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DESCRIPTIVE CONNECTION BETWEEN CREDITST ANDARDS AND PROFITABILITY OF SELECTED SACCOS IN MBARARA CITY.

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Abstract: Efficient credit standards influence sharing of information among financial institutions about borrowers,stabilizes interest rates, reduces non-performing loans, increases deposits and increases credit extended toborrowers. In Uganda, credit management became widely adopted by SACCOs to mitigate loan defaults and improveSACCOs' profitability. This study sought to fill the existing knowledge gap by answering the question of what couldbe the credit standards and profitability of SACCOs with specific focus on Selected SACCOs in Mbarara city.
The study adopted a descriptive cross-sectional research design with a quantitative approach of data collection, management and presentation. Participants were selected randomly from among the SACCO's staff of selected oneswithin Mbarara city. These were subjected to questionnaire method of data collection. Data collected from thesequestionnaires was coded, edited and entered into SPSS for analysis. Descriptive statistics were presented usingpercentages, mean and standard deviations on frequency distribution tables. Results from descriptive statisticsrevealed that most SACCOs in Mbarara city consider credit standards before giving out loans as a measure to controlloan defaultand maximize the profitability of the financial institution. Therefore, the study concluded that creditstandards contribute positively to the profitability of the SACCOs. The study recommends that that regulated SACCOs should adopt and implement tailor made credit standards as they would result into significant increase onprofitability.

Key words: Credit Standards, Profitability and SACCOs.

I. BACK GROUND OF THE STUDY.

World over, SACCOs are financial institutions that deal in collecting peoples savings and channeling them to the borrowers to ensure that money multiplies in the due course (Gaitho, 2010). Most economies in the world have financially benefited from the establishment of SACCOs in their economies hence fostering economic development as well as improving the income levels of the individuals (Rabby et al., n.d.)

In Africa, SACCOs have been considered as great avenues for the natives to attain financial literacy(Dasgupta, 2008). Additionally most African countries have impressed the SACCO business because of the need to advance their understanding on the use of money appropriately for better economic development (Gisemba, 2010).

In Uganda, SACCO business has been considered as a relief of most business struggling with finances since the access of credit is so quick and first (Kwizera, 2014). SACCOs in Ugandamobilize savings from those surplus spending units to the deficit spending units with an interest attached to cater for the financial performance of the SACCO (Mafumbo, 2020). However, SACCOs are very diligent enough while giving out credit to the borrowers because most of the borrowers are financially undisciplined in a way that they do not comply according to the agreed payment dates (Natukunda, 2019), this call for strict credit management policies to help the SACCO be in position to recover the loans given out so as to minimizes the rate of loan default by the borrowers (Katula & Kiriinya, 2018).

In order to minimize loan default and maintain profitability of the SACCOs, adaptation of credit management policies have been key in the economy of Uganda (Shieler et al., 2017), among the credit management tactics applied in Uganda is credit standards which aims at assessing the capability of the client before the loan is advanced(Nyakado, 2016). These standards have really worked towards helping the SACCOs to give loans to only those who manage to pay back in the agreed time as per the loan agreement and this encourages the SACCO to maintain its status quo in relation to profitability.

II. STATEMENT OF THE PROBLEM.

A range of challenges affects SACCOs because most of their clients earn a modest income. As a result, members default paying the loans disbursed to them, thus struggling to reach a balance between their running costs and satisfying the clients' needs **(**Kalisa, 2012)Also, there are no stringent policies set by SACCOs in the country that regulate issuing of loans and collecting payments. Besides, limited credit appraisal poses a hitch in that SACCOs in Uganda carry out an inadequate financial assessment of clients and their guarantors leading to disbursing of loans to credit unworthy members who eventually default (Ocen, 2019). All these challenges result in loss of revenue hence SACCOs collapse, they should also formulate policies that meet the current market standards. The SACCOs should work with the Credit Reference Bureau to allowing gathering substantial information that will aid in proper credit appraisal. For instance, in Mbarara District, records from the Commercial Officer's office FY 2016/2017 indicate that a number of SACCOs were experiencing financial challenges like failing to meet their operating costs like meeting customer demands and low return on assets rate which is a clear indicator of no profitability at all by the SACCOs. Much as SACCOs in Mbarara city are trying to manage credit through following the credit standards, their profitability has continued to be low a case in point is Ankole Diocese Millennium SACCO whose profitability level reduced by 2% from the financial year 2019 to 2020, Bessenia SACCO whose loan recovery rate was only 12% in 2019 (Bessenia SACCO P&L report 2019) and Mbarara Hawkers SACCO which made profits of UGX 42,307,710 in the financial year 2018 and a loss of UGX 9,747,080 (financial report 2018) which made it very hard for the SACCO to meet its obligations like payment of workers, compromising customer demands among others. To this end, there is scanty of literature on how Credit standards influences profitability of SACCOs in Mbarara city thus bothering the researcher to carry out the study which aimed at examining credit standards on profitability of SACCOs in Mbarara city.

Study Purpose.

The study purposed to examine the relationship that exists between credit standards and profitability of SACCOs in Mbarara City.

III. REVIEW OF LITERATURE.

Theoretical Framework: Delegated Monitoring Theory

This study was anchored on Delegated Monitoring Theory developed by Diamond (1996), and it explains the process by which financial institutions and SACCOs are significant in providing financial intermediation services. According to this theory, funds are transferred from savers who make deposits and ultimately enabling SACCOs to act as the delegated monitors by advancing loans to borrowers. The key element in this theory is the analysis of the cost benefit of recovering funds advanced. This is possible through the collection of the required borrowers' information with the aim of minimizing loan default. In addition, these financial institutions impose terms and conditions on the borrower such time and interest. These terms and conditions ensure efficient loan recovery by restricting the borrowers from shifting priority to other obligations other than honoring their SACCO loans.

The idea behind this theory is that the SACCO management should incline much of their time and expertise in monitoring their borrowers' loan repayment schedules in order to minimize the default risk and maximize interest recovered within a given period (Saunders, Cornet 2005). In order to adequately monitor their borrowers' repayment patterns. These terms refer to loan interest rates and loan repayment periods according individual SACCO's standards which vary from one SACCO to another (Kule et al., 2020). Loan lending policies dictate interest received on advanced loans. Short term loans attract high interest rates while minimizing the risk of loan default thus profitability.

The relationship between Credit Standards and Profitability of Savings and Credit Cooperative Societies

Credit standards are techniques followed as yardsticks for clients to qualify for a given amount of a loan requested from a financial institution (Gisemba, 2010). The financial institution cannot from no measure give out credit to clients who do not meet the standards. This mechanism protects the SACCOs from facing heavy loan defaults. Before a loan is advanced to the client,the SACCO needs to first asses the client through following the credit standards to find out the eligibility of that client to take the loan. According to (Opiding, 2018), clients who access the after prior certification by the financial institution, do comply on the prescribed time of the payment and this make it easy for the institution to ascertain value for money in terms of profitability.

Credit standards can be tailor made by different given financial institutions but the major crosscutting ones are, capacity, capital, collateral security, condition and the character of the client (Mwesigwa, 2018). This gives a clear measure for the clients' capability of paying back the loans. The character of a client matters a lot concerning the loan repayment and therefore, the loans department needs to first study the character of the loan applicant before disbursement is made so as to minimize the rate of default (Riasi, 2018).

In addition to the implementation of the credit standards, a committee of loan approval needs to be well instituted for purposes of approving the findings of the credit standards assessor to ensure that all possible hierarchy has been followed in approving and advancing the loan. According to findings by (Katumba, 2021), a credit management committee is very imperative in all approvals made towards loan disbursement since it makes proper and genuine assessment of the client by confirming that amount applied for is worth disbursement to the applicant.

SACCOs make profits when the rate of quality loans is very high to enable timely recovery of the loans given out and this can only be realized when the standards of giving out the loan have been properly enacted by the responsible officers (Rabby et al., n.d.). most SACCOs faced financial challenges when the rate of loan default by the clients is increasing that is as a result of not implementing the standards at the time of giving out the loans (NDARUHUTSE, 2016).

Many SACCOs in Kenya, credit lending actions involved giving loans with genuine collaterals(Katula & Kiriinya, 2018) However, in lending against real assets, savings and credit cooperative societies unsuccessfully made insufficient valuation of correspondence between the financial environment of the borrowers and the price changes. Thus, the liquidity of the market value for the collateral assets' declines. Thus, when the borrower's income and the principal source of loan serving in attached to the to the property which is in question, then it leads to deterioration of the borrowers' income stream due to changes in the industry compounded by regional economic problems.

IV. RESEARCH METHODOLOGY.

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems(Marczyk et al., 2010)A descriptive, cross sectional survey research design was used in this study with a quantitative approach of data collection, management and. This is the design that analyzes data from a population, or a representative subset, at a specific point in time(Leavy, 2017). Quantitative approach allowed the collection of large amounts of data from a sizable population in a highly economical way.A five-pointlinkert scale questionnaire was used to collect data from the study participants who were selected using simple random sampling for purposes of giving each one an equal chance of participating in the study.The quantitative data was presented inform of percentages, mean and standard deviation to derive the statistical description of how credit standards connect with the profitability of the SACCOs in Mbarara City.

Sample Size Determination

A target population of 156 participants was drawn from 26 registered SACCOs in Mbarara City. This was done in consideration of the category of participants present in the management of SACCOs. Sample size of 135 respondents was determined using Krejcie & Morgan (1970)model of random numbers as expressed on Table 1.

Table 1: Showing sample size selection

Respondents	Target population	Sample size	Sampling technique	Data collection tool
Managers	26	24	Simple random	Questionnaire
Credit managers	26	24	Simple random	Questionnaire
Accountants	26	24	Simple random	Questionnaire
Credit officers	78	63	Simple random	Questionnaire
Total	**156**	**135**		

Source: Krejcie & Morgan (1970)

The sample size for this study was 135 respondents selected using both probability and non-probability sampling techniques. All respondents including managers, credit managers, accountants and credit officers were selected using simple random technique which gave every member in the group equal chances to participate in the study.

Demographic Characteristics of the Respondents

Respondents were asked to provide information regarding their demographic profile which included gender, age bracket, level of education, marital status as follows.

Distribution by the Gender of the Respondents

The gender of the respondents was distributed as indicated in table 2.

Table 2: Sex of the Respondents

Sex	Frequency	Percent
Male	62	54.0
Female	53	46.0
Total	**115**	**100.0**

Source: Primary Data, 2022.

Table 2, indicate that majority of the participants (62%) were males whereas the least (46%) were females. These findings indicate that SACCOs in Mbarara city employ more males than females meaning they play a big part towards implementing the credit standards at the time of giving out the loans to the clients.

Marital status of the Respondents

The study went ahead to consider the marital status of the respondents and the findings are tabulated here below;

Table 3: Marital status of the respondents

Marital status	Frequency	Percent
Single	51	44.3
Married	64	55.7
Total	**115**	**100.0**

Source: Primary Data, 2022.

Table 3 indicate that majority of the respondents (55.7%) were married whereas the least (44.3%) were single. This clearly indicates that SACCOs in Mbarara city employ mature staffs who are capable of implementing credit standards of the SACCOs towards achieving profitability.

Age of the Respondents

Age of the respondents was considered in this study in order to ascertain whether the participants were fairly selected from the target population. The distribution of the participants by age groups is presented on Table 4.

Table 4: Age of the respondents

Age bracket	Frequency	Percent
18-24	12	10.4
25-30	40	34.8
31-40	42	36.6
41-50	22	19.1
	115	**100.0**

Source: Primary Data, 2022.

Table 4 indicate that majority of the respondents (36.6%) belonged to age group (31-40). This was followed by 34.8% who belonged to age group 25-30 years; thirdly 19.1% belonged to the age group of 41-50 whereas the least 10.4% belonged to age group 18-24 years of age. The findings indicate that SACCOs in Mbarara city employ Mature and young generation which is capable of initiating new tactics towards implementing credit policy through the proper consideration of credit standards to ensure a good portfolio quality for profitability purposes.

Level of Education

In order to establish the expertise of staff, their education levels were put into consideration by this study and the findings are tabulated her below;

Table 5: Level of Education

Education level	Frequency	Percent
Diploma	29	25.2
Bachelors	86	74.8
Total	**115**	**100.0**

Source: Primary Data, 2022.

Tables 5 indicate that majority of the participants (74.8%) hold Bachelors' degrees concerning their academic stand whereas the least 25.2% had diploma certificates. The findings signify that SACCOs in Mbarara city has qualified staff who are capable of managing the implementation of credit standards to ensure profitability of the SACCO.

Table 6: Descriptive Statistics on Credit Standards and Profitability of SACCOs

Statement	**Mean**	**Std.**
All loans at the Sacco are issued as per credit standards	4.31	.903
The total amount of disbursed and outstanding loans must not be less than 70% nor exceed 80% of the SACCO's total assets	2.73	.193
We periodically evaluate the quality of its portfolio and, at the same time, make adequate provisions for its protection	3.05	.383
Sacco has good loan default management	3.87	.774
We consider capacity condition collateral and security capital	4.06	.845
We analyze information about our clients to determine credit worthiness	4.06	.891
Loan amounts per cycle are determined basing on the loan and the ability of the client to repay	3.12	.678
Large amounts of loan are authorized by either a manager or supervisor before giving them out	2.06	.127
Credit standards ensure no default is incurred	3.56	.412
SACCO sets and follow the credit policies and terms	4.06	.245
Total Score	**34.87**	**5.451**
Average Score	**3.487**	**0.545**

Source: Primary Data, 2022.

Table 6 shows that majority of respondents agreed with the statements rated on the questionnaire. This is explained by their mean which is above 3, and their standard deviations which is close to 1. The respondents' responses were as follows;

Table 6 indicate that majority of the respondents agreed that all loans at the SACCO are issued as per credit standards (Mean= 4.31; Standard deviation= 0.903). This implies that SACCOs in Mbarara city strictly follow credit standards in issuing of loans to the borrowers.

Findings show that majority of the participants disagreed with the statement that the total amount of disbursed and outstanding loans must not be less than 70% nor exceed 80% of the SACCO's total assets (Mean= 2.73; Standard deviation= 0.193). This implies that the total amount disbursed being restricted to not less than 70% nor exceed 80% of the SACCO's total assets is not popular among SACCOs or not being considered to a large extent.

Also, majority of the respondents were not sure whether the SACCO periodically evaluate the quality of its portfolio and, at the same time, make adequate provisions for its protection (Mean= 3.05; Standard deviation= 0.383). This shows that the practice of evaluating the quality of portfolio is not regularly conducted among SACCOs in Mbarara city.

The study further found out that majority of the respondents agreed that the SACCOs have a good default management (Mean= 3.87; Standard deviation= 0.77). This is an indication that SACCOs in Mbarara city have a good default management which predicts its improved profitability.

In addition, results show that agreed that they consider capacity condition collateral and security capital (Mean= 4.06; Standard deviation= 0.845). This shows that capacity condition of collateral is among the outstanding credit standard that SACCOs consider in giving out credit services to its customers.

Other findings revealed that of the respondents agreed that they analyse information about their clients to determine credit worthiness (Mean= 4.06; Standard deviation= 0.891). This shows that determining credit worthiness of the members applying for loans is another credit standard observed among SACCOs in Mbarara city in their financial operations towards profitability.

Also, majority of the participants agreed that loan amounts per cycle are determined basing on the loan and the ability of the client to repay (Mean= 3.12; Standard deviation= 0.678). This is an indication that the loan given to a borrower per cycle is determined by the ability of the client and the amount of loan applied for.

However, (56.3%) of the participants disagreed that large amount of loans is authorized by either a manager or supervisor before giving them out (Mean= 2.06; Standard deviation= 0.127). This shows that it's not necessary that large amount of loan has to be authorized by the manager.

Results further show that majority of the participants agreed that credit standards ensure no default is incurred. This is an indication that credit standards slightly ensure that there is no default incurred SACCOs in Mbarara city.

Finally, results show that populace of the participants agreed that the SACCO sets and follow the credit policies and terms. This implies that SACCOs follow laid down credit policies and terms which ensure effective credit standards in its financial operations towards profitability.

V. DISCUSSION OF FINDINGS.

The Relationship between Credit Standards and Profitability of SACCOs in Mbarara City.

Results from the descriptive statistics revealed that credit standards are connected to the profitability of SACCOs since most respondents agreed to the statements subjected to them concerning the credit standards and profitability. Meaning these findingsare in agreement with(Opiding, 2018) who showed that the increase in return and increase in costs trade off influences choice of credit standards in any given financial institution and this ultimately predicts financial performance. In the same vein, (Riasi, 2018)reported that credit standards are factors employed to determine a borrower credit worthiness or ability to repay debt and standards help in minimizing the risk of default in financial institutions. On this view, (Katumba, 2021)suggested that the most persuasive area of risk in an overly aggressive lending practice. It is dangerous practice to extend beyond the useful life of the corresponding besides that, giving out loans to borrowers who are already overloaded with debt or possess unfavorable credit history can expose banks unnecessary default and credit risk. In order to reduce these risks, banks need to take into considered some common application particular such as debt to income ratio, business history and performance record, credit history and for industrial loan applicants, their time on the job or length of time at residence.

VI. CONCLUSION.

The study concluded that credit standards are vital in SACCOs to be considered while giving out loans because it is proved as a key factor towards ensuring quality loans which guarantee profitability of the SACCOs through getting the loan interest on the stipulated and planned schedule.

VII. RECOMMENDATION.

The study recommended that SACCOs have to impress strong and stringent credit management policies especially credit standards since they are considered before disbursing the loan to the clients to ensure minimum loan default to realize profits.

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