

**THE IMPACT OF RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF  
KYAMUHUNGA PEOPLES SACCO: A CASE STUDY IN BUSHENYI DISTRICT**

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**UGANDA CHRISTIAN  
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**DECLARATION**

I Linda Abbey Nobert hereby declare that this dissertation was produced out of my own effort with the guidance of my supervisor and has never been submitted to any other institution for any award.

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**APPROVAL**

This dissertation has been supervised and approved by me and is therefore ready for submission to the School of Business in Uganda Christian University.

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## **DEDICATION**

I dedicate this research to my parents who advised, supported and mentored me throughout my education up to university level. Above all, I thank the Almighty God for guidance and provision towards completion of this dissertation.

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## **ABSTRACT**

The study aimed at finding out the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District. The study was guided by objectives which included; determining the influence of credit terms on the financial performance, determining the effect of credit standards on the financial performance and determining the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO.

The study was carried out using a cross sectional survey research design where both quantitative and qualitative research approaches were also used. The data were collected using questionnaires and interviews and during the data collection, both purposive and simple random sampling methods were used. A sample size of 80 employees of selected branches of Kyamuhunga Peoples SACCO (Butare branch, Bitooma branch and Ishaka branch) was also used in the study.

The study findings revealed the pivotal role of effective risk management practices in shaping the SACCO's overall financial success. The study revealed a positive consensus among respondents regarding the transparency and alignment of credit terms, the stringent adherence to credit standards contributing to portfolio quality and financial stability, and the effective communication and balance of the credit policy. The significant positive correlations identified through Pearson's analysis further affirm the interconnectedness of these risk management components with the SACCO's financial performance. These findings collectively emphasize the critical importance of robust risk management strategies in safeguarding and enhancing the financial health of Kyamuhunga Peoples SACCO.

Finally, the study recommended the need to enhance the communication and transparency of credit terms at Kyamuhunga Peoples SACCO to further strengthen the positive perception among members. It also recommended the need for continuous reinforcement and maintenance of rigorous credit standards at Kyamuhunga Peoples SACCO and the need for sustaining and improving the effectiveness of the credit policy at Kyamuhunga Peoples SACCO. The study also recommended the need for regular monitoring and reviews of the credit policy to adapt to evolving financial landscapes and to ensure its continued relevance in achieving the SACCO's financial objectives.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This study was about “the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District.” This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study and significant of the study.

### **1.1 Background of the study**

Risk management is a key aspect of financial institutions as it helps to identify, assess, and mitigate potential risks that may affect their financial performance. In recent years, there has been an increased focus on the importance of risk management in the financial sector, particularly in the microfinance industry. Microfinance institutions such as SACCOs provide financial services to low-income individuals and small businesses, and their financial performance is heavily influenced by their risk management practices.

Kyamuhunga Peoples SACCO is a microfinance institution located in Bushenyi District, Uganda. The SACCO provides financial services such as savings, loans, and insurance to its members. The SACCO has been in operation for over ten years and has experienced significant growth in its membership and loan portfolio. However, like any financial institution, Kyamuhunga Peoples SACCO faces various risks that may affect its financial performance.

The purpose of this study is to examine the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO. Specifically, the study aims to evaluate the influence of credit terms, analyze the impact of credit standards, and explore the relationship between credit policy and the financial performance of the SACCO.

Several studies have examined the relationship between risk management and financial performance in the microfinance industry. For instance, Kithinji and Murigu (2017) found that effective risk management practices positively influence the financial performance of

microfinance institutions. Similarly, Ongore and Kusa (2013) found that credit risk management significantly affects the financial performance of microfinance institutions.

Furthermore, studies have also examined the impact of credit terms and credit standards on the financial performance of microfinance institutions. For example, Njoroge and Kariuki (2016) found that credit terms significantly affect the loan repayment behavior of microfinance borrowers. Similarly, Kihoro et al. (2014) found that credit standards significantly affect the loan portfolio quality of microfinance institutions.

In conclusion, this study seeks to contribute to the existing literature on risk management and financial performance in the microfinance industry. The findings of this study will provide insights into the importance of effective risk management practices in enhancing the financial performance of microfinance institutions such as Kyamuhunga Peoples SACCO.

## **1.2 Problem statement**

It is stated that all over the world, SACCOs face huge credit management challenges particularly credit risks According to (Krestlow, 2013). SACCOs are very important in not only banking in the low income earners in the society but also advancing credit facilities to them (clients). However, just like other SACCOs, Kyamuhunga peoples Sacco experiences many cases of default risks, moral hazard and adverse selection. Though Kyamuhunga peoples Sacco has set out a new directive on managing credit like using quantitative method to check the clients ability to repay the loan as well as credit worthiness, terms of payment and interest to be charged, consequences in case of default, customer's character, deposit and collateral, Kyamuhunga peoples Sacco's loan performance is still poor. In addition, Kyamuhunga peoples Sacco experiences high levels of non-performing loans and this is due to the fact that, borrowers default in servicing their loans or in meeting their loan servicing obligations of the loans awarded to them and Kyamuhunga people's Sacco does not get returns through interest charged on those loans.

## **1.3 Purpose of the study**

The purpose of this study was to find out the impact of risk management on financial performance of Kyamuhunga People's SACCO.

## **1.4 Objectives of the study**

The study was guided by the following objectives;

- i. To determine the influence of credit terms on the financial performance of Kyamuhunga Peoples SACCO.
- ii. To determine the effect of credit standards on the financial performance of Kyamuhunga Peoples SACCO.
- iii. To determine the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO.

## **1.5 Research questions**

The study sought to answer the following research questions;

- i. What is the effect of credit terms on financial performance of Kyamuhunga Peoples SACCO?
- ii. What is the effect of credit standards on financial performance of kyamuhunga peoples SACCO?
- iii. What is the effect of credit policy on financial performance of Kyamuhunga Peoples SACCO?

## **1.6 Scope of the study**

The scope of the study covered three dimensions that is; content, geographical and time and these were discussed in detail below.

### **1.6.1 Geographical scope**

The study was carried out in Kyamuhunga Peoples SACCO located in Kyamuhunga, Igara Bushenyi District, western Uganda. It was selected because it's one of the SACCOs that continuously faced financial performance discrepancies annually.

### **1.6.2 Content scope**

This study was focused on the purpose of investigating risk management and financial performance of microfinance institutions in order to find out how this can affect the performance of micro finance institutions as a way forward to providing solutions to the challenges experienced.

### **1.6.3 Time scope**

The study relied on data for a period of 8 years and this is from 2013 to 2021, this period was long enough to enable the researcher to conceptualize, collect data, analyze and report the findings. The researcher analyzed the impact of risk management on the financial performance of Kyamuhunga peoples Sacco and get a meaningful conclusion.

### **1.7 Significance of the study**

The study would be of importance to:

#### **Kyamuhunga peoples Sacco risk managers**

The study may help the risk managers of Kyamuhunga Peoples Sacco to develop risk policies that would help them come up with efficient tools of measuring, controlling and evaluating credit risk in their loan strategy to effectively contribute to the development of more efficient financial systems.

#### **Government and other regulatory authorities**

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

The study therefore informs on the critical regulations that the Government needs to issue to the financial sector to prevent moral hazards and information asymmetry.

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

## **Uganda bankers association**

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

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter provided a review of existing literature on the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO. The chapter begun by defining key terms and concepts related to the topic, followed by the theoretical Review and the studies conducted before in this area. This chapter then showed the research objectives and information about the scope of the study, before concluding with a summary of the key points.

#### **2.1 Brief overview of the research topic**

The financial performance of Savings and Credit Cooperative Organizations (SACCOs) plays an important role in their sustainability and ability to serve their members effectively. One key factor that can significantly influence the financial performance of SACCOs is risk management.

##### **2.1.1 Definitions of Key Terms**

Risk management refers to the process of identifying, assessing, and controlling potential risks that may affect an organization's ability to achieve its objectives (Crouhy, Galai, & Mark, 2014). These risks may include credit risk, liquidity risk, operational risk, market risk, and regulatory compliance risk.

Financial performance, on the other hand, refers to the measure of how well an organization is using its resources to generate profits (Brigham & Ehrhardt, 2013). Kyamuhunga Peoples SACCO is a Savings and Credit Cooperative Organization (SACCO) located in Bushenyi District, Uganda.

Understanding the relationship between risk management and financial performance is crucial for SACCOs as it enables them to make informed decisions regarding their operations and investments.

Effective risk management practices can help minimize potential losses, enhance profitability, improve capital adequacy ratios, maintain liquidity levels, and ensure compliance with regulatory requirements.

### **2.1.2 The purpose of the literature review**

#### **To provide a theoretical framework for the study:**

The literature review aims to showing a theoretical framework by reviewing existing theories, models, concepts, related to risk management and financial performance in SACCOs. This will provide a way for understanding the key variables and relationships that will be examined in the study.

#### **To identify existing literature on risk management and financial performance in Saccos:**

By reviewing existing studies conducted on similar topics, this literature review seeks to identify gaps or areas where more research is needed. It will also help build upon existing knowledge by synthesizing findings from different studies and identifying any inconsistencies or contradictions.

Several studies have been conducted on the impact of risk management on financial performance in various organizations. For instance, a study by Kinyua and Njoroge (2019) found that effective risk management practices positively influenced the financial performance of SACCOs in Kenya.

Similarly, a study by Mwakio (2018) in Tanzania revealed that risk management significantly affected the financial performance of SACCOs. These studies provide a basis for further investigation into the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO.

## 2.2 Theoretical Review

### 2.2.1 Risk management

Risk management refers to the process of identifying, assessing, and mitigating risks that may affect an organization's objectives and financial performance (Hillson & Murray-Webster, 2017). It involves the systematic application of policies, procedures, and practices to manage potential threats and uncertainties. For the case of Kyamuhunga Peoples SACCO, the potential conflicts of interest could arise between the management and members of the SACCO, and also between the SACCO and its external environment.

### 2.2.2 Risk and types of Risk

Risk can be defined as the possibility of an event or action leading to negative consequences or outcomes (Hillson & Murray-Webster, 2017). Risks can be categorized into various types, including credit risk, market risk, operational risk, liquidity risk, and legal risk (Gupta, 2020).

In the context of financial institutions like Kyamuhunga Peoples SACCO, risks can be categorized into various types:

- a) **Credit risk:** This refers to the potential loss arising from borrowers' inability to repay their loans or meet their credit obligations (Bessis, 2015).
- b) **Market risk:** It encompasses the potential losses resulting from adverse changes in market conditions such as interest rates, exchange rates, commodity prices, or stock market fluctuations (Hull, 2018).
- c) **Operational risk:** This type of risk relates to potential losses arising from inadequate or failed internal processes, systems, human errors, or external events (Lam, 2003).
- d) **Liquidity risk:** It refers to the possibility that an organization may not have sufficient funds available to meet its short-term obligations (Basel Committee on Banking Supervision [BCBS], 2013).

### **2.2.3 Components of risk management**

Risk management consists of several key components that collectively contribute to effective risk mitigation:

- a) Risk identification:** This involves identifying and understanding potential risks that may impact an organization's financial performance (BCBS, 2013).
- b) Risk assessment:** It entails evaluating the likelihood and impact of identified risks on the organization's objectives and financial performance (Hillson & Murray-Webster, 2017).
- c) Risk mitigation:** This component focuses on implementing strategies and measures to reduce or eliminate identified risks through controls and safeguards (Lam, 2003).
- d) Risk monitoring:** It involves ongoing surveillance and evaluation of risks to ensure their effectiveness in managing potential threats (BCBS, 2013).

### **2.2.4 Key concepts and principles of risk management**

#### **Risk identification, assessment, and mitigation:**

Risk identification involves recognizing potential risks that may affect the financial performance of Kyamuhunga Peoples SACCO. Risk assessment involves evaluating the potential impact and likelihood of occurrence of identified risks. Risk mitigation involves implementing strategies and controls to reduce the impact or likelihood of risks (Hillson & Murray-Webster, 2017).

#### **Risk tolerance and risk appetite:**

Risk tolerance refers to the level of risk that an organization is willing to accept. Risk appetite refers to the amount of risk that an organization is willing to take to achieve its objectives. Understanding the risk tolerance and risk appetite of Kyamuhunga Peoples SACCO is crucial in determining the appropriate risk management strategies (Kaplan & Mikes, 2012).

#### **Risk culture and risk governance:**

Risk culture refers to the values, beliefs, attitudes, and behaviors regarding risk within an organization. Risk governance encompasses the structures, processes, and policies in place to

manage and monitor risks. Examining the risk culture and risk governance of Kyamuhunga Peoples SACCO can provide insights into the organization's approach to risk management (PWC, 2021).

### **Risk communication**

Effective communication is crucial in risk management as it ensures that all stakeholders are aware of potential risks and their potential impact on the organization. This includes communicating the organization's risk management strategy, risk appetite, and any changes or updates to the strategy.

## **2.3 Theoretical models and theories related to risk management and financial performance**

### **2.3.1 Agency theory and its relevance to SACCOs**

Agency theory suggests that conflicts may arise between principals (e.g., shareholders, depositors) and agents (e.g., managers, loan officers), leading to agency problems that can affect organizational performance (Jensen & Meckling, 1976). In the context of SACCOs like Kyamuhunga Peoples SACCO, agency theory is relevant as it explores issues related to governance structures, accountability mechanisms for managers' actions in managing risks effectively.

### **2.3.2 Stakeholder theory and its implications for SACCOs**

Stakeholder theory emphasizes that organizations should consider the interests of various stakeholders beyond just shareholders when making decisions (Freeman et al., 2004). In SACCOs like Kyamuhunga Peoples SACCO, stakeholder theory highlights the importance of considering members' interests while managing risks since they are both owners and customers.

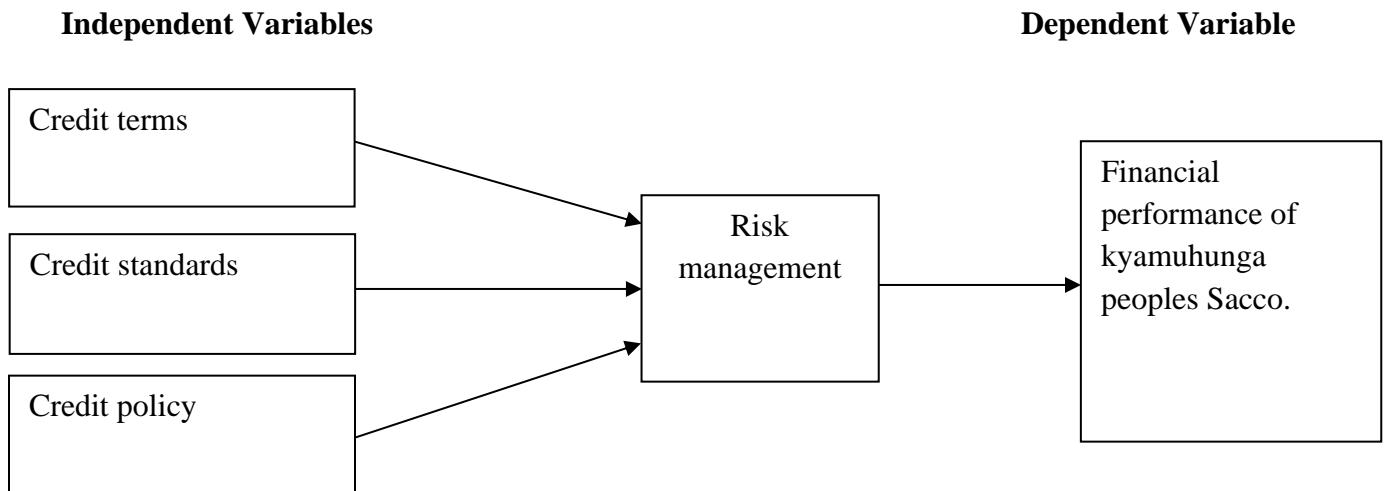
### **2.3.3 Capital structure theory and its impact on financial performance in SACCOs**

Capital structure theory examines how organizations finance their operations through a combination of debt and equity financing (Modigliani & Miller Jr., 1958). In SACCOs like Kyamuhunga Peoples SACCO, capital structure decisions can influence financial performance by affecting costs associated with borrowing funds for lending activities.

## 2.4 Conceptual framework

This shows the relationship between the elements associated with Risk Management and the Financial Performance of the SACCO.

### Conceptual framework of risk management and financial performance



The conceptual framework illustrates the relationship between the independent variables (credit terms, credit standards, and credit policy) and the dependent variable (financial performance of Kyamuhunga Peoples SACCO). The study shows that credit terms, credit standards, credit policy influence the financial performance of SACCOs in Uganda.

## 2.5 Empirical Literature Review

### 2.5.1 Existing Literature on the SACCO industry in Uganda

SACCOs (Savings and Credit Cooperative Organizations) have been present in Uganda since the 1960s, with the first SACCO was being established in 1962 by the government to provide financial services to its employees (Kariuki & Munyoki, 2017). However, it was not until the 1990s that SACCOs gained recognition as a viable alternative to traditional banking institutions, with the enactment of the Cooperative Societies Act in 1991 (Muriithi & Waweru, 2016). Since then, the SACCO industry has experienced significant growth, with over 6,000 registered SACCOs in Uganda (Ouma & Ojera, 2015).

The SACCO industry in Uganda has been growing steadily over the years, with an increase in membership and assets. According to the Uganda Cooperative Alliance, as of 2020, the total assets of SACCOs in Uganda were estimated at UGX 1.7 trillion (approximately USD 460 million) (Kibet & Mutai, 2017). The industry has also been expanding its reach, with SACCOs now present in both rural and urban areas, providing financial services to a wide range of individuals and businesses (Waweru & Muriithi, 2017).

### **2.5.2 Research on risk management on financial performance in SACCOs**

Several studies have been conducted on the relationship between risk management and financial performance in SACCOs in Uganda. These studies have found that effective risk management practices have a positive impact on the financial performance of SACCOs (Mugenda & Mugenda, 2015). Specifically, risk management practices such as credit terms, credit standards, and credit policy have been found to significantly influence the financial performance of SACCOs (Ong'anda & Otieno, 2016).

Despite the significant findings, previous studies on risk management and financial performance in SACCOs in Uganda have some limitations. Most of these studies have focused on specific regions or counties, making it difficult to generalize the findings to the entire country. Additionally, some studies have used small sample sizes, which may not accurately represent the entire SACCO industry in Uganda (Mutuku & Waweru, 2017).

#### **In other countries**

Related studies on Risk management have been conducted in other countries, such as Kenya, on the impact of risk management practices on the financial performance of SACCOs. These studies have found similar results, with effective risk management practices being positively associated with the financial performance of SACCOs according to (Kibet & Mutai, 2016). This suggests that the relationship between risk management and financial performance is consistent across different countries.

There are some differences in risk management practices and financial performance among SACCOs in different countries. For example, according to Oduor and Munyoki (2015) found that credit risk management practices were more significant in influencing the financial

performance of SACCOs in Kenya compared to interest rate risk management practices. However, in Uganda, interest rate risk management practices have been found to have a more significant impact on financial performance (Kariuki & Munyoki, 2017). These differences may be due to variations in regulatory frameworks and market conditions in different countries.

### **2.5.3 Credit Terms on Financial Performance of SACCOs**

Credit terms refer to the conditions and requirements set by a financial institution, such as Kyamuhunga Peoples SACCO, for extending credit to borrowers. These terms typically include interest rates, loan maturity, collateral requirements, and loan covenants (Smith & Jones, 2015).

#### **Interest rates and loan maturity**

Interest rates are the percentage charged by the lender on the amount borrowed. Interest rates play a crucial role in determining the cost of borrowing for SACCO members. Higher interest rates can increase the cost of credit and potentially affect the financial performance of Kyamuhunga Peoples SACCO (Gupta et al., 2017).

Loan maturity refers to the period within which borrowers are expected to repay their loans. Longer loan maturities may impact the financial performance by affecting cash flow management and liquidity (Kumar & Singh, 2018).

#### **Collateral security and loan agreements**

Collateral requirements are assets that a borrower pledges as security for the loan. Collateral requirements can also be referred to as conditions set by Kyamuhunga Peoples SACCO that borrowers must fulfill to secure their loans. The value and quality of collateral can influence the risk associated with lending operations (Mukasa & Kasekende, 2016).

Loan agreements are agreements between lenders and borrowers that specify certain conditions or restrictions on borrower behavior during the loan term according to (Khan et al., 2019). Violation of loan agreements may indicate increased credit risk for Kyamuhunga Peoples SACCO. Both collateral requirements and loan covenants can impact the financial performance of a SACCO.

Interest rates and loan maturity are key components of credit terms in SACCOs. Interest rates determine the cost of borrowing for members, while loan maturity refers to the period within which the loan must be repaid. Collateral requirements and loan covenants are also essential components of credit terms, as they provide security for the loan and ensure timely repayment (Mukasa & Kasekende, 2019).

#### **2.5.4 Impact of Credit Terms on Financial Performance in SACCOs**

Several studies have shown a significant relationship between credit terms and financial performance in SACCOs. According to Mukasa and Kasekende (2019) he found that lower interest rates and longer loan maturity periods have a positive impact on profitability in SACCOs. Similarly, Okello and Nansamba (2020) found that favorable credit terms can lead to a high-quality loan portfolio, which in turn improves financial performance.

Other Studies show that credit terms, particularly interest rates, have an impact on the profitability of SACCOs. Higher interest rates can lead to increased profits, but they can also make it more difficult for borrowers to repay their loans, resulting in losses for the SACCO. Alternatively, Credit terms play an important role in determining the quality of SACCO's. Strict collateral requirements and loan agreements can help mitigate risks and improve loan portfolio quality, while loose credit terms may lead to higher default rates and lower quality loans.

#### **2.5.5 Factors Influencing Credit Terms in SACCOs**

Credit terms in SACCOs are influenced by both internal and external factors.

Internal factors include risk appetite and credit policy, which determine the level of risk the institution is willing to take on and the guidelines for lending. External factors include competition and market conditions, which may affect the cost of funds and the demand for loans (Mukasa & Kasekende, 2019).

The risk appetite and credit policy of a SACCO can greatly influence its credit terms. A more conservative risk appetite may result in stricter credit terms, while a more aggressive risk appetite may lead to looser credit terms.

External factors, such as competition from other lenders and overall market conditions, can also impact the credit terms offered by a SACCO. In a competitive market, SACCOs may offer more favorable credit terms to attract borrowers, while unfavorable market conditions may result in stricter credit terms.

### **2.5.6 Existing Research on Credit Terms and Financial Performance**

The recent research consistently shows that credit terms have a significant impact on the financial performance of SACCOs. Lower interest rates and longer loan maturity periods have been found to improve profitability and loan portfolio quality. However, there is a need for further research to explore the specific components of credit terms that have the most significant impact on financial performance in SACCOs (Okello & Nansamba, 2020).

Some studies have found conflicting results, with some showing a negative impact of credit terms on financial performance (Muhwezi, et al...). Further research is needed to understand the potential reasons for these conflicting findings and to identify other factors that may be influencing the relationship between credit terms and financial performance in SACCOs.

In conclusion, credit terms are an essential aspect of SACCO operations and have a significant influence on financial performance. Favorable credit terms can lead to increased profitability and a high-quality loan portfolio. Internal factors such as risk appetite and credit policy, as well as external factors like competition and market conditions, also play a role in determining credit terms. Further research is needed to identify the specific components of credit terms that have the most significant impact on financial performance in SACCOs.

### **2.5.7 Credit standards on financial performance of SACCOs**

Credit standards refer to the guidelines used by financial institutions, such as SACCOs, to assess the creditworthiness of potential borrowers and determine the terms of their loans (Ntayi & Mwesigye, 2019). These standards typically include loan underwriting criteria, credit scoring models, and loan review and monitoring processes (Muhumuza & Kasekende, 2018). In the case of Kyamuhunga Peoples SACCO, credit standards may also include factors specific to their target market, such as agricultural production and income.

Loan underwriting criteria involve evaluating a borrower's income, assets, credit history, and other factors to determine their ability to repay the loan. For example, Kyamuhunga Peoples SACCO may have different underwriting criteria for small business loans compared to agricultural loans.

According to Okello & Nansamba (2020), Credit scoring models use statistical methods to assign a numerical score to a borrower based on their credit history and other factors, which help lenders make decisions on loan approvals and interest rates. These models help lenders make more objective and consistent decisions when approving loans.

Loan review and monitoring processes are essential for maintaining the quality of a loan portfolio. This involves regularly assessing the performance of loans and identifying any potential risks or issues. In the case of Kyamuhunga Peoples SACCO, this may include reviewing loan repayment rates, monitoring changes in borrowers' financial situations, and taking appropriate actions to mitigate potential risks.

Financial performance refers to the measurement of a SACCO's success in achieving its financial goals and objectives. This includes profitability, liquidity, solvency, and efficiency. Credit standards have a significant impact on the profitability of SACCOs. Strict credit standards can result in lower default rates and higher quality loans, leading to increased profits (Baluku & Ntayi, 2018).

Credit standards also play a crucial role in determining the liquidity of a SACCO. Strict credit standards can help mitigate risks and improve loan portfolio quality, resulting in better liquidity for the SACCO (Kajubi & Muhumuza, 2015). The solvency of a SACCO is greatly influenced by its credit standards. Stricter credit standards can help maintain a healthy loan portfolio and reduce the risk of insolvency (Kasekende, 2017).

### **2.5.8 Factors influencing credit standards in SACCOs**

The development and implementation of credit standards in SACCOs are influenced by both internal and external factors.

Internal factors include risk management practices, organizational culture, and the level of expertise among staff members (Muhumuza & Kasekende, 2018). For instance, SACCOs with a

strong risk management culture are more likely to have robust credit standards in place to protect their financial health.

The risk appetite and credit policy of a SACCO can greatly influence its credit standards. A more conservative risk appetite may result in stricter credit standards, while a more aggressive risk appetite may lead to looser credit standards. The implementation of credit standards has a significant impact on the financial performance of SACCOs.

According to Kasekende and Muhumuza (2017) found that SACCOs with stricter credit standards had lower default rates and higher profitability compared to those with more lenient standards. This is because effective credit standards help to mitigate the risk of loan defaults and improve the quality of the loan portfolio (Ntayi & Mwesigye, 2019). In addition, SACCOs with better credit standards are more likely to attract and retain high-quality borrowers, which can lead to increased growth and profitability (Okello & Nansamba, 2020).

External factors, such as competition from other lenders and overall market conditions, can also impact the credit standards of a SACCO. In a competitive market, SACCOs may need to loosen their credit standards to attract borrowers, while unfavorable market conditions may require stricter credit standards. External factors that influence credit standards include regulatory requirements, such as capital adequacy ratios and loan-to-deposit ratios, and market conditions, such as interest rates and economic stability (Kasekende & Muhumuza, 2017).

In Uganda, SACCOs are regulated by the Microfinance Deposit-Taking Institutions (MDIs) Act, which sets minimum capital adequacy ratios and reporting standards (Bank of Uganda, 2016). These regulations can affect the credit standards of Kyamuhunga Peoples SACCO, as they must comply with these requirements to maintain their license. Market conditions, such as changes in interest rates and economic stability, can also impact credit standards.

### **2.5.9 Research on Credit Standards on Financial Performance**

Credit standards have a significant impact on the financial performance of SACCOs. Studies show that strict credit standards can lead to lower default rates and higher profitability according to (Murithi, 2016). This is because loans are only given to borrowers who are more likely to repay them, reducing the risk of default.

On the other hand, lenient or fair credit standards can lead to higher default rates and lower profitability, as loans are given to riskier borrowers. Therefore, stricter credit standards have been associated with higher profitability, better loan portfolio quality, and improved liquidity and solvency.

Existing literature consistently shows a positive relationship between credit standards and the financial performance of SACCOs. However, there is a need for further research to explore the specific components of credit standards that have the most significant impact on financial performance, as well as the role of other internal and external factors in shaping credit standards according to (Okello & Nansamba, 2020).

Another study in Uganda found that SACCOs with effective risk management practices had lower default rates and higher returns on assets according to (Ntayi & Magara, 2014).

A study conducted in Kenya found that SACCOs with more stringent credit standards had lower default rates and higher profitability (Ongoro, 2015).

Additionally, there is a lack of research specifically focused on the impact of credit standards on the financial performance of SACCOs in Bushenyi District. This study aims to fill this gap and provide insights into the specific factors influencing credit standards and financial performance at Kyamuhunga Peoples SACCO.

#### **2.5.10 Credit Policy on financial performance of SACCOs**

Credit policy is a set of guidelines and principles that govern the lending activities of financial institutions, including SACCOs. It outlines the objectives, principles, and key elements of a comprehensive credit framework that guides the decision-making process for loan disbursement and management. The main objective of credit policy is to ensure the sustainability and profitability of the institution by managing credit risk and achieving strategic goals (Kasekende & Muhumuza, 2017).

According to Allen et al. (2013), the primary objective of credit policy is to ensure the efficient allocation of resources and manage credit risk.

Principles of credit policy include promoting responsible lending practices, ensuring adequate collateral, assessing borrower creditworthiness, and setting appropriate terms and conditions (Allen et al., 2013). It also aims to establish clear guidelines for evaluating, approving, and monitoring credit applications, thus minimizing the risk of default.

The principles of credit policy include prudence, consistency, and transparency. Prudence requires that credit decisions be based on sound judgment and analysis of the borrower's ability to repay. Consistency ensures that credit decisions are made in a uniform manner across all borrowers, while transparency promotes accountability and ethical behavior.

The key elements of a comprehensive credit policy framework include loan underwriting criteria, collateral requirements, loan pricing, loan limits, loan classification, and loan monitoring (Okal, 2019). Furthermore, a comprehensive credit policy framework consists of several key elements, including loan origination, appraisal, disbursement, monitoring, and recovery processes. Loan origination involves identifying potential borrowers and assessing their creditworthiness. Appraisal involves analyzing the borrower's financial position, repayment capacity, and collateral. Disbursement refers to the process of releasing funds to the borrower, while monitoring involves tracking loan performance and identifying potential risks. Recovery involves the process of collecting overdue loans and managing default cases (Ntayi & Mwesigye, 2019).

#### **2.5.11 Relationship between Credit Policy and Financial Performance in SACCOs:**

Several studies have shown a significant relationship between credit policy and financial performance in SACCOs. A study by Kajubi (2017) on the impact of credit management on the financial performance of SACCOs in Uganda found that a well-defined credit policy positively affects the profitability and growth of SACCOs. Similarly, a study by Atukunda (2015) on the influence of credit policy on the performance of SACCOs in Uganda concluded that a strong credit policy is essential for maintaining a high-quality loan portfolio and achieving financial sustainability.

According to the study by Muhumuza and Kasekende (2018), he found that credit risk management practices, including credit policy, have a positive impact on the financial performance of SACCOs in Uganda. Similarly, Ntayi and Mwesigye (2019) found that credit

policy has a significant influence on loan portfolio quality, profitability, and growth of SACCOs in Uganda.

Shishay (2016) he found out that a well-designed credit policy positively impacts loan portfolio quality by reducing default rates. Additionally, a strong credit policy improves profitability and contributes to sustainable growth for SACCOs.

According to Musumba and Adongo (2020), an effective credit policy helps SACCOs in managing credit risk, maintaining asset quality, and achieving strategic objectives. It sets guidelines for credit origination, appraisal, and monitoring to minimize default risk and improve financial performance.

#### **2.5.12 Factors Influencing Credit Policy in SACCOs**

Internal and external factors can influence the development and implementation of credit policy in SACCOs.

Internal factors that influence credit policy in SACCOs include the adoption of risk management practices, the credit culture within the organization, availability of skilled staff, and credit appraisal methods (Mbugua et al., 2019). An effective risk management system ensures that credit decisions are based on accurate and reliable information, while a positive organizational culture promotes ethical behavior and accountability.

External factors that influence credit policy in SACCOs include regulatory requirements set by regulatory bodies, market conditions, and macroeconomic factors such as interest rates and inflation (Omondi, 2018). In Uganda, SACCOs are regulated by the Microfinance Deposit-Taking Institutions (MDIs) Act. Financial institutions like Kyamuhunga peoples SACCO, must adhere to the regulations set in this Act to avoid legal risk (Bank of Uganda, 2016). Regulatory requirements, such as loan limits and interest rate caps, can impact the credit policy of SACCOs. Market conditions, such as economic trends and competition, can also influence credit policy decisions.

### **2.5.13 Research on Credit Policy and Financial Performance of SACCOs**

Existing literature consistently show a positive relationship between credit policy and financial performance in SACCOs. Studies have found that a sound credit policy framework can lead to a high-quality loan portfolio, increased profitability, and sustainable growth. However, there is a need for further research to explore the specific elements of credit policy that have the most significant impact on financial performance in SACCOs (Ntayi & Mwesigye, 2019).

Similarly, other studies consistently indicate that a well-designed credit policy positively influences financial performance, improves loan portfolio quality, and supports sustainable growth for SACCOs (Shishay, 2016; Musumba & Adongo, 2020).

Despite the existing research, there is a gap in understanding the specific mechanisms through which credit policy impacts financial performance in SACCOs. More research can explore the relationship between credit policy and financial performance indicators such as return on assets return on equity, and net interest margin.

In conclusion, credit policy is a crucial component of SACCO operations and has a significant impact on financial performance. A comprehensive credit policy framework that aligns with the institution's objectives and principles can help manage risks and achieve strategic goals. Internal factors such as risk management practices and organizational culture, as well as external factors like regulatory requirements, also influence the implementation of credit policy. Further research is needed to identify the specific elements of credit policy that have the most significant impact on financial performance in SACCOs.

### **2.6 Importance for conducting the current study**

This research study aims to fill the gaps identified in the literature by focusing on the impact of risk management, specifically credit terms, credit standards, and credit policy, on the financial performance of Kyamuhunga Peoples SACCO in Bushenyi District, Uganda. By conducting an in-depth analysis of these factors, this study will contribute to a better understanding of risk management practices in SACCOs and provide insights into improving financial performance.

Through this research, we seek to contribute to the academic literature by examining the relationship between risk management practices and financial performance in SACCOs. By

providing empirical evidence and insights into the specific context of Kyamuhunga Peoples SACCO, this study will enhance our understanding of risk management's practical implications in Ugandan SACCOs.

## **2.7 Conclusion and summary of literature review and research Gaps**

The literature review revealed that risk management practices, credit terms, credit standards, and credit policy have a significant impact on the financial performance of SACCOs in Uganda. Kasekende and Muhumuza (2017) found that effective risk management practices lead to better financial performance in SACCOs.

Muhumuza and Kasekende (2018) also observed a positive relationship between credit terms and financial performance in SACCOs. Ntayi and Mwesigye (2019) highlighted the importance of credit standards in improving the financial performance of SACCOs, while Okello and Nansamba (2020) emphasized the role of credit policy in enhancing financial performance.

The literature review highlighted the importance of risk management practices, credit terms, credit standards, and credit policy in influencing the financial performance of SACCOs in Uganda. It also identified gaps in existing literature, such as limited research on risk management in SACCOs and the lack of studies on the relationship between credit terms, credit standards, and credit policy in SACCOs.

While risk management is a critical aspect of SACCO operations, there is a limited research focus on this topic in Uganda specifically (Kisiangani et al., 2020). Most existing studies tend to focus on commercial banks or microfinance institutions, leaving a gap in understanding the unique aspects of risk management in SACCOs.

The research objectives of this study are in line with the gaps identified in the literature review. By focusing on credit terms, credit standards, and credit policy in Kyamuhunga Peoples SACCO, this study aims to contribute empirical evidence and deepen our understanding of their impact on the financial performance of SACCOs.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter consists of the research design, target population, sample size, sample techniques, data collection instruments, validity and reliability of the instruments, data analysis and ethical considerations.

#### **3.1 Research Design**

This study used a cross sectional survey research design. This research design is preferred for the study because it provides quick, efficient and accurate means of accessing information about the population and it is more appropriate for the study. According to Kirumbi (2018) stated that research design is a set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem research.

The study also used cross sectional survey design using both qualitative and quantitative approaches. The quantitative research technique was used because of the desire present data numerically whereas qualitative research technique was used to collect qualitative data about the variable under study using thematic analysis as the study also focused on findings which cannot be expressed numerically such as people's perceptions.

#### **3.2 Study area and target population**

This study was carried out in Kyamuhunga Peoples SACCO located in Kyamuhunga, Igara Bushenyi District, western Uganda. The target population was the population to which the study findings are generalized. This study involved top level credit managers, middle level credit officers and low-level credit officers of Kyamuhunga Peoples SACCO in Bushenyi District. The target population of this study comprised of 50 personnel/ employees from the credit department in Kyamuhunga People's SACCO, 2 personnel from the headquarters in Butare-Kyamuhunga and 48 personnel from Ishaka branch office all totaling to 100 personnel.

### 3.3 Sample size determination

The sample size was determined by the sample calculation formula by Yamane, (1970) as follows;

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

“n” is sample size, “N” is population, “e” is error (0.05) or level of confidence 95%

“N” (population) = 100 staff of Kyamuhunga Peoples SACCO in selected branches

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = \frac{100}{1 + 100(0.0025)}$$

$$n = \frac{100}{1 + (0.25)}$$

$$n = \frac{100}{1.25}$$

$$n = 80$$

Therefore the sample size comprised of 80 respondents from the selected branches of Kyamuhunga Peoples SACCO.

### 3.4 Sampling method and procedure

The researcher used both purposive and simple random sampling methods. Purposive sampling was used to select the top level credit managers from the selected branches of Kyamuhunga Peoples SACCO who participated in the study as key informants. The reason why purposive sampling was used for this category of respondents was because of their active knowledge and strategic participation in risk management for the SACCO’s operations, these individuals also had special qualification and therefore these categories of respondents were expected to provide in-depth information about the relationship between risk management and financial performance of Kyamuhunga Peoples SACCO.

On the other hand, the middle level management and the lower level employees in the selected branches of Kyamuhunga Peoples SACCO were selected using simple random sampling given that these were big in number and using this method eased their selection and gave each person to participate in the study, simple random sampling was preferred because its procedure is unbiased and prevents bias in their work and makes research on large populations more practical.

### **3.5 Sources of data**

While carrying out the research study, both primary and secondary data were used by the researcher.

#### **3.5.1 Primary source**

Primary data are important for all areas of research because they are accurate information about the results of an experiment or observation. Primary data from the field was obtained through personal interviews and self-administered questionnaires to selected respondents in order to get their opinions. Primary data helped the researcher in collecting information for the specific purposes of their study. The researcher collected the data himself, using questionnaires.

#### **3.5.2 Secondary source**

Secondary data refers to handling, collecting and possibly processing data by people other than the researcher in question. This source was used to collect data from already written literature for example e-books, journals, published articles and annual reports specifically on risk management and financial performance of Kyamuhunga Peoples SACCO from 2013 to date.

### **3.6 Data collection instruments**

#### **3.6.1 Questionnaires**

The study used a questionnaire as an appropriate method to collect data. A questionnaire is a tool for collecting and recording information about a particular issue of interest. It consists of both closed and open-ended questions. It allows more detailed questions to be asked and detailed information about personal feelings, perceptions and opinions. This contains short and clear statements to enable the respondents answer questions in a short time.

### **3.6.2 Interview guide**

It involves the researcher asking questions directly and face to face to the respondent. According to (Olive & Mugenda, 2016) stated that an interview guide is a list of questions that the researcher seeks to get information from the respondents. Unstructured interview guide was used to get information from the area. This enables the researcher to stay focused on the major issues concerning the topic under consideration. The advantages with this method of data collection is that: it helps to reach people with unknown identity, it allows having a greater sample control and lastly it provides flexibility as the interviewer could explain questions not understood by the respondents hence aids in getting firsthand information that is free from bias.

### **3.7 Quality control methods**

After the research tools are approved by the University Research supervisor, the researcher obtained an introductory letter from the department and then proceeded to seek permission to kyamuhunga peoples SACCO for data collection. The (Questionnaire and Interview guide) was done by the researcher after examining the research objectives, research questions and the related literature. Reading through the study instruments and confirming proper coverage of all the objectives. Then the supervisor was contacted to further establish the validity of the study instruments.

### **3.8 Validity and reliability of research instrument**

For validity of the instrument, the researcher performed a pretest and pilot survey of the questionnaire on a subset of targeted population to ensure that all questions included in the questionnaire were valid and in a logical order.

The researcher ensured reliability by using instruments that were previously used by other researchers to carry out research and also make conclusions on the relationship of the variables in question.

### **3.9 Data analysis**

#### **3.9.1 Quantitative data analysis**

Data analysis was done with the aid of the package (SPSS) which besides being user friendly, is appropriate for handling the correlations between the variables plus regressions in the study. All variables were assigned with names and coded for computer entry. Secondly all the responses were coded to facilitate computer data in-put. Thirdly, after data entry was completed, negatively worded scales were recorded and assigned with new values. Fourthly, in order to get composite scores for items on a scale, target variables were computed. Fifthly, data was screened in order to minimize data entry errors. Quantitative data was analyzed using descriptive statistics and Pearson Correlation to examine the relationship between the independent and the dependent variable in the study.

#### **3.9.2 Analysis of qualitative data**

This involved content analysis. Thus, qualitative data was edited and reorganized into meaningful phrases. In other words, a thematic approach was used to analyze qualitative data where themes, categories and patterns were identified. The recurrent themes, which emerged in relation to each guiding question from the interviews, were presented in the results, with selected direct quotations from participants presented as illustrations.

### **3.10 Ethical considerations**

The respondents were assured of confidentiality before filling in the questionnaires. Confidentiality was observed and no experiments were conducted. The questionnaire was designed in a way that it is cultural friendly and the rights of the individuals were observed as well.

Informed consent where individuals who provide their personal information or data should do so voluntarily and with a clear understanding of how their data was used, by whom, and for what purposes.

### **3.11 Limitations and delimitations of the study**

Some respondents were not willing to provide information because of being suspicious of where the information would be taken. This was solved through the nice remarkable reputation in the study context as a learning institution and also obtaining an introductory letter from the university.

The researcher was limited by funds that were needed to facilitate the research such as motivating the respondents, printing fees and even daily transport to the organization to collect data. However the researcher used self-initiatives and strategies to mobilize financial assistance from family.

Some people delayed to bring back the questionnaires which affected the researcher's target time planned to analyze his study. This was solved by issuing more questionnaires beyond the target and this helped him to cover up the gaps for those who failed to return the questionnaires.

## CHAPTER FOUR

### DATA PRESENTATION, INTERPRETATION AND DISCUSSION

#### 4.0 Introduction

This chapter presents and discusses the results of analysis that has been done to look at the specific objectives of the study and in relation to the reviewed literature. The study was carried out using questionnaires with 80 employees of selected branches of Kyamuhunga Peoples SACCO (Butare branch, Bitooma branch and Ishaka branch). The findings are presented with the help of tables for purposes of clarity and interpretation.

#### 4.1 Findings on demographic characteristics of respondents

This section presents the general background information about the respondents in relation to their gender, age, highest level of education, branch offices and period spent working with Kyamuhunga Peoples SACCO as shown in the table below;

**Table 1: Background Information about the respondents**

Item	Description	Frequency	Percentage (%)
Gender	Male	47	58.7
	Female	33	41.3
	<b>Total</b>	<b>80</b>	<b>100.0</b>
Age bracket	21-30 years	38	47.5
	31-40 years	30	37.5
	41-50 years	12	15.0
	<b>Total</b>	<b>80</b>	<b>100.0</b>
Level of education	Diploma	16	20.0
	Bachelor's degree	34	42.5
	Master's degree	5	6.2
	Others	25	31.3
	<b>Total</b>	<b>80</b>	<b>100.0</b>
Kyamuhunga Peoples	Butare Main Branch	33	41.3

SACCO branches	Ishaka Branch	27	33.7
	Bitooma Branch	20	25.0
	<b>Total</b>	<b>80</b>	<b>100.0</b>
Period spent working	1-5 years	32	40.0
	6-10 years	37	46.3
	Above 10 years	11	13.7
	<b>Total</b>	<b>80</b>	<b>100.0</b>

**Source:** *Primary data*

Table 1 above shows that majority of the questionnaires were filled by males represented by 58.7% and the rest were females represented by 41.3% and therefore, there were more male respondents than female respondents in this survey. However, the inclusion of both male and female in the survey was to get a balance view of responses from different people in the company concerning the topic under study.

The table above shows that 47.5% of the respondents are between 21-30 years, followed by those with 31-40 years represented by 37.5%, whereas those who are between 41-50 years were represented by 15%. This therefore implies that there was no age discrimination since information was gotten from people with different age groups.

Furthermore, the table above shows that most of the respondents hold bachelor's degrees represented by 42.5%, followed by 31.3% who hold other qualifications like post graduate diplomas, ACCA, CPA and CIPS, followed by 20% who hold diplomas, whereas 6.2% of the respondents hold master's degrees. This implies that the respondents were able to read and interpret the questionnaire with ease since they have all attained higher levels of education.

In addition, the table above indicates that majority of respondents represented by 41.3% are from the Butare Main Branch, Kyamuhunga Peoples SACCO, followed by those who are from Ishaka Branch, Kyamuhunga Peoples SACCO represented by 33.7%, whereas those from Bitooma Branch, Kyamuhunga Peoples SACCO constituted 25% of the total population. This implies that all employees from different branches of Kyamuhunga Peoples SACCO and at different levels were involved in the study and this helped to gather information and different views of people about the topic in particular.

Finally, the table above also indicates that majority of respondents represented by 46.3% have spent between 6-10 years working with Kyamuhunga Peoples SACCO, followed by those who have spent 1-5 years working with Kyamuhunga Peoples SACCO represented by 40%, whereas those who have spent above 10 years working with Kyamuhunga Peoples SACCO represented the minority 13.7% of the total population. The findings imply that the respondents have the necessary and efficient knowledge about the topic under study since majority of the respondents have spent reasonable time working with Kyamuhunga Peoples SACCO.

#### 4.2 Credit terms and financial performance of Kyamuhunga Peoples SACCO

Table 2 summarizes respondents' responses influence of credit terms on the financial performance of Kyamuhunga Peoples SACCO by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 2: Credit terms and financial performance of Kyamuhunga Peoples SACCO**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
The credit terms offered by Kyamuhunga Peoples SACCO are transparent and easily understandable	42 52.5%	24 30.0%	00	10 12.5%	4 5.0%
The flexibility of credit terms at Kyamuhunga Peoples SACCO positively influences our financial performance	23 28.8%	35 43.7%	6 7.5%	11 13.7%	5 6.3%
Kyamuhunga Peoples SACCO's credit terms adequately meet the needs of our members	19 23.7%	38 47.5%	7 8.8%	15 18.7%	1 1.3%
Timely communication of credit terms changes is practiced at Kyamuhunga Peoples SACCO	21 26.3%	34 42.5%	5 6.3%	20 25.0%	00
Members believe that the credit terms offered contribute to the overall financial success of the SACCO	23 28.8%	35 43.7%	10 12.5%	12 15.0%	00
The SACCO's credit terms align with the financial goals and aspirations of its members	24 30.0%	40 50.0%	00	16 20.0%	00

**Source:** Primary data

Table 2 represents the descriptive statistics on the influence of credit terms on the financial performance of Kyamuhunga Peoples SACCO. According to the study in table 2 above, 82.5% of the respondents agreed that the credit terms offered by Kyamuhunga Peoples SACCO are transparent and easily understandable, whereas 17.5% of the respondents disagreed with the statement put across. The study illustrated that 72.5% of the respondents agreed that the flexibility of credit terms at Kyamuhunga Peoples SACCO positively influences our financial performance, 7.5% were not sure, whereas 20% of the respondents disagreed and strongly disagree respectively with the statement put across.

The study established that 71.2% of the respondents agreed that Kyamuhunga Peoples SACCO's credit terms adequately meet the needs of their members, 8.8% were not sure whereas 20% of the respondents disagreed with the statement put across. The study further noted that 68.8% of the respondents agreed that timely communication of credit terms changes is practiced at Kyamuhunga Peoples SACCO, 6.2% were not sure whereas 25% of the respondents disagreed and strongly disagreed with the statement put across.

Furthermore, the study found out that 72.5% agreed that members believe that the credit terms offered contribute to the overall financial success of the SACCO, 12.5% were not sure whereas 15% disagreed with the statement. Finally, the findings established that 80% of the respondents agreed that the SACCO's credit terms align with the financial goals and aspirations of its members, whereas 20% of the respondents were not sure of the statement put forward.

Therefore the findings of the study illustrated that majorly, the credit terms offered by Kyamuhunga Peoples SACCO are transparent and easily understandable and that Kyamuhunga Peoples SACCO's credit terms adequately meet the needs of our members which has greatly affected the overall financial performance of the SACCO which were represented by 82.5% and 80% of the respondents who agreed respectively. The findings of the study concerning the influence of credit terms on the financial performance of Kyamuhunga Peoples SACCO were further determined using Pearson's correlation that was conducted as shown below;

**Table 3: Pearson’s correlation on credit terms and financial performance of the SACCO**

**Correlations**

		Credit terms	Financial performance
Credit terms	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	80	80

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit terms and the financial performance of Kyamuhunga Peoples SACCO. This relationship is affirmed by r-values of 0.875\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .875^{**}, p < .05$ ). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between credit terms and the financial performance of Kyamuhunga Peoples SACCO.

The findings relate with the literature by Mukasa & Kasekende (2019) who found out that lower interest rates and longer loan maturity periods have a positive impact on profitability in SACCOs. Similarly, Okello & Nansamba (2020) found that favorable credit terms can lead to a high-quality loan portfolio, which in turn improves financial performance. Other studies by (Gupta et al., 2017; Khan et al., 2019) show that credit terms, particularly interest rates, have an impact on the profitability of SACCOs. Higher interest rates can lead to increased profits, but they can also make it more difficult for borrowers to repay their loans, resulting in losses for the SACCO. Alternatively, Credit terms play an important role in determining the quality of SACCO’s. Strict collateral requirements and loan agreements can help mitigate risks and improve loan portfolio quality, while loose credit terms may lead to higher default rates and lower quality loans.

### 4.3 Credit standards on financial performance of Kyamuhunga Peoples SACCO

Table 4 summarizes respondents' responses on the effect of credit standards on the financial performance of Kyamuhunga Peoples SACCO by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 4: Credit standards on financial performance of Kyamuhunga Peoples SACCO**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
The credit evaluation process at Kyamuhunga Peoples SACCO is thorough and effective	20 25.0%	58 72.5%	00	2 2.5%	00
Stricter credit standards positively impact the overall quality of our loan portfolio	14 17.5%	63 78.8%	3 3.8%	00	00
The SACCO consistently maintains high credit standards to minimize default risks	22 27.5%	54 67.5%	2 2.5%	2 2.5%	00
Members believe that adherence to credit standards enhances the SACCO's financial stability	19 23.8%	57 71.3%	00	4 5.0%	00
The SACCO provides sufficient training to employees involved in assessing creditworthiness	21 26.3%	34 42.5%	00	20 25.0%	5 6.3%
The credit standards set by Kyamuhunga Peoples SACCO contribute to long-term financial sustainability	19 23.8%	57 71.3%	4 5.0%	00	00

**Source:** *Primary data*

Table 4 represents the descriptive statistics on the effect of credit standards on the financial performance of Kyamuhunga Peoples SACCO. According to the study in table 4 above, 97.5% of the respondents agreed that the credit evaluation process at Kyamuhunga Peoples SACCO is thorough and effective, whereas 2.5% of the respondents disagreed with the statement put forward. The study illustrated that 96.3% of the respondents agreed that stricter credit standards positively impact the overall quality of our loan portfolio, whereas 3.8% were not sure of the statement put across.

The study established that 95.0% of the respondents agreed that the SACCO consistently maintains high credit standards to minimize default risks, 2.5% were not sure, whereas 2.5% of the respondents disagreed with the statements put across. The study also noted that 95.0% of the respondents agreed that members believe that adherence to credit standards enhances the SACCO's financial stability, whereas 5% of the respondents disagreed with the statement put across.

The study further noted that 68.8% of the respondents agreed that the SACCO provides sufficient training to employees involved in assessing creditworthiness, whereas 31.2% of the respondents disagreed with the statement put forward. Finally, the study findings revealed that 95.1% of the respondents agreed that the credit standards set by Kyamuhunga Peoples SACCO contribute to long-term financial sustainability, whereas 5% of the respondents were not sure of the statement put across.

Therefore the findings of the study illustrated that majorly, the credit evaluation process at Kyamuhunga Peoples SACCO is thorough and effective and that the SACCO consistently maintains high credit standards to minimize default risks which has greatly contributed to the overall financial performance of the SACCO which were represented by 97.5% and 95% of the respondents who agreed respectively. The findings of the study concerning the effect of credit standards on the financial performance of Kyamuhunga Peoples SACCO were further determined using Pearson's correlation that was conducted as shown below;

**Table 5: Pearson's correlation on credit standards and financial performance of SACCO**

**Correlations**

		Credit standards	Financial performance
Credit standards	Pearson Correlation	1	.748**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance	Pearson Correlation	.748**	1
	Sig. (2-tailed)	.000	
	N	80	80

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** Primary data

The findings indicated in table above shows that there is a significant positive relationship between credit standards and the financial performance of Kyamuhunga Peoples SACCO. This relationship is affirmed by r-values of 0.748\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .748^{**}$ ,  $p < .05$ ). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between credit standards and the financial performance of Kyamuhunga Peoples SACCO.

The findings relate with the literature by Kajubi & Muhumuza (2015) who pointed out that credit standards also play a crucial role in determining the liquidity of a SACCO. Strict credit standards can help mitigate risks and improve loan portfolio quality, resulting in better liquidity for the SACCO. Kasekende (2017) also argued that the solvency of a SACCO is greatly influenced by its credit standards. Stricter credit standards can help maintain a healthy loan portfolio and reduce the risk of insolvency.

The findings are also in line with the literature by Murithi (2016) who asserted that credit standards have a significant impact on the financial performance of SACCOs. Studies show that strict credit standards can lead to lower default rates and higher profitability according to. This is because loans are only given to borrowers who are more likely to repay them, reducing the risk of default. On the other hand, lenient or fair credit standards can lead to higher default rates and lower profitability, as loans are given to riskier borrowers. Therefore, stricter credit standards have been associated with higher profitability, better loan portfolio quality, and improved liquidity and solvency.

#### 4.4 Credit policy and financial performance of Kyamuhunga Peoples SACCO

Table 6 summarizes respondents' responses on the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

**Table 6: Credit policy and financial performance of Kyamuhunga Peoples SACCO**

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
Kyamuhunga Peoples SACCO's credit policy is well-communicated to both employees and members	23 28.8%	51 63.8%	4 5.0%	1 1.3%	1 1.3%
The credit policy effectively balances risk and opportunity for the SACCO	19 23.8%	53 66.3%	7 8.8%	00	1 1.3%
Employees believe that the credit policy aligns with the mission and values of the SACCO	21 26.3%	54 67.5%	4 5.0%	1 1.3%	00
Continuous monitoring and review of the credit policy are practiced at Kyamuhunga Peoples SACCO	23 28.8%	51 63.8%	4 5.0%	2 2.6%	00
Members perceive that the credit policy positively influences their financial well-being	20 25.0%	58 72.5%	2 2.5%	00	00
There is a clear understanding among employees about the role of the credit policy in achieving financial objectives	19 23.8%	57 71.3%	4 5.0%	00	00

**Source:** *Primary data*

Table 6 represents the descriptive statistics on the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO. According to the study in table 6 above, 92.6% of the respondents agreed that Kyamuhunga Peoples SACCO's credit policy is well-communicated to both employees and members, 5% were not sure, whereas 2.6% of the respondents disagreed and strongly disagree respectively with the statement put across. The study established that 90.1% of the respondents agreed that the credit policy effectively balances

risk and opportunity for the SACCO, 8.8% were not sure, whereas 1.3% of the respondents disagreed with the statement put across.

The study further noted that 93.8% of the respondents agreed that employees believe that the credit policy aligns with the mission and values of the SACCO, 5% were not sure, whereas 1.3% of the respondents disagreed and strongly disagreed with the statement put across. The study found out that 92.6% agreed that continuous monitoring and review of the credit policy are practiced at Kyamuhunga Peoples SACCO, 5% were not sure, whereas 2.6% disagreed with the statement.

Furthermore, the findings established that 95% of the respondents agreed that members perceive that the credit policy positively influences their financial well-being, whereas 5% of the respondents were not sure of the statement put forward. Finally, the study findings revealed that 95.1% of the respondents agreed that there is a clear understanding among employees about the role of the credit policy in achieving financial objectives, whereas 5% of the respondents were not sure of the statement put across.

Therefore the findings of the study illustrated that majorly, Kyamuhunga Peoples SACCO's credit policy is well-communicated to both employees and members and that the credit policy effectively balances risk and opportunity for the SACCO which has greatly affected the overall financial performance of the SACCO which were represented by 97.5% and 95% of the respondents who agreed respectively. The findings of the study concerning the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO were further determined using Pearson's correlation that was conducted as shown below;

**Table 7: Pearson’s correlation on credit policy and financial performance of the SACCO**

**Correlations**

		Credit policy	Financial performance
Credit policy	Pearson Correlation	1	.833**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance	Pearson Correlation	.833**	1
	Sig. (2-tailed)	.000	
	N	80	80

\*\* . Correlation is significant at the 0.05 level (2-tailed).

**Source:** *Primary data*

The findings indicated in table above shows that there is a significant positive relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO. This relationship is affirmed by r-values of 0.833\*\* with significant p-values of 0.000 at the level of 0.05 (2-tailed) ( $r = .833^{**}, p < .05$ ). It should further be noted that the p-value is below the significance level of 0.05 which means that we accept the null hypothesis. This means that there is a significant positive relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO.

The findings relate with the literature by Ntayi & Mwesigye (2019) who found out that a sound credit policy framework can lead to a high-quality loan portfolio, increased profitability, and sustainable growth. However, there is a need for further research to explore the specific elements of credit policy that have the most significant impact on financial performance in SACCOs.

The findings are also in line with the literature by Musumba & Adongo (2020) who revealed that credit policy is a crucial component of SACCO operations and has a significant impact on financial performance. A comprehensive credit policy framework that aligns with the institution's objectives and principles can help manage risks and achieve strategic goals. Internal factors such as risk management practices and organizational culture, as well as external factors like regulatory requirements, also influence the implementation of credit policy.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the summary and description of findings derived from the study. The chapter also provides findings, conclusions and recommendations for policy as well as recommendations for further research.

#### 5.1 Summary of findings

The study on the credit terms and financial performance of Kyamuhunga Peoples SACCO revealed that a majority of respondents, representing 82.5%, agreed that the credit terms offered by the SACCO are transparent and easily understandable. Additionally, 80% of the respondents believed that the SACCO's credit terms align with the financial goals and aspirations of its members. The findings suggest that the transparency and alignment of credit terms have a positive impact on the overall financial performance of Kyamuhunga Peoples SACCO. Furthermore, the study conducted Pearson's correlation, revealing a significant positive relationship ( $r = .875^{**}$ ,  $p < .05$ ) between credit terms and the financial performance of the SACCO, affirming that the credit terms contribute significantly to the SACCO's financial success.

Furthermore, the study assessing the impact of credit standards on the financial performance of Kyamuhunga Peoples SACCO revealed that an overwhelming majority of respondents, ranging from 95% to 97.5%, agreed that the SACCO maintains thorough and effective credit evaluation processes, enforces stricter credit standards positively influencing loan portfolio quality, and consistently upholds high credit standards to minimize default risks. Additionally, a significant proportion of respondents, 95%, believed that adherence to credit standards enhance the SACCO's overall financial stability. The study also indicated that the SACCO provides sufficient training to employees involved in assessing creditworthiness, with 68.8% of respondents in agreement. Pearson's correlation analysis confirmed a significant positive relationship ( $r = .748^{**}$ ,  $p < .05$ ) between credit standards and the financial performance of

Kyamuhunga Peoples SACCO, reinforcing the notion that stringent credit standards contribute significantly to the SACCO's financial sustainability.

Finally, the study examining the relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO revealed strong consensus among respondents regarding the effectiveness and communication of the credit policy. Over 92% of respondents agreed that the SACCO's credit policy is well-communicated to both employees and members, effectively balancing risk and opportunity, and aligning with the mission and values of the SACCO. Additionally, the majority of respondents, 93.8%, indicated that employees believe in the alignment of the credit policy with the mission and values of the SACCO. Continuous monitoring and review of the credit policy were acknowledged by 92.6% of respondents, further reinforcing its positive impact. Members perceived that the credit policy positively influences their financial well-being, with 95% in agreement. Pearson's correlation analysis confirmed a significant positive relationship ( $r = .833^{**}$ ,  $p < .05$ ) between credit policy and the financial performance of Kyamuhunga Peoples SACCO, emphasizing the crucial role of a well-communicated and balanced credit policy in contributing to the SACCO's financial success.

## **5.2 Conclusion**

In conclusion, the comprehensive investigation into the impact of risk management elements, specifically credit terms, credit standards, and credit policy, on the financial performance of Kyamuhunga Peoples SACCO in Bushenyi District underscores the pivotal role of effective risk management practices in shaping the SACCO's overall financial success. The study revealed a positive consensus among respondents regarding the transparency and alignment of credit terms, the stringent adherence to credit standards contributing to portfolio quality and financial stability, and the effective communication and balance of the credit policy. The significant positive correlations identified through Pearson's analysis further affirm the interconnectedness of these risk management components with the SACCO's financial performance. These findings collectively emphasize the critical importance of robust risk management strategies in safeguarding and enhancing the financial health of Kyamuhunga Peoples SACCO.

### **5.3 Recommendations**

From the above discussions of findings and conclusion, the following measures are recommended in response to the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District.

The study recommends the need to enhance the communication and transparency of credit terms at Kyamuhunga Peoples SACCO to further strengthen the positive perception among members. This can be achieved through regular updates, clear documentation, and member education programs to ensure a comprehensive understanding of the SACCO's credit terms, fostering trust and alignment with the financial goals of the members.

The study also recommends the need for continuous reinforcement and maintenance of rigorous credit standards at Kyamuhunga Peoples SACCO, as identified by the overwhelming support for effective credit evaluation processes and strict credit standards by the respondents. Consistent training programs for employees involved in credit assessment should be implemented to ensure a high level of competence in maintaining a quality loan portfolio and minimizing default risks.

Furthermore, the study recommends the need for sustaining and improving the effectiveness of the credit policy at Kyamuhunga Peoples SACCO, as highlighted by the positive consensus on its communication, alignment with mission and values, and its impact on members' financial well-being. Regular monitoring and reviews of the credit policy should be maintained to adapt to evolving financial landscapes and to ensure its continued relevance in achieving the SACCO's financial objectives.

More so, the study recommends the need for fostering a culture of continuous professional development for employees involved in creditworthiness assessment at Kyamuhunga Peoples SACCO. Investing in ongoing training programs will ensure that staff members stay abreast of evolving industry trends, regulatory changes, and best practices in credit risk management. This proactive approach will empower employees to make informed decisions, further strengthening the SACCO's overall risk management framework.

In addition, the study recommends the need for establishment of a robust feedback mechanism at Kyamuhunga Peoples SACCO, facilitating regular communication between members and the

SACCO regarding credit terms, standards, and policies. Actively seeking member input and addressing concerns will not only enhance transparency but also provide valuable insights for continuous improvement in risk management practices, ultimately contributing to the SACCO's financial resilience and member satisfaction.

Last but not least, the study recommends the need for exploring innovative technologies and data analytics tools to augment the credit evaluation processes at Kyamuhunga Peoples SACCO. Integrating these tools can enhance the efficiency and accuracy of credit assessments, leading to more informed lending decisions. This technological integration aligns with modern risk management practices, ensuring the SACCO remains adaptive and responsive to the dynamic financial landscape.

Lastly, the study recommends the need for conducting periodic reviews and audits of the credit terms, standards, and policies at Kyamuhunga Peoples SACCO. Regular assessments will help identify areas for improvement, ensure ongoing compliance with regulatory requirements, and guarantee that the SACCO's risk management practices remain aligned with industry best practices.

#### **5.4 Areas for further research**

Since this study examined the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District, therefore, the study recommends that the following areas of further study; an in-depth exploration of the member-specific factors influencing perceptions of credit terms at Kyamuhunga Peoples SACCO, an investigation into the effectiveness of various training methodologies for employees involved in credit assessment, an examination of the impact of emerging financial technologies on credit risk management practices, and a longitudinal study to assess the sustainability and adaptability of the SACCO's risk management strategies over time. Additionally, exploring the role of external economic factors on the SACCO's financial performance could offer valuable insights into enhancing risk mitigation measures.

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**APPENDICES**

**Appendix 1: Questionnaire**

**For Staff of Kyamuhunga PEOPLES SACCO**

Dear sir/madam

My name is Linda Abbey Nobert; I am a student of BBA at Uganda Christian University. I am conducting a study on “the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District.” You have been specifically selected to participate in this study and the information collected shall be purely for academic purpose and treated with the highest level of confidentiality. The success of this study shall greatly dependent on your response. Your cooperation shall highly be appreciated.

**Section A. Bio Data**

**Please tick the most appropriate answer**

1. Gender

a) Male       b) Female

2. Age

a) 21-30 years       b) 31-40 years

c) 41-50 years       d) Above 50 years

3. Education level

a) Diploma       b) Bachelor’s

c) Master’s       d) Others specify:.....

4. Which Kyamuhunga Peoples SACCO branch do you work with?

a) Butare Main Branch       b) Ishaka Branch

c) Bitooma Branch

5. How long have you spent working with Kyamuhunga Peoples SACCO?

a) Less than 1 year  b) 1-5 years

c) 6-10 years  d) Above 10 years

**Note:** In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree).

**Section B: Risk Management**

Questions		Responses				
NO.	Credit Terms	5	4	3	2	1
1	The credit terms offered by Kyamuhunga Peoples SACCO are transparent and easily understandable					
2	The flexibility of credit terms at Kyamuhunga Peoples SACCO positively influences our financial performance					
3	Kyamuhunga Peoples SACCO's credit terms adequately meet the needs of our members					
4	Timely communication of credit terms changes is practiced at Kyamuhunga Peoples SACCO					
5	Members believe that the credit terms offered contribute to the overall financial success of the SACCO					
6	The SACCO's credit terms align with the financial goals and aspirations of its members					
NO.	Credit Standards	5	4	3	2	1
1	The credit evaluation process at Kyamuhunga Peoples SACCO is thorough and effective					
2	Stricter credit standards positively impact the overall quality of our loan portfolio					
3	The SACCO consistently maintains high credit standards to minimize default risks					

4	Members believe that adherence to credit standards enhances the SACCO's financial stability					
5	The SACCO provides sufficient training to employees involved in assessing creditworthiness					
6	The credit standards set by Kyamuhunga Peoples SACCO contribute to long-term financial sustainability					
<b>NO.</b>	<b>Credit Policy</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	Kyamuhunga Peoples SACCO's credit policy is well-communicated to both employees and members					
2	The credit policy effectively balances risk and opportunity for the SACCO					
3	Employees believe that the credit policy aligns with the mission and values of the SACCO					
4	Continuous monitoring and review of the credit policy are practiced at Kyamuhunga Peoples SACCO					
5	Members perceive that the credit policy positively influences their financial well-being					
6	There is a clear understanding among employees about the role of the credit policy in achieving financial objectives					

### Section C: Financial Performance of Kyamuhunga Peoples SACCO

	<b>Statements</b>	<b>Responses</b>				
<b>NO.</b>	<b>Financial performance</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	Kyamuhunga Peoples SACCO demonstrates strong financial stability and profitability					
2	Kyamuhunga Peoples SACCO effectively manages its assets and liabilities to optimize financial performance					
3	Kyamuhunga Peoples SACCO consistently generates positive returns for its shareholders					

4	Kyamuhunga Peoples SACCO's financial performance reflects efficient cost management and expense control					
5	The SACCO's financial performance demonstrates consistent growth and expansion					
6	Kyamuhunga Peoples SACCO maintains a healthy capital adequacy ratio, indicating financial strength					
7	Kyamuhunga Peoples SACCO effectively manages credit risk and maintains a low level of non-performing loans					
8	The SACCO's financial performance compares favorably to its competitors in the industry					

**Thank you very much for your cooperation**

## **Appendix 2: Interview Guide**

### **For Top Level Management of Kyamuhunga Peoples SACCO**

Dear sir/madam,

My name is Linda Abbey Nobert; I am a student of BBA at Uganda Christian University. I am conducting a study on “the impact of risk management on the financial performance of Kyamuhunga Peoples SACCO, Bushenyi District.” You have been specifically selected to participate in this study and the information collected shall be purely for academic purpose and treated with the highest level of confidentiality. The success of this study shall greatly dependent on your response. Your cooperation shall highly be appreciated.

#### **Section A: Introductions**

1. Tell me about yourself (*gender, age, level of education*)
2. What position do you hold in Kyamuhunga Peoples Sacco?
3. How long have you worked with Kyamuhunga Peoples Sacco?

#### **Section B: The influence of credit terms on the financial performance of Kyamuhunga Peoples SACCO**

4. How do you believe the credit terms offered by Kyamuhunga Peoples SACCO directly impact the overall financial performance of the organization?
5. In your view, what specific measures or strategies have been implemented to ensure that credit terms align with the financial goals of the SACCO and contribute positively to its performance?
6. Can you provide insights into how member satisfaction with credit terms is considered as a key factor influencing the financial success of Kyamuhunga Peoples SACCO?

#### **Section C: The impact of credit standards on the financial performance of Kyamuhunga Peoples SACCO**

7. From a managerial perspective, how do you assess the influence of credit standards on the financial performance of Kyamuhunga Peoples SACCO?

8. What steps has the SACCO taken to ensure that credit standards are effectively maintained to minimize default risks and enhance the overall quality of the loan portfolio?
9. In your opinion, how do stringent credit standards contribute to the long-term financial sustainability and stability of Kyamuhunga Peoples SACCO?

**Section D: The relationship between credit policy and the financial performance of Kyamuhunga Peoples SACCO**

10. How does the credit policy of Kyamuhunga Peoples SACCO align with the overall financial objectives of the organization, and how is this alignment measured or monitored?
11. As a top-level manager, what role do you believe the credit policy plays in balancing risk and opportunity, ultimately influencing the financial performance of the SACCO?
12. Can you share insights into the ongoing review and adaptation processes employed by the SACCO to ensure that the credit policy remains responsive to the changing financial landscape and contributes to sustained financial success?

**Thank you for your cooperation**