. MFI's determines cash flow by examining existing cash flow statements (if available) and reasonable projections for the future (ratios).

Edwards (2004) points that lenders review the borrower's business plan and financial statements. They have a checklist of items to look at, one of the being the number of financial ratios that the financial statements reveal. These ratios are guidelines to assist lenders determine whether the borrower will be able to service current expenses plus pay for the additional expense of a new loan. Collateral is any asset that customers have to pledge against debt (Moti et al, 2012). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral is in form of hard assets such as real estate and office or manufacturing equipment. Alternatively accounts receivable and inventory can be pledged as collateral. Lenders of short term funds prefer collateral that has duration closely matched to the short term loan.

According to Kisaka & Simiyu (2014), capital is measured by the general financial position of the borrower as indicated by a financial ratio analysis, with special emphasis on tangible net worth of the borrower's business. Thus, capital is the money a borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail. Condition refers to the borrower's sensitivity to external forces such as interest rates, inflation rates, business cycles as well as competitive pressures. The conditions focus on the borrower's vulnerability.

Good credit management provides the institution with a reasonable and adequate return on loans and capital employed primarily through improvement in operations efficiency. This generates adequate internal resources to finance the institution's growth (Pandey, 2000).

The institution may have tense credit standards that it may extend loan to the most reliance and financially strong customers such standards will result in no bad debt losses and less cost of credit administration (Pandey, 2000).

(Pandey, 2008) stresses that credit standards are criteria for selecting customers for to give credit. The creditor may have higher credit standards; such as extending loans to selected customers with good reputation or record. On the other hand, customers have to be evaluated to see if they meet the standards set by the management before loans are extended to them.

(Horne, 1995) states that when an institution extends loans to only strongest customers, it will never have bad losses and will incur fewer administration expenses

2.6.2 Credit terms and loan repayment

A credit is a contractual stipulation, under which a firm grants credit to customers (Ongore, 2011). 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. Kakuru (2003) 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.

Dellien & Schreiner (2005) 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. Dellien & Schreiner (2005) further point out that the maximum loan amounts per cycle are determined basing on the loan and the ability of the client to repay (including guarantee).

According to Gyamfi, (2012), short-term debt is positively correlated with loan repayment performance. Short-term debt is the best financing tool because it is perceived to be cheaper. According to Jun and Jen (2003) suggest several advantages of short term debt, first they suggest that short term debt adapts more easily to a firm's financial need. Secondly it facilitates bank relations between the firm and the lender due to frequent renewals and hence firms might obtain credit condition benefits. Ozkan (2000) argues that short term debt can mitigate agency conflicts between shareholders and debt holders. Empirical evidence confirms that firms can use short term debt loans to solve the problem of underinvestment because management is more frequently monitored due to periodic credit renewal.

On the other hand, long term loans are most preferable sources of debt financing among wellestablished corporate institution mostly by virtue of their asset base and collateral are a requirement many deposit taking financial institutions such as industrial development banks, cooperative banks and commercial banks who grant medium term loans for a period of three to five years with an agreement on the cost (interest rate on principle amount), Sacco's in their limited asset base, have no potential of securing long term loans as a major instrument of debt financing hence giving it a major constraint in borrowing funds to finance their operations. This in turn limits sources of financing available to Sacco's. Report by European Commission (2008) indicates large financial banks have considerably reduced lending to Sacco's because of poor loan repayment performance.

When borrowers are given small amount of money it will not be sufficient for business operations yet given too much money it is spent on non productive activities causing high non - loan repayment. The credit manager should check on the amount the customer is demanding for, whether it is too much or little.

2.6.3 Collection efforts and loan repayment

Collection efforts are instrumental in determining the actual duration for loan recovery (Mustafa & Saat, 2013). This process entails the oversight of credit and loans. The policy outlines the steps an institution takes to obtain payment for accounts that have become delinquent. This could involve sending reminders, like letters, when a client is ten days past due or resorting to phone calls. If payment is not received within thirty days, legal action may be pursued. The implementation of these procedures is necessary because some clients tend to delay their payments. When firms adhere to this policy, it expedites the recovery of outstanding payments and subsequently reduces the incidence of bad debts.

However, it is important to note that while effective collection efforts are crucial, they may not always ensure complete recovery, as some clients may have a slower repayment pace or, in some cases, may never make payments (Nawai & Shariff, 2013). Credit policy decisions are primarily based on the borrower's willingness and ability to repay loans. The loan amount is determined based on the client's specific needs and the assessed ability of their enterprises to repay.

Reporting on loan collections can be a complex task. Some indicators may obscure rather than elucidate the true state of affairs. Furthermore, there may be inconsistencies in terminology and calculation methods.

Hence, when any measure related to loan repayment, delinquency, default, or loss is reported, it is imperative to provide a precise explanation of both the numerator and denominator of the ratio (Mustafa & Saat, 2013).

MFIs often tend to understate their collection performance due to weaknesses in their information systems rather than any intent to deceive. To ensure reliability in collection reporting, it is advisable to have it verified by a competent independent party. In the banking industry, the standard international measure of portfolio quality is Portfolio at Risk (PAR) beyond a specified number of days (Wangai, Bosire & Gathogo, 2014).

Many young or less sophisticated MFIs might not have robust loan tracking systems capable of producing a PAR figure. However, most of them should still be able to calculate Loans at

Risk (LAR), which is a simpler indicator that counts the number of loans rather than their amounts. If repayment rates are relatively consistent between large and small loans, LAR won't significantly differ from PAR (Radhamani & Madhavi, 2014).

Issues with poor microloan collection can usually be traced back to weaknesses in management and systems. The most potent incentive for borrowers to repay uncollateralized microloans may not necessarily be peer pressure, but rather their desire to maintain future access to a valuable loan service for themselves and their families. Therefore, healthy repayment rates signal that the loans hold real value for clients.

Lastly, high delinquency rates make financial sustainability unattainable. As a rough guideline, when dealing with uncollateralized loans, portfolio or loans at risk (30 days or one payment period) exceeding 10%, or annual loan-loss rates surpassing 5%, should be addressed promptly, or they could spiral out of control (CGAP, 2003).

2.7 Problems faced by SACCOs in delivering financial services to rural poor people.

Whereas SACCOs and other credit programs are designed to benefit the rural poor and disadvantaged in Uganda, their operations have faced a number of constraints, and these include;

- Poor client assessment procedures. Clients are given loans without assessing the character, capacity and collateral of the borrower.
- Low loan supervision, clients need to be supervised on how to utilize the loan advanced to them.
- Low incentive to save, Uganda has a very low domestic saving to gross domestic product (GDP).
- High interest rate. The higher the interest rate, the more income SACCOs receive but it also means the higher the cost to borrowing to the clients, (Steams, 1991). Customers will stop borrowing if the interest rate is keeps rising or others will borrow but find difficulty in paying back. If the customers fail to pay on time, the rates can not yield income.
- Poor physical infrastructure, particularly roads and communication facilities that make contact between lenders and borrowers very difficult (Polycarp Musinguzi, 2000).

- Multiple borrowing; most clients borrow from several SACCOs beyond capacity to pay.

In order to succeed in the promotion of economic interest of member lending institutions, such institutions must recognize their responsibility to the members; it is important for their aim at sustainability.

Sustainability is the ability of microfinance institutions to generate income from their operation that covers administration costs and losses. To ensure long term sustainability, there must be growth in customers and size of portfolio lent out. Microfinance institutions need to grow in order to generate income needed to pay for operations of their services. (Polycarp Musinguzi, 2000)

MFIs and SACCOs quote only nominal interest rate to customers as income. However, there are other additional costs the clients incur like penalties on default, travel time for meetings, mandatory saving and loan size which are also looked at as income to the lending institutions.

Regulatory frame work; Lack of proper regulatory frame work has made MFIs and SACCOs face a high non-loan repayment. Poor regulatory system determines a minimum standard of operation through self regulatory body of micro finance saving mobilization of fixed interest rates operation overlapping can be looked in to by regulatory body (Shafique, 2008). Therefore, MFIs and SACCOs must set a law in order to deal with defaulters to recover loans.

2.8 Conclusion

Microfinance is the provision of profitable commercial services such as small savings and loans to economically active poor people by sustainable financial institutions. These services are provided by competing institutions at the local level.

Credit management policy has continued to be an important aspect in the loan repayment in SACCOs. The policy determines the structure of the SACCOs performance since their operations are based on granting loans to their customers making a benefit on interest rates. However the area continues to be a researchable zone for the current researcher because most research that has been done on case study basis thus the problem continues to exist because different institutions have different ways of managing credit.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methods employed in data collection and analysis. It describes the research design, study population, sample size, sampling technique, research procedure, data collection tools, data processing and analysis.

3.1 Research Design

The study adopted a descriptive research design in which a case study was used. A case study approach was used since the research aimed at an in-depth and comprehensive understanding of credit management policy and loan repayment performance variables in a SACCOS. Bell (1999) states a case study approach is particularly appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in some depth within a limited time scale. Therefore, Muhame Financial Services was used as a case study. The findings obtained from the case study were generalized.

3.2 Study Population

The study population was comprised of 89 respondents who included 18 staff members and 71 clients of MFS who were on the list of non-performing clients (obtained from the MFS loans file as at 6 April 2016). Clients and staff members were used as study groups that helped find out the relationship and the rate at which credit management policy influences loan repayment performance.

3.3 Sampling Size and sample size determination

The study sample size comprised of the SACCOS staff members and borrowers. The researcher had a sample population of 100 people. A sample size of 80 was considered with the use of Krejcie & Morgan, 1970 Sample Size Tables. Staff members were selected purposively while borrowers were selected by means of simple random sampling.

3.4 Sampling procedure

The researcher used simple random sampling method. Simple random sampling is a method where each and every element in the population has an equal chance of being sampled (Mugenda O M, 2003). In this sampling approach, each individual or member of the available population was assigned a unique number. These numbers were then placed into a container,

and a random number was drawn. Individuals corresponding to the selected numbers were included in the sample. This method was chosen to ensure the researcher could obtain a sufficient representation of the entire population. It became necessary because surveying the entire population was impractical due to limitations such as financial constraints, time constraints, and the dispersed nature of the client base.

3.5 Source of Data

The researcher employed two distinct data sources: a secondary source, which offered preexisting data gathered by others, and a primary source that necessitated the researcher's direct fieldwork to collect data from designated respondents.

3.5.1 Primary source

Questionnaires were employed as a means to gather primary data, with distribution to both staff and clients being carried out to obtain their perspectives concerning the two variables.

3.5.2 Secondary Source

This source entailed the examination of prior research conducted by various scholars regarding the issue. Such data was obtained from textbooks, journals, reports, and the internet.

3.6 Data instrument

Data collection primarily utilized questionnaires, which included a combination of closed-ended questions (some in a Likert scale format) and open-ended questions, allowing respondents to provide tick or fill-in responses as appropriate.

3.7 Data collection method

The researcher employed questionnaires as a means to gather primary data. The researcher accompanied credit officers to the field and distributed questionnaires to the relevant respondents, remaining on-site while they were completed. Nevertheless, in some cases, questionnaires were provided to respondents, particularly staff members, and later collected after they had been filled out.

3.8 Research procedure

The process commenced with the identification of a discrepancy requiring clarification, leading to the formulation of a research topic under the guidance of the supervisor. Research objectives and questions were subsequently developed. To establish a strong foundation, a

review of previous research conducted by various scholars in the field was undertaken. Following this, a research design was adopted to precisely direct the study's intent. A data collection instrument, namely questionnaires, was then devised. The sample size of respondents was determined. Once these steps were completed and approved by the supervisor, an introductory letter from the university was secured, facilitating data collection in the field.

The gathered data was processed to derive meaningful insights and presented using pie charts and bar graphs for ease of interpretation. Finally, conclusions were drawn, and recommendations were provided.

3.9 Ethical consideration

The information collected from the respondents was solely intended for academic purposes and was treated with the utmost level of confidentiality.

3.10 Data processing and presentation

The raw data underwent a transformation into meaningful information, a process that encompassed tabulation, presentation, interpretation, and analysis. STATA, a computer program, played a pivotal role in this endeavor. Presentation primarily took the form of tables, making it simpler to identify, compare, and analyze the relationships between the variables.

3.10.1 Data analysis

Data interpretation was conducted by relying on the presented information, utilizing totals, percentages, and correlation analysis for comparison. This approach assisted the researcher in assessing the extent of the relationship between variables, specifically credit management policy and loan repayment performance, in alignment with the research objectives and the findings from the literature review.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter encompasses the presentation and interpretation of research findings. The presentation within this chapter displays the results, as evaluated in alignment with the study's objectives. It initiates by providing demographic characteristics of the respondents, including age, gender, educational level, marital status, and more, all of which were illustrated through figures. Descriptive outcomes related to the study's objectives were also showcased, employing frequencies and percentages. Responses were rated on a scale of 1 to 5, with 5 representing the highest contribution, 4 indicating a greater contribution, 3 signifying a great contribution, 2 representing a lesser contribution, and 1 indicating no contribution.

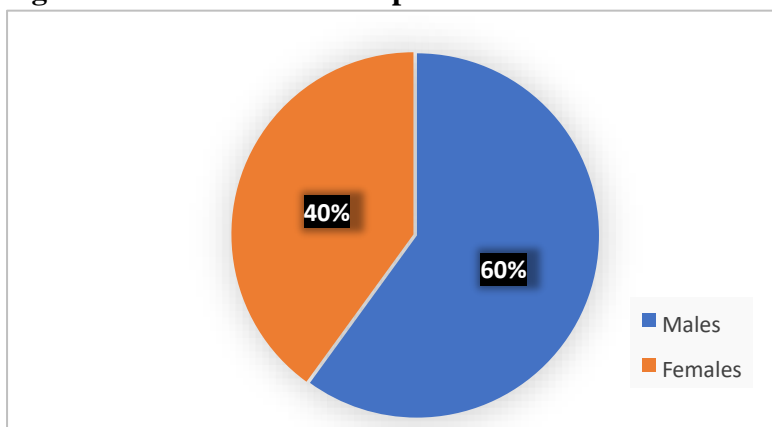
4.1 Background characteristics of respondents

Respondents were requested to provide information regarding their demographic characteristics, including gender, age, education level, and other relevant details. This was done to provide a description of the sample and enable the researcher to gain a better understanding of the specific categories of respondents involved in the study.

4.1.1 Findings on gender

The respondents were asked to define their gender and as the figure below illustrates the majority of the respondents were male with a percentage of 60%.

Figure 4.1: Gender of Respondents



Source: Field Data

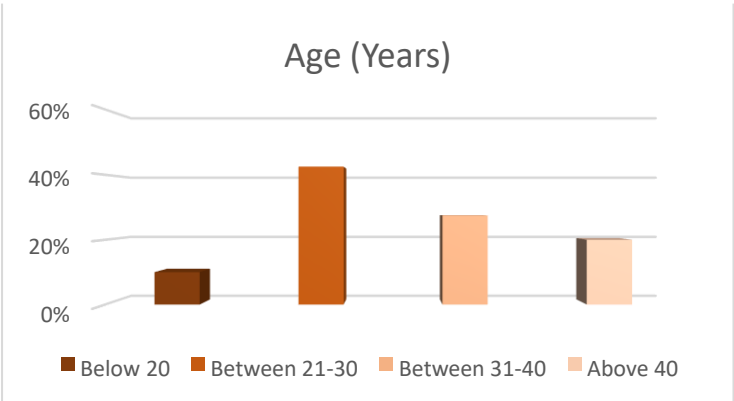
Based on the results presented in Figure 4.1, it can be observed that among the 80 respondents surveyed, 60% were male, while 40% were female. Therefore, it becomes evident that male respondents formed the majority in the sample compared to their female counterparts. This finding suggests that there is a gender imbalance or sensitivity within MFS, as the sample disproportionately consisted of more males than females. Additionally, it implies that, in typical scenarios, males tend to borrow more frequently than females.

These observations align with the perspective provided by Weischelbaumer and WinterEbmer (2007), who argue that gender inequality is a prevalent characteristic in most societies. Typically, males tend to occupy more advantageous positions in social, economic, and political hierarchies when compared to females.

4.1.2 Findings on the age of the respondents

The figure below illustrates the various age groups of the respondents who took part in this research study. The findings indicate that the majority of the respondents fell within the age range of 21-30 years, as depicted in the figure below:

Figure 4.2: Age



Source: Field Data

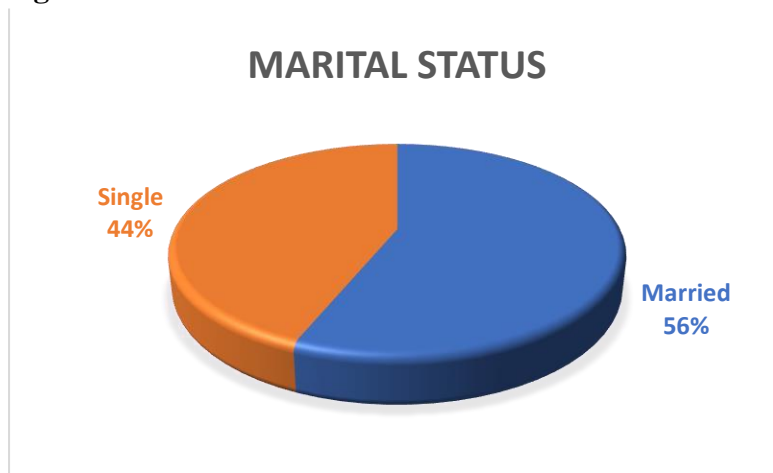
Based on the results presented in Figure 4.2 above, among the 80 respondents, 42.5% fell within the age range of 21-30 years, 27.5% were aged between 31-40 years, 20% were above 40 years old, and 10% were below 20 years of age. These findings indicate that the largest proportion of respondents belonged to the age group between 21-30 years. This suggests that MFS is inclusive and does not discriminate based on age; it welcomes individuals of all age groups as long as they meet the necessary qualifications. These findings align with the

perspective presented by Abrams, Eller, and Bryant (2006), who suggest that older individuals with strong intergenerational connections are less susceptible to the adverse effects of age-related stereotypes, discrimination, and social exclusion.

4.1.3 Findings on marital status of respondents

The respondents were asked about their marital status, and the findings reveal that the majority of them were married, as depicted in the figure below:

Figure 4.3: Marital Status



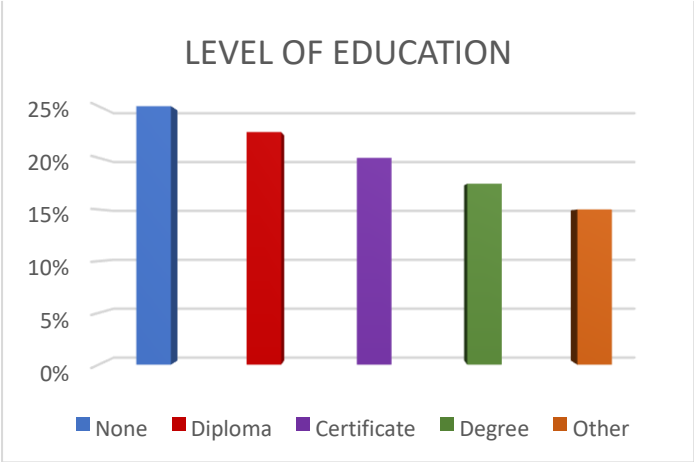
Source: Field Data

The findings presented in Figure 4.3 above indicate that 56.25% of the respondents were married, while 43.75% were single. These results suggest that a significant proportion of MFS clients are married individuals. This implies that MFS plays a significant role in supporting families in the area, as the majority of its clients are married and responsible for their households. These findings align with the perspective presented by Goldman, Korenman, and Weinstein (2005) in their work on marital status and health among the elderly. According to their research, married individuals are often seen as valuable contributors to development because they tend to have economically secure partnerships, making them desirable and suitable partners for investments in economic growth and development.

4.1.4 Findings on the level of education

The figure below illustrates the education levels of the respondents and the results indicate that the majority of respondents had no formal education:

Figure 4.4: Level of Education



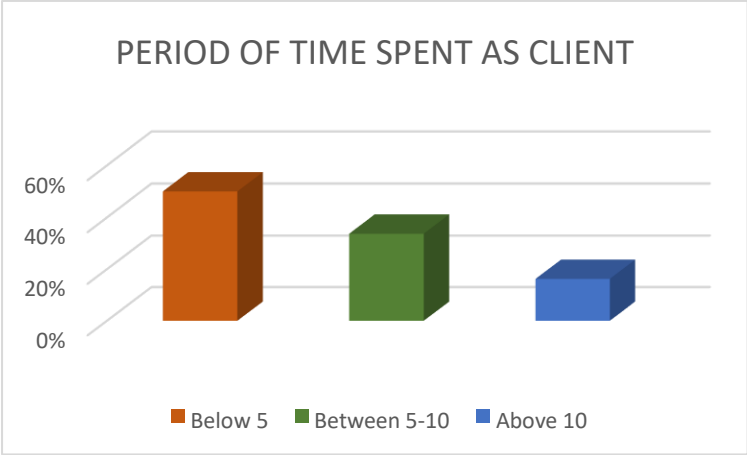
Source: Field Data

In Figure 4.4 above, the research findings indicated that the majority of respondents (25%) who are clients of Muhame Financial Services have no formal education background. They were followed by those holding degrees, accounting for 22.5% of the respondents. The next category included respondents with certificates, representing 20%, followed by those with diplomas, making up 17.5% of the respondents. Finally, respondents with other education qualifications, such as masters, accounted for 15% of the participants. This suggests that Muhame Financial Services caters to a diverse clientele, welcoming individuals from various educational backgrounds, as both those with and without formal education were represented in the sample. Nonetheless, it's worth noting that a significant portion of Muhame Financial Services' clients have limited education, as most of them lack a formal education background. This observation aligns with the concept of educational levels, which categorizes educational programs based on the progression of learning experiences and the knowledge and skills they impart, as discussed in the literature by Douglas et al. (2014).

4.1.5 Findings on period spent as a client of this SACCO.

The respondents were asked about the period they have spent as clients of MFS and most of the clients have been dealing with MFS for less than 5 years as shown presented in the figure below;

Figure 4.5: For how long have you been a client of this SACCO?



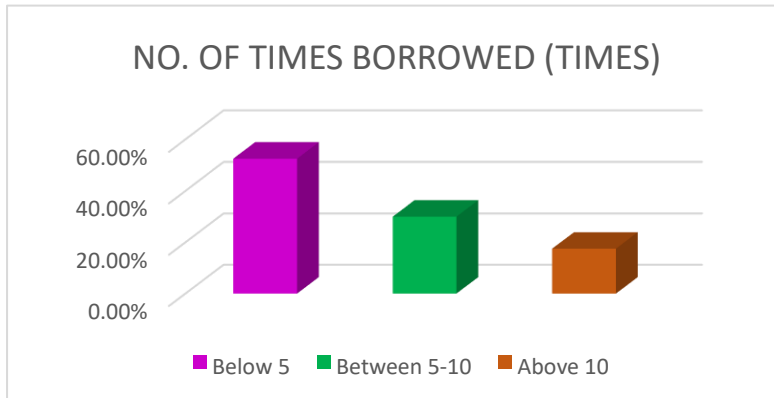
Source: Field Data

Figure 4.5 illustrates that the research findings indicate a majority of respondents, who are clients of Muhame Financial Services, have a tenure of less than 5 years with the SACCO, accounting for 50% of the respondents. Additionally, 33.75% of the respondents have a tenure of 5-10 years, while 16.25% have been clients for more than 10 years. This implies that the majority of the respondents have spent relatively little time as clients of Muhame Financial Services since they have spent less than 10 years dealing with the SACCO. This demonstrates that people require these services often, and when the need arises, they subscribe for membership in order to be able to acquire loans, but probably not being familiar with the loan repayment pressure, they tend to default the most.

4.1.6 Findings on the number of times respondents have borrowed from this SACCO

The respondents were asked to how many times they had borrowed from MFS and the majority had borrowed less than 5 times as illustrated below;

Figure 4.6: How many times have you borrowed from this SACCO?



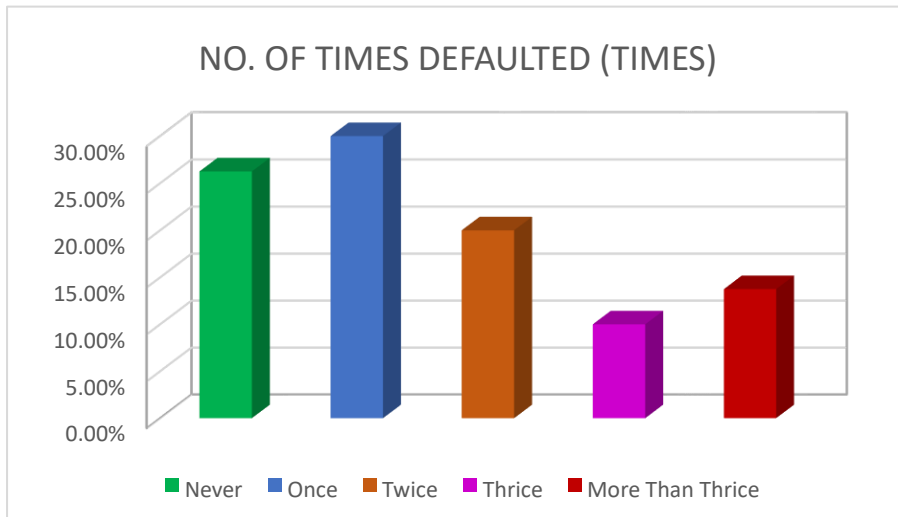
Source: Field Data

The data shown in Figure 4.6 indicates that a significant portion of the respondents, specifically 52.5%, had borrowed from Muhame Financial Services fewer than 5 times. Furthermore, 30% had borrowed between 5-10 times, while 17.5% had borrowed from the SACCO more than 10 times. This suggests that Muhame Financial Services has played a crucial role in providing financial services to the people of Sheema, as a large portion of respondents have utilized the SACCO's lending services.

4.1.7 Findings on the number of times respondents have defaulted repayment

The research aimed to determine the number of times each respondent had experienced loan repayment defaults. The findings indicate that most respondents had encountered loan repayment default issues once, as illustrated in the figure below:

Figure 4.7: How many times have you defaulted in repayment?



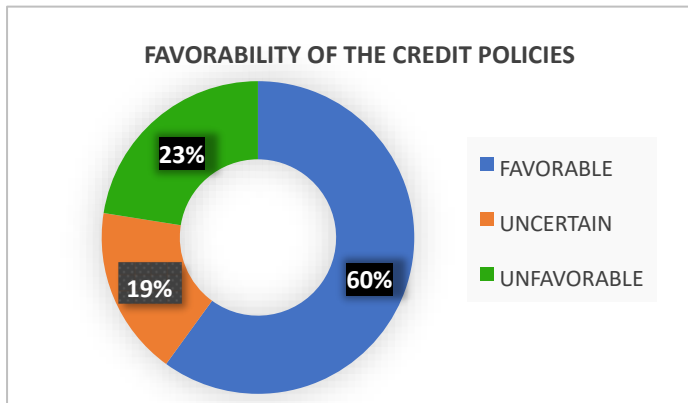
Source: Field Data

As depicted in Figure 4.7, among the respondents who are clients of Muhame Financial Services, 30% reported experiencing a single loan repayment default, while 26.25% claimed they had never defaulted. Additionally, 20% had defaulted twice, 13.75% had defaulted more than three times, and 10% had defaulted three times. This suggests that loan repayment issues are not uncommon among Muhame Financial Services clients, with various degrees of default experienced. Hence, it is evident that loan repayment defaults continue to be a challenge among Muhame Financial Services clients, as a significant portion of respondents reported having experienced defaults. Consequently, it is advisable for Muhame Financial Services to implement measures aimed at reducing the rate of loan repayment defaults among their clients.

4.1.8 Findings on whether credit policies used are favorable

When asked about the favorability of credit policies, a majority of the respondents indicated that they found these policies favorable, as shown in the figure below:

Figure 4.8: Are the credit policies used favorable?



Source: Field Data

From the data presented in Figure 4.8, it is evident that the majority of respondents, constituting 60%, perceived the credit policies employed by Muhame Financial Services (MFS) as favorable. However, a notable 22.5% of the respondents held the view that these credit policies were not favorable while 17.5% of the respondents expressed uncertainty regarding the favorability of MFS's credit policies. These findings suggest that there is a mixed perception among clients regarding the suitability of MFS's credit policies, with a significant portion viewing them positively, but a substantial minority expressing concerns or uncertainties about their favorability. Nevertheless, it can be inferred that Muhame Financial Services (MFS) has made significant progress in enhancing its financial services, as evidenced by the positive perception of the majority of respondents regarding the credit policies of the SACCO. However, there is room for improvement, as indicated by the subset of respondents who expressed dissatisfaction with the credit policies or remained uncertain about their favorability. Therefore, MFS should consider further refinements to its credit policies to ensure they meet the expectations and needs of all its clients, aiming for greater overall satisfaction and effectiveness.

4.2 Findings on relationship between client appraisal and loan repayment

The researcher aimed to investigate the relationship between client appraisal and loan repayment. The research findings suggest a positive correlation between client appraisal and loan repayment, as illustrated in the table below:

Table 4.2: Relationship between client appraisal and loan repayment

		1	2	3	4	5
To what extent does loan appraisal affect loan repayment	Pearson Correlation	1.000				

Use of false information to acquire loans	Pearson Correlation	.319**	1.000			
Accepting collaterals whose values are overstated or impaired	Pearson Correlation	.160**	.383*	1.000		
Falsified past business performance records	Pearson Correlation	.520**	.359**	.711*	1.000	
Poor tests of trustworthiness and honesty of applicants	Pearson Correlation	-.102**	.565**	.343**	.182**	1.000
**Correlation is significant at the 0.01 level (2-tailed)						
*Correlation is significant at the 0.05 level (2-tailed)						

Source: Primary Data

Table 4.2 shows a positive relationship between client appraisal and loan repayment. A positive relationship was noted between use of false information to acquire loans and loan repayment represented by ($r=0.319^{**}$ and $p\text{-value}<0.01$). A positive relationship was also noted between accepting collaterals whose values are overstated or impaired and loan repayment represented by ($r=0.160^{**}$ and $p\text{-value}>0.01$). A positive relationship was also noted between falsified past business performance records and loan repayment represented by ($r=0.520^{**}$ and $p\text{-value}>0.01$). However, a negative relationship was noted between poor tests of trustworthiness and honesty of applicants and loan repayment represented by ($r= -0.102^{**}$ and $p\text{-value}>0.01$).

Based on the study's findings, it can be reasonably concluded that there exists a significant correlation or relationship between client appraisal and loan repayment. This conclusion aligns with the perspectives of various scholars, including Edwards (2004), who suggests that financial institutions may employ stringent credit standards and extend loans to the most reliable and financially stable customers, resulting in minimal bad debt losses and reduced credit administration costs.

Furthermore, these findings are consistent with the assertions made by Kabir, Jahan, Chisty, and Hasin (2010) in the International Journal of Trade, Economics, and Finance. They emphasize that Microfinance Institutions and other financial institutions should establish

credit policies to govern their credit management operations. Given that microfinance institutions derive their revenue from extending credit to low-income individuals in the form of interest charges, loan repayments can be uncertain. Success in lending credit hinges on the evaluation methodology applied and the careful assessment of both lending risk conditions and borrower characteristics.

It's also worth noting that MFS does not accept collateral with overstated or impaired values. This observation aligns with the literature presented by Moti et al. (2012) in the International Journal of Business, Humanities, and Technology. They emphasize that collateral represents assets that borrowers pledge against debt and can take various forms, including hard assets like real estate and equipment, as well as accounts receivable and inventory. Lenders of shortterm funds prefer collateral that matches the duration of the loan closely, and the value of these collateral assets must be realistic.

4.3 Findings on relationship between credit collection procedures and loan repayment

The researcher also considered it necessary to find the relationship between credit collection procedures and loan repayment and the findings point out that there is positive relationship between the two as shown in the table below;

Table 4.3: Relationship between credit collection procedures and loan repayment

		1	2	3	4
Listening to defaulters excuses to extend period	Pearson Correlation	1.000			
Commitment to loan recovery by credit officers	Pearson Correlation	.548 **	1.000		
Long repossessioning period	Pearson Correlation	-.046*	-.102*	1.000	
Corrupt staff/credit officers	Pearson Correlation	.491**	.262**	.129*	1.000
**Correlation is significant at the 0.01 level (2-tailed)					
*Correlation is significant at the 0.05 level (2-tailed)					

Source: Primary Data

Table 4.3 shows a positive relationship between credit collection and loan repayment. A positive relationship was noted between listening to defaulters excuses to extend period and loan repayment represented by ($r=0.491^{**}$ and $p\text{-value}<0.01$). A positive relationship was also noted between commitment to loan recovery by credit officers and loan repayment represented by ($r=0.548^{**}$ and $p\text{-value}>0.01$). A positive relationship was also noted between corrupt staff/credit officers and loan repayment represented by ($r=0.491^{**}$ and $p\text{ value}>0.01$). However, a negative relationship was noted between long repossessing period and loan repayment represented by ($r= -0.046^{**}$ and $p\text{ value}>0.01$). From the study, it can therefore be concluded that there is a significant correlation or relationship between credit collection and loan repayment which is in line with the literature of different scholars like (Pandey, 2008) who assert that collection procedures are needed because some clients do not pay their dues in time and if firms carry out this policy, it will quicken recovery portfolio and hence reduce bad debts.

The study found out that SACCOs usually accept collaterals whose values are overstated or impaired. The findings are in line with literature put across by (Mustafa & Saat, 2013, Middle-East Journal of Scientific Research) who assert that collection procedures are needed because some clients do not pay their dues in time and if firms carry out this policy, it will quicken recovery portfolio and hence reduce bad debts.

The findings are also in line with the literature put across by (Mustafa & Saat, 2013, MiddleEast Journal of Scientific Research) who note that reporting of loan collection is a minefield. Some indicators camouflage rather than clarify the true situation. Moreover, terminology and calculation methods are not always consistent. Therefore, whenever any measure of loan repayment, delinquency, default, or loss is reported, the numerator and denominator of the ratio should be explained precisely.

Findings also found out that in the bid to improve on credit collection. Muhame Financial services listens to defaulters excuses to extend period and puts long processing periods. The findings correlated with the literature put forward by (Wangai, Bosire & Gathogo, 2014, International Journal of Science and Research) who pointed out that MFIs' self-reported collection performance often understates the extent of problems, usually because of information system weaknesses rather than intent to deceive. Collection reporting should be regarded as reliable only if it is verified by a competent independent party. The standard

international measure of portfolio quality in banking is Portfolio at Risk (PAR) beyond a specified number of days.

4.4 Findings on relationship between credit terms and conditions and loan repayment

The study sought to discover the correlation between credit terms and loan repayment and findings revealed that there is a significant correlation as portrayed in the table below;

Table 4.4: Relationship between credit terms and conditions and loan repayment

		1	2	3	4
Listening to defaulters excuses to extend period	Pearson Correlation	1.000			
Commitment to loan recovery by credit officers	Pearson Correlation	.548 **	1.000		
Long repossessioning period	Pearson Correlation	-.046*	-.102*	1.000	
Corrupt staff/credit officers	Pearson Correlation	.491**	.262**	.129*	1.000
**Correlation is significant at the 0.01 level (2-tailed)					
*Correlation is significant at the 0.05 level (2-tailed)					

Source: Primary Data

Table 4.4 demonstrates a positive correlation between credit terms and loan repayment. Specifically, a positive relationship was observed between loan interest rates and loan repayment, indicated by a correlation coefficient of $r=0.506^{**}$ with a p-value of less than 0.01. Additionally, a positive correlation was identified between overdue payment penalties and loan repayment, with a correlation coefficient of $r=0.408^*$ and a p-value greater than 0.01. More so, a positive association was found between loan repayment period/schedules and loan repayment, with a correlation coefficient of $r=0.158^{**}$ and a p-value exceeding 0.01. Furthermore, a positive relationship was detected between repayment grace period and loan repayment, as evidenced by a correlation coefficient of $r=0.506^{**}$ and a p-value surpassing 0.01.

The findings from the study lead to the conclusion that there exists a significant correlation between credit terms and loan repayment. This aligns with the observations of various scholars, such as Dellien and Schreiner (2005), who emphasize the importance of determining maximum loan amounts based on the client's ability to repay, including the availability of guarantees. Additionally, they highlight that credit terms encompass factors like the credit period, terms of discount, and the instrument used to document credit terms.

Furthermore, Dellien and Schreiner (2005) also discuss various elements related to credit terms, including the time taken from application to loan disbursement or receipt (referred to as length of time to approve loans). This is assessed by evaluating the client's financial position, as indicated by ratio analysis, cash flow trends, and capital position. They also touch on the maturity period of a loan, which signifies the time it takes for a loan to mature along with the accrued interest. Lastly, they note that the cost of the loan is a crucial component of credit terms.

The findings of this study align with the research presented by Gyamfi (2012) in the Journal of Science and Technology, which emphasizes that short-term debt exhibits a positive correlation with loan repayment performance. According to Gyamfi, short-term debt is viewed as a more cost-effective financing option.

Similarly, the results are consistent with the literature discussed by Kisaka and Simiyu (2014) in their Research Journal of Finance and Accounting. Kisaka and Simiyu enumerate several advantages of short-term debt. Firstly, they argue that short-term debt is adaptable to a firm's financial requirements. Secondly, it fosters strong relations between the firm and the lender due to the frequent renewals, potentially leading to favorable credit conditions for the firm.

4.5 Findings on how respondents rate credit policies contribution to loan repayment

Respondents were asked to rate the levels at which credit policies affect loan repayment and the findings emphasize that credit terms and conditions as well as credit appraisal process greatly influence loan repayment as shown below;

Table 4.5: How respondents rate credit policies contribution to loan repayment

Statements	Low (%)	Moderate (%)	High (%)
-------------------	----------------	---------------------	-----------------

Credit Appraisal Process	7.50	46.25	46.25
Credit Recovery Procedure	13.75	42.50	43.75
Credit Terms and Conditions	3.75	56.25	40.00
Management Decision	20.00	50.00	30.00

Source: Primary Data

Table 4.5 provides descriptive statistics regarding how respondents perceive the contribution of credit policies to loan repayment. According to the study, 7.5% of the respondents rate the contribution of the credit appraisal process to loan repayment as low, while 46.25% consider it to be moderate, and 46.25% believe its contribution is high. Similarly, the study reveals that 13.75% of the respondents rate the contribution of credit recovery procedures to loan repayment as low, 42.5% view it as moderate, and 43.75% regard its contribution as high. Furthermore, the study indicates that 3.75% of the respondents rate the contribution of credit terms and conditions to loan repayment as low, 56.25% consider it to be moderate, and 40% believe its contribution is high. Additionally, the research finds that 20% of the respondents rate the contribution of management decisions to loan repayment as low, 50% perceive it as moderate, and 30% assess its contribution as high. Major finding; the study revealed that the majority of the respondents were in agreement that credit appraisal process is the major contributor of loan repayment.

The study identified several challenges faced by respondents in repaying loans borrowed from the bank. These challenges include a short payback period, high interest rates, an unfriendly environment, insufficient information about the services, poorly-timed loan schedules, granting heavy loans to clients, and unstable sources of income, which sometimes affect credit records, among other issues. These findings align with the research of Musinguzi (2000) and Steams (1991), who highlight the low domestic saving rates in Uganda and the impact of interest rates on both SACCO income and borrowing costs for clients.

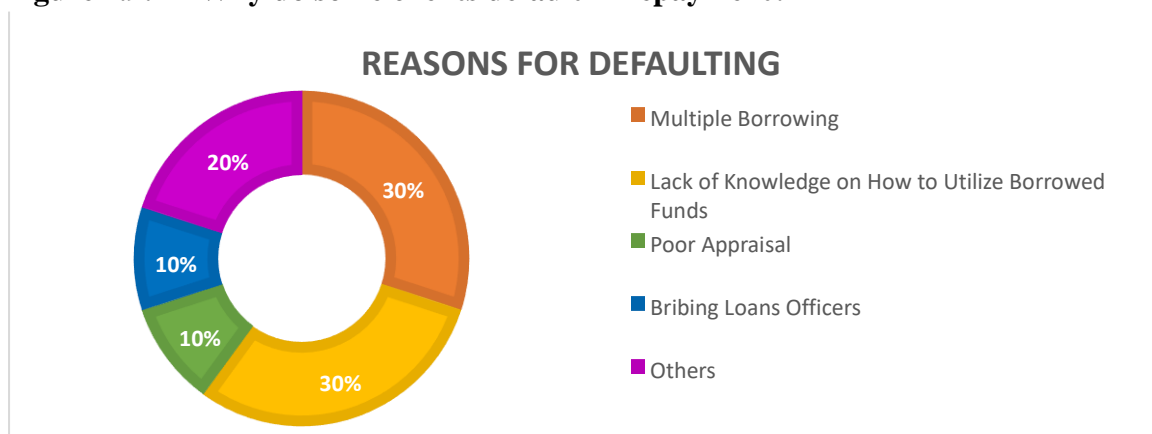
In response to these challenges, respondents provided several solutions to help them repay loans with greater ease. They emphasized the importance of lower interest rates on loans, extending the payback period, conducting client sensitization or training, ensuring timely disbursements, conducting accurate appraisals, and ensuring loans are granted to the right individuals. Respondents also stressed the significance of client honesty and the timing of

loan applications to align with expected income. Additionally, they emphasized the importance of loans officers visiting clients to monitor their progress with the loan.

4.6 Findings on why some clients default in repayment

The staff members of Muhame Financial Services (MFS) were asked about the reasons why clients default in loan repayment. The majority of respondents mentioned that clients often borrow from more than one bank simultaneously, making it challenging for them to meet their repayment obligations within the specified period. Additionally, respondents highlighted that a lack of knowledge on how to effectively use borrowed funds contributes to loan repayment defaults. Clients sometimes divert the loaned money away from its originally intended purpose, using it for non-income generating activities instead. These insights shed light on some of the common factors contributing to repayment challenges among clients.

Figure 4.9: Why do some clients default in repayment?



Source: Primary Data

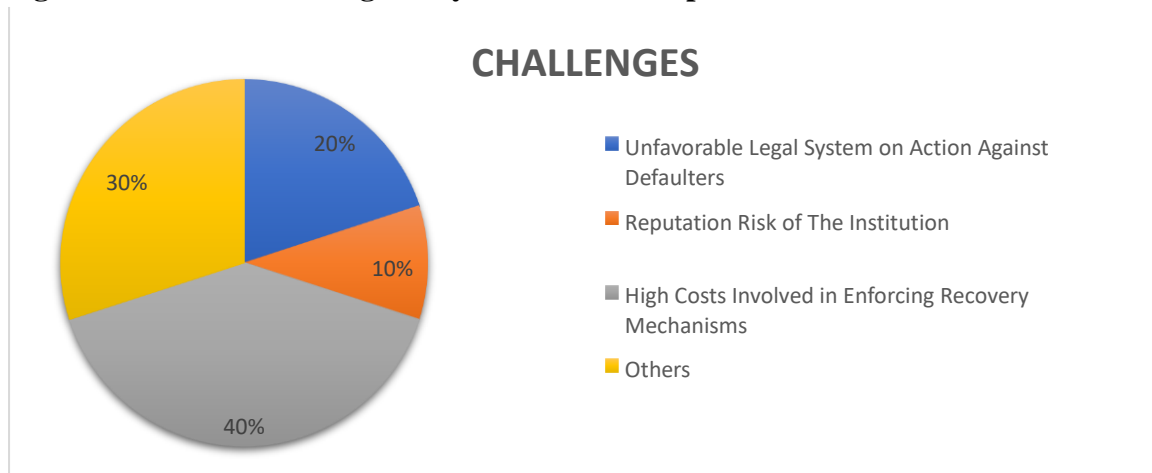
In figure 4.9, Muhame Financial Services staffs were asked about the reasons for client loan repayment defaults. The majority of respondents, accounting for 60%, identified multiple borrowing and a lack of knowledge on how to effectively utilize borrowed funds as the primary factors leading to client repayment defaults. Another 20% cited poor appraisals and the offering of bribes to loan officers as significant contributors to defaults. An additional 20% mentioned various other factors, including over ambitiousness among clients, diversion of borrowed funds for unintended purposes, inadequate planning and timing of loan repayment schedules, and unexpected events like droughts and natural disasters, among others. These insights provide a comprehensive understanding of the multifaceted reasons behind loan repayment challenges.

The responses regarding the challenges of loan repayment and the suggested solutions align with the principles emphasized by Horne (1995). Horne's insights highlight the importance of striking a balance in loan disbursements, ensuring that the amount is adequate for productive business activities without being excessive. This balanced approach can contribute to better loan repayment performance and overall financial sustainability. The challenges mentioned, such as multiple borrowing and a lack of knowledge about fund utilization, reflect the delicate task of assessing borrowers' needs and providing appropriate guidance to ensure successful loan utilization and repayment.

4.6.1 Findings on challenges the staff face in attempt to recover loans from clients

The employees of MFS were questioned about the difficulties they encounter when trying to retrieve loans extended to clients. The majority of participants indicated that there are substantial expenses associated with implementing loan recovery procedures, as depicted below:

Figure 4.10: What challenges do you face in attempt to recover loans from clients?



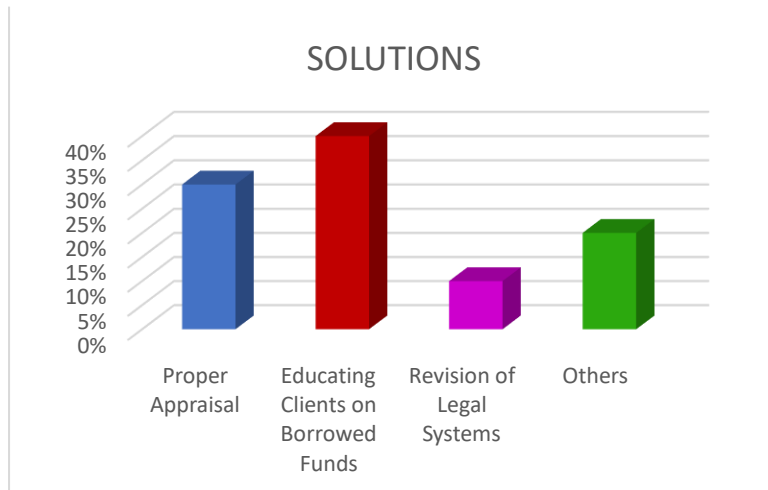
Source: Primary Data

In Figure 4.10 above, staff members of Muhame Financial Services were asked about the challenges they face in attempting to recover loans from clients. The results indicate that 40% of respondents highlighted the high costs associated with enforcing recovery mechanisms as a major challenge. Additionally, 20% mentioned unfavorable legal systems regarding action against defaulters, while 10% pointed out the risk to the institution's reputation. Another 40% of respondents cited various other challenges, including uncooperative families in the repayment process and discrepancies between client-provided information and official records, among others.

4.6.2 Findings on solutions to overcome the above challenges

The respondents (employees) were asked to propose solutions to the challenges they face when attempting to collect loans from clients. The majority of respondents, as shown below, suggested that clients should be educated on how to use borrowed funds, as many of them divert the loans to non-income generating activities.

Figure 4.11: What are the solutions to the challenges faced above?



Source: Primary Data

In Figure 4.11 above, respondents who are staff of Muhame Financial Services were asked to provide solutions to the challenges they face when attempting to recover loans from clients. The majority of the respondents, represented by 40%, suggested the need to educate clients on borrowed funds. Additionally, 30% of the respondents recommended conducting proper client appraisals, while 10% noted the necessity of revising the legal system. Furthermore, 20% of the respondents proposed various other solutions, including implementing a zero-tolerance policy for corruption, rewarding good performers, providing pre-disbursement training, and raising awareness against multiple borrowing, among others.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes all findings reported in chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Discussion of major findings

5.1.1 The relationship between client appraisal and loan repayment

The study revealed that SACCOs often accept collaterals, even when their values are overstated or impaired. This finding aligns with Edwards' (2004) perspective, which suggests that lenders scrutinize a borrower's business plan and financial statements, using a checklist

that includes various financial ratios. These ratios serve as guidelines to help lenders assess whether the borrower can cover current expenses and manage the additional cost of a new loan. Additionally, Edwards emphasizes that collateral encompasses any asset that customers offer as security against debt.

The findings are also consistent with the findings put across by (Kabir, Jahan, Chisty & Hasin, 2010, International Journal of Trade, Economics and Finance) who assert that Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit management operations and since microfinance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted, the loan repayments may be uncertain. They further note that success of lending out credit depends on the methodology applied to evaluate and to award the credit and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

The findings align with the research conducted by Moti et al. (2012) and published in the International Journal of Business, Humanities, and Technology. The study emphasizes that collateral refers to any asset that customers pledge as security for a debt. It serves as an alternative source of repayment for the loan. Collateral typically takes the form of tangible assets like real estate, office equipment, or manufacturing machinery. Alternatively, accounts receivable and inventory can also be used as collateral. The study notes that providers of short-term funds prefer collateral that aligns closely with the duration of the short-term loan.

5.1.2 The relationship between credit collection procedures and loan repayment

The findings also revealed that there is a positive relationship between credit collection and loan repayment which was evidenced by the different statements put across between listening to defaulters excuses to extend period ($r=0.491^{**}$), commitment to loan recovery by credit officers ($r=0.548^{**}$), corrupt staff/credit officers ($r=0.491^{**}$) and loan repayment. The study found out that SACCOs usually accept collaterals whose values are overstated or impaired. The findings are in line with literature put across by (Mustafa & Saat, 2013, Middle-East Journal of Scientific Research) who assert that collection procedures are needed because some clients do not pay their dues in time and if firms carry out this policy, it will quicken recovery portfolio and hence reduce bad debts.

The study's findings align with the observations made by Mustafa and Saat (2013) in the Middle-East Journal of Scientific Research. These scholars emphasize that reporting on loan collection can be a complex task, often clouded by indicators that may not accurately represent the true situation. Additionally, inconsistencies in terminology and calculation methods further complicate matters. To ensure transparency and clarity, they recommend that any measures related to loan repayment, delinquency, default, or loss should be precisely explained, with careful attention to both the numerator and denominator of the ratios used.

The findings are consistent with the insights provided by Wangai, Bosire, and Gathogo (2014) in the International Journal of Science and Research. They highlight that self-reported collection performance by MFIs can often underestimate the actual extent of issues, primarily due to weaknesses in information systems rather than any intention to mislead. To ensure accuracy, they recommend that collection reporting should only be considered reliable if it has been verified by a competent independent party. They also note that Portfolio at Risk (PAR) beyond a specified number of days is a standard international measure for assessing portfolio quality in the banking sector.

5.1.3 The relationship between credit terms and conditions and loan repayment

The study's findings highlight a positive correlation between credit terms and loan repayment. Specifically, this correlation is evidenced by the positive relationships observed between loan interest rates ($r=0.506^{**}$), overdue payment penalties ($r=0.408^*$), loan repayment period/schedules ($r=0.158^{**}$), and repayment grace period ($r=0.506^{**}$) with loan repayment. These findings suggest that certain aspects of credit terms, such as interest rates and repayment schedules, play a significant role in influencing the likelihood of successful loan repayment.

The findings align with the observations made by Dellien and Schreiner (2005) regarding credit terms. They note that these terms encompass factors such as the period for credit approval, maturity of the loan, and associated costs. Additionally, they emphasize that the determination of the maximum loan amounts per cycle should be based on the client's repayment capacity, including any guarantees. The study also underscores the importance of evaluating the client's financial position through ratio analysis and trends in cash flow, as well as considering their capital position in the loan approval process.

The findings are in line with the research conducted by Gyamfi (2012) in the Journal of Science and Technology, which observed a positive correlation between short-term debt and loan repayment performance. Short-term debt is considered an advantageous financing tool, often perceived as more cost-effective. Additionally, the results are consistent with the study conducted by Kisaka and Simiy (2014) in the Research Journal of Finance and Accounting. They outlined several benefits of short-term debt, including its adaptability to a firm's financial needs and its facilitation of strong relationships between the firm and the lender, often leading to favorable credit conditions.

5.2 Summary of findings

The study's findings affirm a significant positive relationship between credit terms and loan repayment. This corresponds with the insights offered by Horne (1995). The relationship was statistically significant at both the 0.01 and 0.05 levels (2-tailed). Furthermore, the research revealed a positive relationship between client appraisal and loan repayment. Specifically, positive associations were found between the use of false information to obtain loans, accepting collaterals with inflated or impaired values, and loan repayment. Conversely, a negative relationship was observed between inadequate assessments of trustworthiness and honesty in applicants, and loan repayment. These findings are consistent with the body of literature, including the work of Pandey (2008).

The study's findings also confirmed a positive relationship between credit collection efforts and loan repayment, as demonstrated by factors such as listening to defaulters' excuses to extend the repayment period, the commitment of credit officers to loan recovery, and the presence of corrupt staff or credit officers, all of which showed a positive correlation with loan repayment. However, a negative relationship was observed between a prolonged repossession period and loan repayment, as indicated by ($r = -0.046^{**}$). These findings align with the existing literature, including the work of Pandey (2002).

The study highlighted various reasons for client default in repayment, encompassing multiple borrowing, a lack of understanding on how to effectively utilize borrowed funds, subpar appraisals, instances of bribes given to loan officers, over ambitiousness from clients, misallocation of borrowed funds, inadequate planning and timing of loan repayment schedules, as well as unexpected events like droughts and natural disasters, among others.

Additionally, the study identified challenges faced in the pursuit of loan recovery from clients, including the high costs associated with enforcing recovery mechanisms, unfavorable legal systems for taking action against defaulters, potential reputation risks for the financial institution, uncooperative families regarding loan repayment, and inconsistencies in the information provided by clients compared to what is recorded in their files, among other factors.

However, the study also proposed several solutions to address these challenges, such as the need to educate clients on the responsible use of borrowed funds, ensuring thorough client appraisals, advocating for potential revisions in the legal system, fostering a zero-tolerance approach towards corruption, recognizing and rewarding high-performing individuals, and conducting pre-disbursement training and sensitization efforts to discourage multiple borrowing, among other strategies.

5.3 Conclusion

Based on the study findings, it can be reasonably concluded that there exists a significant correlation or relationship between credit terms, client appraisal, credit collection, and loan repayment. Furthermore, it is advised that Muhame Financial Services should investigate the reasons behind repayment defaults to mitigate this issue. Additionally, challenges like the high costs associated with enforcing recovery mechanisms and unfavorable legal systems for action against defaulters in loan repayment can be mitigated through the implementation of proper measures and credit policies. This may include initiatives such as educating clients on the responsible use of borrowed funds, conducting thorough client appraisals, and potentially revising legal procedures, among other strategies.

5.4 Recommendations

From the above discussions of findings and conclusion, the following measures are recommended in response to the influence of credit management policy on loan repayment performance in SACCOS.

1. **Monitor Loan Repayment:** Implement a robust monitoring system to keep track of loan repayment, allowing for timely intervention when needed.

2. **Establish Expert Team:** Form a team with high expertise to research and implement effective credit management policies. Provide training to staff, particularly loans officers, to enhance their skills in credit management.
3. **Allocate Sufficient Resources:** Allocate adequate financial resources to establish and manage loanable funds, ensuring there is enough capital available for lending.
4. **Improve Communication:** Foster open and effective communication within the company and with clients. Encourage feedback to facilitate better management of loan repayment.

By taking these steps, Muhame Financial Services can strengthen their credit management policies and ultimately enhance their loan repayment performance.

5.5 Areas for Further Research

These are some suggestions for further research in the field of credit management policy and loan repayment performance in SACCOs.

- i. **Comparative Studies:** Conduct similar studies for comparison and generalization to build on the findings of this research.
- ii. **Impact of Credit Information Requirements:** Investigate how varying credit information requirements influence loan repayment within SACCOs.
- iii. **Credit Authority's Influence:** Study the effects of credit authority on loan repayment performance among SACCOs.
- iv. **Effects of Credit Standards:** Examine how different credit standards affects loan repayment in SACCOs.

By delving into these areas, researchers can expand the understanding of credit management policies and their effects on loan repayment in SACCOs, contributing to a more comprehensive body of knowledge in this field.

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APPENDICES:

APPENDIX 1: QUESTIONNAIRE

Dear respondent,

I am NIMUSIIMA SHILLA, a student at Uganda Christian University-Mukono pursuing a Bachelor's degree of Science in Accounting and Finance. I am carrying out a research on CREDIT MANAGEMENT POLICY AND LOAN REPAYMENT PERFORMANCE IN SACCOS IN SHEEMA DISTRICT: A CASE STUDY OF MUHAME FINANCIAL SERVICES. The study is purely for academic purposes and its success largely depends on the information you will provide. The information obtained will be treated with utmost confidentiality.

Thank you in advance.

SECTION A: Bio Data

Instructions; you are kindly requested to circle, tick or fill in where appropriate 1)

What is your gender?

- a) male
- b) female

2) What is your age (in years)?

- a) Below 20
- b) 21 - 30
- c) 31 - 40
- d) Above 40

3) What is your marital status?

- a) Single
- b) Married

4) What is your highest level of education?

- a) Certificate
- b) Diploma
- c) Degree
- d) None
- e) Others (specify).....

SECTION B:

5) How long have you been a client of this SACCO?

- a) Less than 5 years
- b) 5-10 years
- c) More than 10 years

6) How many times have you borrowed from this SACCO?

- a) Less than 5 times
- b) 5-10
- c) More than 10

7) How many times have you defaulted?

- a) Once
- b) Twice
- c) Thrice
- d) More than thrice
- e) None

8) Are the credit policies used in the SACCO favorable?

- a) Yes
- b) No
- c) Uncertain (if (c), skip Question 9)

9) Explain your answer to Question 8

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SECTION C:

10) Using the scale of 1-5, please tick the extent of contribution of the following credit policies towards loan repayment performance.

- 1 No Contribution
- 2 Least Contribution

3 Great Contribution

4 Greater Contribution

5 Greatest Contribution

a) Credit Standards/ Client Appraisal and Loan Repayment

	1	2	3	4	5
To what extent does loan appraisal affect loan repayment					
Use of false information to acquire loans					
Accepting collaterals whose values are overstated or impaired					
Falsified past business performance records					
Poor tests of trustworthiness and honesty of applicants					

b) Credit Collection Procedures and Loan Repayment

	1	2	3	4
Listening to defaulters excuses to extend period				
Commitment to loan recovery by credit officers				
Long repossessing period				
Corrupt staff/credit officers				

c) Credit Terms and Loan Repayment

	1	2	3	4
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Listening to defaulters excuses to extend period				
Commitment to loan recovery by credit officers				
Long repossessioning period				
Corrupt staff/credit officers				

d) In your own opinion, rate the credit policies basing on how they contribute to loan repayment. (Tick whether high, moderate or low)

Statements	Low (%)	Moderate (%)	High (%)
Credit Appraisal Process			
Credit Recovery Procedure			
Credit Terms and Conditions			
Management Decision			

11) What challenge(s) do you encounter in the attempt to repay loans borrowed from Muhame Financial Services?

.....

12) What do you think should be done to help you repay the loan with ease?

.....

SECTION D: For Staff Only.

13) How long have you been an employee of Muhame Financial Services?

- a) Less than 5 years
- b) 5-10 years
- c) More than 10 years

14) Why do you think some clients default in loan repayment?

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15) What challenge(s) do you encounter when recovering loans from clients?

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16) What do think should be done to overcome the mentioned challenge(s)?

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END

THANK YOU FOR YOUR TIME