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LENDING TERMS AND PROFITABILITY OF SAVINGS AND CREDIT COOPERATIVES IN UGANDA: A CASE OF SELECTED SACCOS IN MBARARA CITY

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ABSTRACTThis study sought to fill the existing knowledge gap between credit terms, credit standards, collection procedures, and profitability of savings and credit cooperative organizations (SACCOs) in Mbarara City southwestern Uganda. In Uganda, credit management became widely adopted by SACCOs to mitigate loan defaults and improve SACCOs' profitability. A cross-sectional research design with a quantitative approach was used in collecting data from SACCO's staff in Mbarara city. Participants were randomly selected and subjected to questionnaires. The data was coded, edited, and entered into SPSS version 23 for analysis. Descriptive statistics were presented using percentages, mean, and standard deviations. Correlations were used to determine the strength of relationships between lending terms and profitability. The present study found that there is a strong positive correlation between credit terms and profitability of SACCOs (r= .723; p<0.05), collection procedures and profitability of SACCOs (r= .762**; p<0.05), and a weak positive correlation between credit standards and financial performance of SACCOs (r= .244**; p<0.05). The study findings revealed a significant correlation between lending terms and SACCO profitability, suggesting that regulated SACCOs should adopt and implement lending terms strategies to boost profitability.

Keywords –Lending terms, profitability, SACCOs, Mbarara, Uganda

I. INTRODUCTION

According to (Mwesigwa, 2018), lending policy refers to a set of policy actions designed to minimize costs associated with credit while maximizing the benefit. Credit policy helps in the management of account receivables (Kule et al., 2020). According to (Ocen, 2019) a financial institution's lending terms affect the financial performance of that institution. Performance in SACCOs can be measured through effectiveness, efficiency, quality of products, productivity, quality of work life, innovation, and profitability (Mwesigwa, 2018).

According to the report by World Bank (2017), it was found out that savings and credit societies have the largest markets in Africa as indicated by the number of members in the survey conducted in different countries (Kenya, 5,432,009; Senegal, 1,767,506; Rwanda, 1,607,560; Uganda, 1,325,517; and Benin, 1,272,020) (WOCCU, 2016) and the numbers are increasing at the growth rate of 8.9% every year.

In Uganda, a study (Katumba, 2021) revealed that SACCOs suffer a high exposure to credit risk particularly borrowers who are unable to pay or delay payments resulting from poor credit policies applied by these SACCOs. More so, Shieler et al., (2017) revealed that there is a tendency for SACCO leaders to favor borrowers instead of following the guidelines as stipulated in the credit policy. This has led to massive fraud of funds by SACCO leaders and increased delinquency (CGAP report, 2016) for instance, Mwizi SACCO in Mbarara loaned out Ugx 841,000,000 since 2012 but had only recovered 26% of the amount by 2017 (Mbarara District Commercial Officers Report, 2018).

Therefore, Mbarara city's SACCOs struggle with low profitability, with Ankole Diocese Millennium experiencing a 2% reduction in profitability from 2020-2021 (Ankole Sacco financial report 2021), Bessenia having a 12% loan recovery rate (Bessenia Sacco financial report 2021), and Mbarara Hawkers experiencing a UGX 9,747,080 loss in 2019, compromising customer demands. To this end, there is scanty literature on how credit policy management strategies influence the profitability of SACCOs in Mbarara City. It's upon this background that we examined lending terms strategies on the profitability of SACCOs in Mbarara city.

II. METHODS

Research design. This study utilized a non-experimental, cross-sectional survey research design with a quantitative approach for data collection and analysis, allowing for economic data collection and analysis of variables, interrelationships, and explanatory inferences (Marczyk et al., 2010)

Research area and study population. This study was conducted in Mbarara city, a major business hub in Uganda, known for its thriving business hub and alarge number of informal business authorities and SACCOs in the region.The study population included 128 respondents from Mbarara City's 26 registered SACCOs. These included SACCO managers, credit managers, accountants, and credit officers

Sample size determination. The study selected 115 participants from 26 SACCOs registered in Mbarara District as the control group and determined a sample size of 115 participants using Krejcie& Morgan's model. 115 participants, including managers, credit managers, accountants, and civil servants, participated in the study.

Sampling techniques. The study employed a simple random sampling technique. Probability sampling ensured equal participation chances for all members.

Data sources. This study utilized primary and secondary data sources to address its research problem. Primary data, first-hand or raw data, was collected from the field using questionnaires. Secondary data, on the other hand, was collected before the study and used for reports or studies on the phenomenon. The researcher used published and unpublished material from journals, magazines, theses, and academic papers.

Data collection instruments. The study adopted an unstructured questionnaire developed with pre-determined answers. The first section addressed demographic issues while other sections addressed constructs developed from the study objectives. In addition, a five-level linkert scale measure from 5 (Strongly Agree) to 1 (Strongly Disagree) was adopted to develop an outstanding, reliable, and valid instrument of data collection (Bryman and Bell, 2011).

Data collection procedures. The researcher sought approval from the Bishop Stuart University Research Ethics Committee. At the onset of data collection, the researcher got permission from the office of the Town Clerk and City Commercial Officer to allow her to conduct the study in the area. After collecting data, the process of sorting and arranging data followed.

Validity. This study used a questionnaire to ensure the validity of research findings before the administration of the research instruments. These instruments were checked by research experts. The content validity ratio was used to calculate the Content Validity Index, using Amin's (2005) formula.

A content validity index of 0.7 and above, according to Amin (2005) qualifies the instrument for the study.

Reliability. The questionnaire was pre-tested on a group of 5 participants who were not to be part of the final target population of this study. The Cronbach alpha test was used to assess the reliability of the tools administered to participants. A Cronbach's Alpha coefficient above 0.70 indicated instrument reliability and the overall reliability test (0.81) was above the alpha value of 0.7, indicating questionnaire satisfaction.

Data processing and analysis. Before processing, data was cleaned, coded, entered, and analyzed using Statistical Package for Social Science (Version 23) for Windows. Findings were presented through percentages, mean, and standard deviations. The findings were presented by utilization of tables. This was finished by tallying up responses, processing rates of varieties accordingly, and also portraying and deciphering the information by the study destinations and suppositions through the utilization of SPSS (Version 23) for windows to convey look into discoveries specifically to find out the relationship (r) between lending terms and profitability of SACCOs in Mbarara city.

III. RESULTS

SOCIO-DEMOGRAPHIC CHARACTERISTICS

TABLE 1: DISTRIBUTION BY THE SOCIO-DEMOGRAPHIC OF THE RESPONDENTS

Variable	**Category**	**Frequency (n)**	**Percent (%)**
Sex	Male	62	54.0
	Female	53	46.0
Marital status	Single	51	44.3
	Married	64	55.7
Age bracket	18-24	12	10.4

	25-30	40	34.8
	31-40	42	36.6
	41-50	22	19.1
Education level	Diploma	29	25.2
	Bachelors	86	74.8

Table 1 shows that the majority of participants (54.0%) were male and the least (46%) were female. The majority of respondents (55.7%) were married, the least (44.3%) were single. The majority of respondents (36.6%) are elderly (31-40 years old). This is made up of the 25-30 age group with 34.8 percent, the 41-50 age group with 19.1 percent, and the 18-24 age group with at least 10.4 percent. As shown in Table 1 above, most of the participants (74.8%) had completed a bachelor's degree (based on their studies), while at least 25.2% had a degree.

CREDIT TERMS AND PROFITABILITY OF SACCOS

Table 2: Credit Terms and Profitability of SACCOs

Statements	Mean	Std.
Our SACCO offers credit services to members who meet the requirements of creditworthiness	4.81	0.732
We grant loans primarily based on the member's ability	4.00	0.808
Every loan is amortized or paid off according to the original agreement	4.94	0.945
Our SACCO offers a long loan repayment period	2.19	0.041
We periodically review the borrower rating assigned at the time the credit was granted	3.90	0.757
We monitor the flow of borrowers' business through the SACCO's account	3.94	0.761
Our SACCO requires collateral as security for loans	4.94	0.845
Our SACCO creates an environment that can be seen as a solver of problems and a trusted adviser	4.06	0.935
Our SACCO has well-defined credit terms	3.94	0.782
Our SACCO has a clear loan assessment procedure	4.12	0.850
Total Score	39.84	7.456
Average Score	3.984	0.745

Table 2 shows that the majority of them agreed that their SACCO offers credit services to members who meet the requirements of creditworthiness (Mean= 4.18; Standard deviation= 0.732). Findings further show that the majority of the participants agreed that the granting of loans is based primarily on the members' ability (Mean= 4.00; Standard deviation= 0.808). Also, all respondents agreed that every loan is amortized or paid off according to the original agreement (Mean 4.94; Standard deviation 0.945). On the contrary, the majority of the participants disagreed that the SACCO offers a long loan repayment period (Mean= 2.19; Standard deviation= 0.014). The majority of the participants agreed that they periodically reviewed the borrower rating assigned at the time the credit was granted (Mean= 390; Standard deviation=0.757). In addition, the findings show that the majority of the respondents agreed that they monitor the flow of borrowers' business through the SACCO's account (Mean= 3.94; Standard deviation= 0.761). Regarding collateral, all respondents agreed that the SACCO requires collateral as security to loans (Mean= 4.94; Standard deviation= 0.845). Findings also show that the majority of the participants agreed that SACCOs create an environment that can be seen as a solver of problems and a trusted adviser (Mean= 4.06; Standard deviation= 0.935). The results further show that the majority of the participants agreed that the SACCOs have well-defined credit terms (Mean= 3.94; Standard deviation= 0.782).

Finally, the findings revealed that the majority of the participants agreed that Sacco has a clear loan assessment procedure (Mean= 4.12; Standard deviation= 0.850).

TESTING THE INFLUENCE OF CREDIT TERMS ON THE PROFITABILITY OF SACCOS

Table 3:Pearson Correlation matrix for credit terms and profitability of SACCOs

Correlations			
		Credit terms	**Profitability**
Credit terms	Pearson Correlation	1	.723**
	Sig. (2-tailed)		.005
	Respondents	115	115
Profitability	Pearson Correlation	.723	1
	Sig. (2-tailed)	.005	
	Respondents	115	115
**. Correlation is significant at the 0.01 level (2-tailed).			

The table indicates that there is a strong positive correlation between credit terms and the Profitability of SACCOs (r= .723**; p<0.05).

CREDIT STANDARDS AND PROFITABILITY OF SACCOS

Table 4: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 creditworthiness	4.06	.891
Loan amounts per cycle are determined based on the loan and the ability of the client to repay	3.12	.678
A large amount of loans 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 follows the credit policies and terms	4.06	.245
Total Score	**34.87**	**5.451**
Average Score	**3.487**	**0.545**

Table 4 shows that the majority of participants agreed that all of SACCO's loans were made according to credit standards (mean = 4.31; standard deviation = 0.903). The findings revealed that the majority of respondents disa greed with the statement that total income and loans should be no less than 70% and no more than 80% of SAC CO's total assets (mean = 2.73; standard deviation = 0.193). Additionally, most respondents are unsure whether SACCOs regularly assess the quality of their assets while taking necessary precautions to protect their assets (m ean = 3.05; standard deviation difference = 0.383). The study also found that most respondents agreed that SAC COs have good governance (mean = 3.87; standard deviation = 0.77). Additionally, the results show agreement t hat they consider potential resources and security resources (mean = 4.06; standard deviation = 0.845). Another study showed that some respondents agreed that they analyze customer information to determine creditworthine ss (mean = 4.06; standard deviation = 0.891). Moreover, most participants agreed that the loan amount for each cycle is determined by the loan amount and the customer's ability to repay (mean = 3.12; standard deviation = 0. 678). However, most respondents (56.3%) disagreed that most loans are approved by managers or auditors befor e disbursement (mean = 2.06; SD = 0.127). The results also show that the majority of participants agreed that cr edit structure ensures that crime does not occur. Finally, results showed that participants generally agreed that S ACCOs establish and follow rules and policies.

TESTING THE RELATIONSHIP BETWEEN CREDIT STANDARDS AND THE PROFITABILITY OF SACCOS

Table 5: Pearson correlation matrix for credit standards and Profitability of SACCOs

Correlations			
		Credit standards	**Profitability**
Credit standards	Pearson Correlation	1	.244**
	Sig. (2-tailed)		.005
	Respondents	115	115
Profitability	Pearson Correlation	.244**	1
	Sig. (2-tailed)	.005	
	Respondents	115	115
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 5 indicates that there is a weak but positive correlation between credit standards and profitability of SACCOs (r= .244**; $p<0.05$).

COLLECTION PROCEDURES AND PROFITABILITY OF SACCOS

Table 6: Collection Procedures and Profitability of SACCOs

Statement	**Mean**	**Std.**
Sacco has a good recovery procedure	4.00	.870
Penalizing clients for late payment	4.58	.813
The SACCO has stringent collection procedures	3.01	.389
In cases of failure to pay the loan, SACCO takes measures to recover it	4.06	.833
The SACCO has lenient collection procedures	4.13	.734
Monitoring loans that are in arrears	3.81	.789
We make discounts to accelerate timely collection to cut back on the amount of doubtful debts and associated costs	1.56	.036
We ensure prompt payment and regular collection	4.93	.934
A collection procedure is required because some clients do not pay the loan on time	4.73	.949
Collection efforts are directed at accelerating recovery from slow payers and decreasing bad debt losses	4.00	.820
Total Score	**38.81**	**6.891**
Average Score	**3.881**	**0.689**

Table 6 shows that the majority of participants believed that Sacco had a good recovery process (mean = 4.00, S D = 0.870). Additionally, the findings revealed that the majority of participants agreed that SACCO penalizes cu stomers who pay late (mean = 4.58; SD = 0.813). The results showed that most respondents were not sure that S ACCOs follow strict rules to collect loans from borrowers. Many respondents also agreed that if the loan is not r epaid, SACCO will take the necessary steps to recover the loan (mean = 4.06; standard deviation = 0.833). It wa s also observed that the majority of participants agreed that SACCO's collection system was lax (mean = 4.13; S D = 0.734). Regarding the monitoring of problem loans, most of the participants agree with this statement (mean = 3.81; standard deviation = 0.789). However, most respondents disagree that they reduce it to speed up collecti ons on time and reduce bad debts and related costs (mean = 1.56; standard deviation = 0.036). 100% of respondents agreed that SACCO provides on-time payments and regular collections (mean = 4.93, standard deviation = 0.934). Additionally, all of the participants (100%) agreed that there should be a collection system because some customers do not pay their loans on time (mean = 4.73; standard deviation = 0.949). Finally, all respondents (100%) agreed that consolidation aims to rescue late payers and reduce bad debts (mean = 4.00; SD, 0.820).

TESTING THE RELATIONSHIP BETWEEN COLLECTION PROCEDURES AND THE PROFITABILITY OF SACCOS

Table 7: Testing the relationship betweenCollection Procedures and Profitability of SACCOs

Correlations			
		Correction procedures	Financial performance
Collection procedures	Pearson Correlation	1	.762**
	Sig. (2-tailed)		.005
	Respondents	115	115
Financial performance	Pearson Correlation	.762**	1
	Sig. (2-tailed)	.005	
	Respondents	115	115
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 7 indicates that there is a strong positive correlation between loan collection procedures and the Profitability of SACCOs ($r= .762^{**}$; $p<0.05$).

PROFITABILITY OF SACCOS.

Table 8: profitability of SACCOs

Statements	Mean	Std.
Earnings per share have grown	4.81	.939
The loan portfolio has increased	4.06	.745
The volume of assets the business has increased	4.00	.817
Our dividends have improved	4.06	.913
Profits have been increasing	4.30	.894
Has expanded its operations from its initial size	4.66	.938
Market share has increased in comparison to our competitors	4.78	.931
Introduced products or services that were new or improved to the market	4.16	.698
We opened other branches since its incorporation	4.75	.881
The total cost of operation has been reduced	4.96	.942
Total Score	**43.91**	**8.698**
Average Score	**4.391**	**0.8698**

Table 8 shows that most respondents agree that SACCO EPS has increased (mean = 4.81; standard deviation = 0.939). Regarding credit information, most participants believe that their credit information has increased (mean = 4.06, standard deviation = 0.745). Additionally, most participants believe that the real estate market is increasing (mean = 4.00; SD = 0.817). Additionally, the survey results showed that most respondents agreed that the dividend rate is better (mean = 4.06; standard deviation = 0.913). The results also show that most participants agreed with the increase in benefits (mean = 4.30; standard deviation = 0.894). It was determined that respondents (85.4%) agreed that SACCO was expanded in size (mean = 4.66; SD = 0.938). Additionally, 95% of participants agreed that business has increased overall relative to our competitors (mean = 4.78; SD = 0.931). The results also show that most respondents agree that new products, improvements, or services should be introduced to the market (mean = 4.16; standard deviation = 0.698). All participants agree that other branches have been opened since the company was founded (mean = 4.75; standard deviation = 0.881). Finally, most participants agreed that total operating costs decreased (mean = 4.96; standard deviation = 0.942).

IV. DISCUSSION

Relationship between credit conditions and profitability of SACCO in Mbarara City.

This study concludes that there is a correlation (r=.723; p<0.05) between SACCO management improvement and enforcement of credit conditions, leading to increased effectiveness of results. Aligning with findings from Maithya (2017), it suggests a relationship between credit terms, policies, loans, credit analysis, risk management, and lending. Similarly, studies by Labeja (2012), Makoha (2019), and Ocen (2019) in Kenya affirm that loan terms and conditions impact the benefits of deposit banks. However, this study aims to delve deeper by analyzing loan content, structure, collection process, and profitability of SACCOs, offering a diversified perspective. It recognizes previous studies' indications that SACCO performance is influenced by financial development, business management, and capital management (Gisemba, 2010). By examining these variables comprehensively, this study seeks to provide a nuanced understanding of the overall impact of credit policy on SACCO profitability, shedding light on various perspectives within the field.

Relationship between credit structure and profitability of SACCOs in Mbarara City.

The relationship between credit structure and SACCO structure, as well as financial performance, was been found to be weak but significant (r= .244**; p<0.05), indicating the pivotal role credit structure plays in influencing SACCO profitability in this current study. Nevertheless, the extent of this effect is contingent upon various other factors, as evidenced by the modest significance observed in this case study. This underscores the importance for SACCOs to incorporate credit models as part of a comprehensive approach to enhance integration within their credit systems. The delicate balance between augmenting returns and managing the costs associated with credit models informs financial institutions' decisions and forecasts their financial performance. This aligns with previous research by Nyakado (2016), emphasizing how credit standards serve as crucial tools in assessing borrowers' repayment capabilities and mitigating financial risks. Echoing this sentiment, Hesborn et al. (2016b) argue that excessive lending poses the greatest risk to financial institutions, particularly when extending credit to already heavily indebted borrowers or those with poor credit histories. To mitigate these risks, banks must adopt practices such as evaluating debt-to-income ratios, assessing business and credit histories, and considering the stability of employment or residency of loan applicants.

Relationship between collection system and profitability of SACCO in Mbarara City.

There is a good relationship between the process and the results of SACCO in Mbarara City (r= .762**; p<0.05). This shows that the use of effective accounting systems has a significant impact on SACCO's financial performance. The findings show that SACCO's adoption of a good collection system reduces the risks associated with failure and increases overall profitability.

These findings are consistent with (Hesborn et al., 2016a), which shows that many financial institutions' credit policies and other financial services are still inadequate. Essendi (2013) only provides insight into credit management policies. However, credit policy is only one of the credit policies. In addition to credit risk, this study also looks at SACCO's credit collection policies and financial performance. On the other hand, (Katula and Kiriinya, 2018a) are concerned about improper repayment and conduct research based on financial institutions. Other independent variables were not included in this study. Therefore, this study investigates the impact of three variables (loan terms, loan structure, and accounting process) on the profitability of SACCO in Mbarara District.

V. CONCLUSIONAND RECOMMENDATIONS

The present study concludes that credit terms have a strong influence on the profitability of SACCOs, supported by a strong positive correlation (r= .723; p<0.05). Additionally, it finds a weak positive correlation between credit standards and profitability (r= .244**; p<0.05), suggesting that when combined with other factors, credit standards can impact financial performance significantly. Moreover, the study confirms a strong positive correlation between collection procedures and SACCO profitability (r= .762**; p<0.05), highlighting the importance of effective collection strategies. These findings collectively support the significant relationship between credit policy and SACCO profitability.

RECOMMENDATIONS

For policy implications, the study recommends that regulated SACCOs and other financial institutions such as Microfinance Institutions should adopt and implement credit standards as a credit policy, credit term policy loan ratio in determining how much a client would borrow and applying collection policy, considering non-performing loans and total loans, loan–loss provision coverage ratio and application of credit policy as it would result into increase in Return on Assets to a great extent.

The management of financial institutions including regulated SACCOs requires enhancing the application of credit standards as this would lead to a significant increase in financial performance, application of credit standards would improve the return on assets of regulated SACCOs.

The study recommends that SACCOs should apply the Credit Terms Policy as it would significantly increase ROA, hence decreasing loan to assets ratio would significantly lead to an increase in financial performance.

The study recommends that management should use a collection policy to significantly increase in ROA of regulated SACCOs indicating that lowering non-performing loans to total loans would significantly lead to an increase in profitability.

From the findings, the study recommends that for the regulated SACCOs and other financial institutions to have high profits, the organization will have to also concentrate on other factors affecting its operations such as capital requirements. The study recommends that SACCO Societies should ensure compliance with financial regulations to accentuate the efficiency of credit policies and increase in return on assets.

AREAS FOR FURTHER RESEARCH

This study examined the effects of credit policy on profitability in regulated SACCOs'. The study recommends that a further study should be carried out to determine the relationship between credit management and Loan Performance in regulated SACCOs, banks, deposit-taking Micro Finance Banks, and other financial institutions. A further study should be carried out to examine the determinants of credit policy in regulated SACCOS, commercial banks, and deposit-taking Microfinance institutions. A further study should be conducted to determine the effects of credit policy on the level of non-performing loans in financial institutions.

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